
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-38511

SOHU.COM LIMITED
(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

**Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road, Haidian District
Beijing 100190**

People's Republic of China
(Address of principal executive offices)

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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Trading Symbol(s))	(Name of each exchange on which registered)
American Depositary Shares, each representing one ordinary share, par value US\$0.001 per share	SOHU	The NASDAQ Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 39,306,323 ordinary shares, par value \$0.001 per share, as of December 31, 2020.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing.

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

TABLE OF CONTENTS

INTRODUCTION	4
FORWARD-LOOKING INFORMATION	5
PART I	
Item 1. Identity of Directors, Senior Management and Advisers	6
Item 2. Offer Statistics and Expected Timetable	6
Item 3. Key Information	6
Item 4. Information on the Company	66
Item 4A. Unresolved Staff Comments	113
Item 5. Operating and Financial Review and Prospects	114
Item 6. Directors, Senior Management and Employees	147
Item 7. Major Shareholders and Related Party Transactions	156
Item 8. Financial Information	161
Item 9. The Offer and Listing	161
Item 10. Additional Information	161
Item 11. Quantitative and Qualitative Disclosures About Market Risk	171
Item 12. Description of Securities Other than Equity Securities	172
PART II	
Item 13. Defaults, Dividend Arrearages and Delinquencies	173
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds	173
Item 15. Controls and Procedures	174
Item 16A. Audit Committee Financial Expert	174
Item 16B. Code of Ethics	174
Item 16C. Principal Accountant Fees and Services	175
Item 16D. Exemptions from the Listing Standards for Audit Committees	175
Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers	175
Item 16F. Change in Registrant's Certifying Accountant	175
Item 16G. Corporate Governance	175
Item 16H. Mine Safety Disclosure	175
PART III	
Item 17. Financial Statements	175
Item 18. Financial Statements	176
Item 19. Exhibits	177
SIGNATURES	184

Introduction

In this annual report, except where the context otherwise requires and for purposes of this annual report only:

- “we,” “us,” “our,” “our company,” “our Group,” the “Sohu Group,” the “Group,” and “Sohu” refer to Sohu.com Limited (or our predecessor Sohu.com Inc., as applicable), and unless the context requires otherwise, include its subsidiaries and variable interest entities. Sohu.com Inc., a Delaware corporation, was dissolved on May 31, 2018 and Sohu.com Limited, which before then was a direct wholly-owned subsidiary of Sohu.com Inc., replaced Sohu.com Inc. as the top-tier, publicly-traded holding company of the Sohu Group. See “Information on the Company-History and Development of the Company” in Item 4 of this annual report.
- “ADSs” refers to our American depositary shares, each of which represents one ordinary share, par value \$0.001 per share;
- “Changyou” refers to Changyou.com Limited, a Cayman Islands company, and unless the context requires otherwise, includes its subsidiaries and variable interest entities, or VIEs;
- “China” or “PRC” refers to the People’s Republic of China, and for the purpose of this annual report, excludes Hong Kong, Macau and Taiwan;
- “DAU,” for active users quoted from iResearch, for any given month, refers to the average number of active users per day during that month. A user who uses the applicable product more than once in a day is counted as one active user for that day. Each distinguishable device or application is treated as a separate user for purposes of calculating such DAU;
- “HNTE” refers to high and new technology enterprises;
- “IVAS” refers to our Internet value-added services;
- “IPO” refers to an initial public offering;
- “KNSE” refers to key national software enterprises;
- “Legacy TLBB Mobile” refers to a mobile game that Changyou developed based on the title and characters of Tian Long Ba Bu, which is operated by Tencent under license from Changyou and was launched in May 2017;
- “MAU,” for active users quoted from iResearch, for any given month, refers to the number of active users during that month. A user who uses the applicable product more than once in a month is counted as one active user for that month. Each distinguishable device or application is treated as a separate user for purposes of calculating such MAU;
- “Memorandum and Articles of Association” refers to our Amended and Restated Memorandum of Association and our Amended and Restated Articles of Association;
- “MMORPGs” refers to massively multiplayer online role-playing games;
- “Offshore” refers to nations and territories outside of Mainland China, and for this purpose includes Hong Kong, Macau, and Taiwan;
- “Paid clicks” refers to the number of paid clicks, including clicks by users on advertisers’ promotional links displayed on Sogou’s search result pages and other Internet properties and third parties’ Internet properties;
- “PC games” refers to interactive online games that may be accessed and played simultaneously by hundreds of thousands of game players through personal computers with local game client-end access software installation requirements. In previous annual reports, we have sometimes used the terms “MMOGs” and “MMORPGs” when referring to these client-end installed games played through personal computers;
- “PRC GAAP” refers to generally accepted accounting principles of the PRC;
- “RMB” refers to the Renminbi, which is the legal currency of China;
- “Sogou” refers to Sogou Inc., a Cayman Islands company, and unless the context requires otherwise, includes its subsidiaries and variable interest entities, or VIEs;
- “Sogou Pre-IPO Class A Ordinary Shares” refers to the Sogou Class A ordinary shares that were authorized and outstanding prior to the completion of Sogou’s IPO;

[Table of Contents](#)

- “Sogou Pre-IPO Series A Preferred Shares” refers to the Sogou Series A Preferred Shares that were authorized and outstanding prior to the completion of Sogou’s IPO;
- “Sogou Class A Ordinary Shares” refers to the Sogou Class A Ordinary Shares, which carry one vote per share;
- “Sogou Class B Ordinary Shares” refers to the Sogou Class B Ordinary Shares which carry ten votes per share;
- “Tencent” refers to Tencent Holdings Limited and its subsidiaries under International Financial Reporting Standards;
- “Tian Long Ba Bu,” refers to the popular novel of that name by the famous Chinese writer Louis Cha;
- “TLBB” refers to the PC game developed based on the title and characters of Tian Long Ba Bu;
- “TLBB 3D” refers to a mobile game that was developed based on the title and characters of Tian Long Ba Bu;
- “TLBB Honor” refers to another mobile game that was developed based on the title and characters of Tian Long Ba Bu, which adopts an innovative portrait interface;
- “U.S. GAAP” refers to generally accepted accounting principles in the United States;
- “U.S. TCJA” refers to the U.S. Tax Cuts and Jobs Act signed into law on December 22, 2017; and
- “VIE” refers to an entity that is a variable interest entity under U.S. GAAP, including a subsidiary of an entity that is a variable interest entity under U.S. GAAP.

This annual report on Form 20-F includes our audited consolidated statements of comprehensive income/(loss) for the years ended December 31, 2018, 2019, and 2020 and audited consolidated balance sheets as of December 31, 2019 and 2020.

Our predecessor Sohu.com Inc. completed an IPO of shares of its common stock on NASDAQ on July 17, 2000. Following the dissolution of Sohu.com Inc. on May 31, 2018, our ADSs began trading on NASDAQ in place of the shares of common stock of Sohu.com Inc. under the same “SOHU” symbol under which Sohu.com Inc.’s shares had previously traded.

Changyou completed its IPO on NASDAQ in April 2009, trading under the symbol “CYOU.” On April 17, 2020, we acquired all outstanding shares of Changyou that we did not already beneficially own pursuant to the merger (the “Changyou Merger”) of an indirect newly-formed wholly-owned subsidiary (“Changyou Merger Co.”) with and into Changyou, with Changyou being the company surviving the Changyou Merger, and resulting in Changyou being delisted from NASDAQ and continuing as a privately-held company wholly-owned directly and indirectly by us.

Sogou completed its IPO on the New York Stock Exchange (the “NYSE”) in November 2017, trading under the symbol “SOGO.” On September 29, 2020, Sogou entered into a definitive agreement and plan of merger (as amended as of December 1, 2020, the “Sogou Merger Agreement”) with THL A21 Limited (“THL”), TitanSupernova Limited (“Tencent Merger Sub”), and Tencent Mobility Limited (“TML”), each of which is a direct or indirect wholly-owned subsidiary of Tencent, that contemplates that Tencent Merger Sub will be merged with and into Sogou in an all-cash going-private transaction (the “Sogou Merger”). Also on September 29, 2020, we and our indirect wholly-owned subsidiary Sohu.com (Search) Limited (“Sohu Search”) entered into a share purchase agreement with Tencent Merger Sub (as amended as of December 1, 2020, the “Tencent/Sohu Sogou Share Purchase Agreement”), pursuant to which we agreed to sell all of the Sogou Class A Ordinary Shares and Sogou Class B Ordinary Shares owned by us to Tencent shortly before the effectiveness of the Sogou Merger (the “Tencent/Sohu Sogou Share Purchase”). If the Tencent/Sohu Sogou Share Purchase is completed, we will no longer have any beneficial ownership interest in Sogou, and if the Sogou Merger is completed, Sogou will become an indirect wholly-owned subsidiary of Tencent and will no longer be listed on the NYSE. See “Item 4. Information on the Company—History and Development of the Company” for a more detailed description of the transactions contemplated by the Tencent/Sohu Sogou Share Purchase Agreement and the Sogou Merger Agreement.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains “forward looking statements.” These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. You can identify these forward-looking statements by terms such as “may,” “will,” “expects,” “anticipates,” “future,” “intend,” “plan,” “believe,” “estimate,” “is/are likely to” and similar expressions. The forward-looking statements made in this annual report relate only to events as of the date on which the statements are made. We undertake no obligation, beyond any that is required by law, to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made, even though our situation will change in the future.

[Table of Contents](#)

These forward-looking statements include, but are not limited to, the following:

- our ability to maintain and strengthen our position as a leading Chinese online media, game and search service group in China;
- our expected development, launch and market acceptance of our products and services;
- our various initiatives to implement our business strategies to expand our business;
- our future business development, results of operations and financial condition;
- the expected growth of and change in the online media, search and game industries in China
- the impact of the completion or termination of the currently pending Tencent/Sohu Sogou Share Purchase and Sogou Merger described in “Item 4. Information on the Company-History and Development of the Company;” and
- the PRC government policies relating to the Internet and Internet content providers, including online media, search and game developers and operators.

Whether actual results will conform with our expectations and predictions is subject to a number of risks and uncertainties, many of which are beyond our control, and reflect future business decisions that are subject to change. Some of the assumptions, future results, and levels of performance expressed or implied in the forward-looking statements we make inevitably will not materialize, and unanticipated events may occur which will affect our results.

Risks and uncertainties affecting the Tencent/Sohu Sogou Share Purchase and the Sogou Merger include the possibility that they will not occur as planned if events arise that result in the termination of the Tencent/Sohu Sogou Share Purchase Agreement and the Sogou Merger Agreement, or if one or more of the various closing conditions to the Tencent/Sohu Sogou Share Purchase and the Sohu Merger, including anti-trust clearance of the Tencent/Sohu Sogou Share Purchase under PRC law, are not satisfied or waived.

We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with all other parts of this annual report, including the risk factors set forth in Item 3. See “Key Information-Risk Factors”

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

The following tables present the selected consolidated financial information for our company. The selected consolidated statements of comprehensive income data for the years ended December 31, 2018, 2019, and 2020 and the consolidated balance sheets data as of December 31, 2019 and 2020 have been derived from our audited consolidated financial statements included in this annual report beginning on page F-1. The selected consolidated statements of comprehensive income data for the years ended December 31, 2016 and 2017 and our consolidated balance sheets data as of December 31, 2016, 2017, and 2018 have been derived from prior-period consolidated financial statements that are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our historical results do not indicate the results that may be expected for any future periods.

As of August 12, 2019, we deconsolidated Changyou’s cinema advertising business as a result of Changyou ceasing the business’s operations. Accordingly, the historical financial results of the cinema advertising business for periods from January 1, 2018 to August 12, 2019 are reflected in our audited consolidated financial statements included in this annual report as discontinued operations, and historical results discussed elsewhere in this annual report exclude such results unless they are expressly included.

[Table of Contents](#)

Because of our entry into the Tencent/Sohu Sogou Share Purchase Agreement, the historical financial results of Sogou for periods from January 1, 2018 to December 31, 2020 are reflected in our audited consolidated financial statements included in this annual report as discontinued operations, and historical results discussed elsewhere in this annual report exclude such results, unless they are expressly included. See “Item 4. Information on the Company-History and Development of the Company” for a more detailed description of the transactions contemplated by the Tencent/Sohu Sogou Share Purchase Agreement and the Sogou Merger Agreement.

Selected Consolidated Statements of Comprehensive Income/(Loss) Data

	Year Ended December 31,				
	2016	2017	2018	2019	2020
	(In thousands, except per ADS data)				
Statements of Comprehensive Income Data:					
Revenues:					
Brand advertising	\$ 450,448	\$ 315,235	\$ 232,339	\$ 175,056	\$ 146,526
Online games	395,709	449,533	389,788	440,902	536,684
Others	77,905	97,937	68,048	57,845	66,680
Total revenues	924,062	862,705	690,175	673,803	749,890
Cost of revenues (1):					
Brand advertising	371,066	363,624	184,473	126,406	105,604
Online games	96,168	62,775	60,981	88,992	91,526
Others	43,879	66,467	43,562	28,249	20,307
Total cost of revenues	511,113	492,866	289,016	243,647	217,437
Gross profit	412,949	369,839	401,159	430,156	532,453
Operating expenses:					
Product development (1)	219,121	245,536	246,155	234,852	241,941
Sales and marketing (1)	299,020	237,252	236,898	204,665	159,787
General and administrative (1)	94,964	86,448	70,129	54,591	57,354
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	86,882	16,369	7,245	0
Total operating expenses	613,105	656,118	569,551	501,353	459,082
Operating profit/(loss)	(200,156)	(286,279)	(168,392)	(71,197)	73,371
Other income/(expense), net	19,832	13,207	30,701	7,963	25,993
Interest income	17,302	15,012	16,036	6,103	7,369
Interest expense	(1,356)	(4,088)	(17,538)	(14,370)	(6,234)
Exchange difference	7,456	(7,303)	3,301	1,430	(3,800)
Income/(loss) before income tax expense/(benefit)	(156,922)	(269,451)	(135,892)	(70,071)	96,699
Income tax expense/(benefit)	23,311	258,214	(14,586)	28,428	133,226
Net loss from continuing operations	(180,233)	(527,665)	(121,306)	(98,499)	(36,527)
Net income/(loss) from discontinued operations, net of tax	65,260	57,662	53,947	55,108	(91,793)
Net loss	(114,973)	(470,003)	(67,359)	(43,391)	(128,320)
Less: Net income from continuing operations attributable to the noncontrolling interest shareholders	46,031	14,050	41,732	58,223	18,448
Less: Net income/(loss) from discontinued operations attributable to the noncontrolling interest shareholders	63,017	70,473	50,991	47,722	(60,656)
Net loss from continuing operations attributable to Sohu.com Limited	\$(226,264)	\$(541,715)	\$(163,038)	\$(156,722)	\$(54,975)
Net income/(loss) from discontinued operations attributable to Sohu.com Limited	2,243	(12,811)	2,956	7,386	(31,137)
Net loss attributable to Sohu.com Limited	\$(224,021)	\$(554,526)	\$(160,082)	\$(149,336)	\$(86,112)
Net loss	\$(114,973)	\$(470,003)	\$(67,359)	\$(43,391)	\$(128,320)
Other comprehensive income/(loss)	(77,155)	68,429	(37,339)	(13,069)	11,972
Comprehensive loss	(192,128)	(401,574)	(104,698)	(56,460)	(116,348)

Table of Contents

Less: Comprehensive income attributable to noncontrolling interest shareholders	78,824	117,960	61,376	93,244	(35,074)
Comprehensive loss attributable to Sohu.com Limited.	(270,952)	(519,534)	(166,074)	(149,704)	(81,274)
Basic net (loss)/income per ADS					
Continuing operations	\$ (5.85)	\$ (13.94)	\$ (4.18)	\$ (3.99)	\$ (1.39)
Discontinued operations	0.06	(0.33)	0.07	0.19	(0.79)
Net loss per share	(5.79)	(14.27)	(4.11)	(3.80)	(2.18)
Shares used in computing basic net (loss)/income per ADS	38,706	38,858	38,959	39,249	39,452
Diluted net (loss)/income per ADS					
Continuing operations	\$ (5.89)	\$ (13.98)	\$ (4.20)	\$ (4.01)	\$ (1.40)
Discontinued operations	0.06	(0.32)	0.07	0.18	(0.79)
Net loss per share	(5.83)	(14.30)	(4.13)	(3.83)	(2.19)
Shares used in computing diluted net (loss)/income per ADS	38,706	38,858	38,959	39,249	39,452

(1) Share-based compensation expenses are included in the following financial statements line items:

	Year Ended December 31,				
	2016	2017	2018	2019	2020
	(In thousands)				
Cost of revenues	\$ 195	\$ (342)	\$ (739)	\$ 142	\$ 720
Product development expenses	3,570	7,078	(4,182)	1,364	7,325
Sales and marketing expenses	578	1,614	(920)	(326)	460
General and administrative expenses	5,927	13,404	(6,267)	1,170	5,975

The negative amounts in the table above resulted from re-measured compensation expense based on the then-current fair value of the awards on the reporting date.

Selected Consolidated Balance Sheet Data

	As of December 31,				
	2016	2017	2018	2019	2020
	(In thousands)				
Balance Sheets Data:					
Cash and cash equivalents	\$ 764,731	\$ 669,646	\$ 634,310	\$ 162,662	\$ 217,057
Restricted cash	0	3,928	3,539	3,290	330,791
Restricted time deposits	240	240	244,150	240	101,519
Working capital	918,522	1,472,485	1,131,571	914,801	970,142
Total assets	2,592,450	3,442,985	3,372,956	2,691,864	2,822,121
Short-term bank loans	0	61,216	129,677	114,528	315,550
Long-term bank loans	0	122,433	302,323	0	92,000
Total liabilities	1,034,655	1,625,748	1,820,005	1,384,947	1,790,140
Ordinary Shares: \$0.001 par value per share (75,400 shares authorized; 38,742 shares, 38,898 shares, 39,229 shares, 39,269 shares, and 39,306 shares, respectively, issued and outstanding as of December 31, 2016, 2017, 2018, 2019, and 2020)	45	45	39	39	39
Total Sohu.com Limited shareholders' equity	993,580	750,634	588,840	428,454	347,369
Noncontrolling interest	564,215	1,066,603	964,111	878,463	684,612
Total shareholders' equity	1,557,795	1,817,237	1,552,951	1,306,917	1,031,981

Risk Factors

Risks Related to Our Business

We are subject to the risks associated with operating in an evolving market.

As a company operating in the rapidly evolving PRC Internet market, we face numerous risks and uncertainties. Some of these risks relate to our ability to:

- continue to attract users to remain with us and use our products and services as the primary means of surfing the Internet switches from traditional PCs to mobile phones and other portable devices;
- continue to attract a large audience to our matrices of Chinese language content and services by expanding the type and technical sophistication of the content and services we offer;
- maintain and develop a sufficiently large advertiser base for our brand advertising and search and search-related advertising businesses;
- maintain and attract online game users by periodically updating our existing online games and developing and launching new online games;
- increase the revenues derived from our fee-based services and products we offer online;
- build our businesses such as Sohu Media Portal, Sohu Video, Focus, online games, search and search-related, and other businesses successfully;
- attract and retain qualified personnel; and
- effectively control our increased costs and expenses.

Our operating results are likely to fluctuate significantly and may differ from market expectations.

Our annual and quarterly operating results have varied significantly in the past, and may vary significantly in the future, due to a number of factors which could have an adverse impact on our business. Our online advertising revenue often fluctuates as our advertisers adjust their online marketing spending as their industries go through business and economic cycles. We rely on third-party providers for high-quality news, video, audio and text content in order to make our Internet platforms, which include our Websites and our applications optimized for mobile devices, or Mobile Apps, more attractive to users and advertisers. Over the years, video content costs have escalated sharply and have adversely affected our operating results. In an attempt to reduce these costs, we have gradually shifted our video strategy from purchasing expensive head content to self-producing content, which generally generates less user traffic and revenues than purchased content does and has adversely affected, and may continue to adversely affect, our brand advertising revenues. Sogou incurred substantial traffic acquisition costs to expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, and we expect such increases to continue. A significant portion of our online game revenue is attributable to Changyou's PC game TLBB. However, the popularity of PC games continues to decline as game players have switched to mobile devices to access online games. Despite Changyou's efforts to improve TLBB, our game players may nevertheless lose interest in it over time and TLBB's popularity, revenues and profitability may decline accordingly. If Changyou fails to improve and update TLBB on a timely basis, or if Changyou's competitors introduce more popular games, including mobile games, catering to Changyou's game-player base, the decline in TLBB's popularity can be expected to accelerate, which could cause a significant decrease in our revenues.

We have depended on revenues from Sogou's search and search-related advertising services and from Changyou's PC game TLBB and mobile game Legacy TLBB Mobile for a significant portion of our revenues, net income, and operating cash flow.

For the year ended December 31, 2020, 53% of our total revenues and 74% of our online game revenues were derived from TLBB and Legacy TLBB Mobile and if Sogou's revenues had been included in our total revenue rather than as discontinued operations, 50% of our total revenues would have been derived from Sogou's search and search-related advertising services. If Changyou's revenues from TLBB and Legacy TLBB Mobile continue to decline as they have in recent years, or if Changyou's online game revenues from games other than TLBB and Legacy TLBB Mobile do not grow or if they decrease, or if the Tencent/Sohu Sogou Share Purchase and the Sogou Merger are not completed and Sogou's search and search-related advertising revenues do not grow or if they decrease, our revenues, net income, and operating cash flows will be adversely affected. Furthermore, any interruptions in TLBB's and Legacy TLBB Mobile's operations, or, if the Tencent/ Sohu Sogou Share Purchase and the Sogou Merger are not completed, any interruptions in Sogou's search and search-related advertising services, could cause significant decreases in our revenues, net income, and operating cash flow. For example, Sogou suspended part of its advertising services for 10 days in July 2018 in order to implement remedial measures to ensure compliance with government regulations following a government investigation into certain non-compliant advertisements created by a third party unrelated to Sogou and displayed on Sogou's platform. See "Risks Related to Sogou Inc.—Risks Related to Sogou's Business —Sogou may be subject to regulatory investigations and sanctions for inappropriate or illegal content that is accessed through its search results."

[Table of Contents](#)

We face intense competition, which could reduce our market share and adversely affect our financial performance.

There are many companies that distribute online content and services targeting Chinese Internet users. We compete with distributors of content and services over the Internet, including content sites, Web directories, search engines, online games, Internet service providers and sites maintained by government, educational institutions and other institutions. These sites compete with us for user traffic, advertising dollars, online game players, potential partners and mobile services. The Internet market in China is rapidly evolving. Competition is intense and can be expected to increase significantly in the future, because there are no substantial barriers to entry in our market.

We have many competitors in the PRC Internet market, including among others Alibaba, Baidu, and Tencent, which are the three dominant Internet companies in China, as well as 58.com, Autohome, Beijing Kunlun Tech Co., Ltd., BitAuto, Bilibili, Ctrip, Douyin, Douyu, Fang, Giant Network Group Co., Ltd., Huya, IGG Inc., iQIYI, Kingsoft, Kuaishou, Leju, Mango TV, Meituan Dianping, NetEase, Perfect World Co., Ltd., Phoenix, Qutoutiao, Qunar, Sina, TouTiao, Wuhu 37 Interactive Entertainment Network Technology Group Co., Ltd., YOOZOO Games Co., Ltd., Youku, YY, and Zhejiang Century Huatong Group Co., Ltd. (formerly known as Shanda Games Limited). We compete with our peers and competitors in China primarily on the following basis:

- access to financial resources;
- gateway to a host of Internet user activities;
- technological advancements;
- attractiveness of products;
- brand recognition;
- volume of traffic and users;
- quality of Internet platforms and content;
- strategic relationships;
- quality of services;
- effectiveness of sales and marketing efforts;
- talent of staff; and
- pricing;

Our competitors may have certain competitive advantages over us including:

- greater brand recognition among Internet users and clients;
- better products and services;
- larger user and advertiser bases;
- more extensive and well-developed marketing and sales networks; and
- substantially greater financial and technical resources.

Our existing competitors may in the future achieve greater market acceptance and gain a greater market share through launching of new products, introducing new technologies, or forming alliances among themselves, or may enhance their ability to compete with us through mergers and acquisitions or financing activities. For example, during the past few years, many of our competitors have successfully raised significant amounts of capital through IPOs, follow-on public equity offerings, and convertible bond offerings. Several of our competitors have also conducted private placements of equity or debt that included alliances with larger partners who are able to bring them strategic advantages in addition to financing. By enhancing their capital bases and forming strategic alliances, our competitors have strengthened their competitiveness and gained greater brand recognition. Recently some of our major competitors have engaged in or initiated transactions that could make it more difficult for us to compete against them effectively. For example, investments in Qutoutiao by Tencent in March 2018 and by Alibaba in March 2019 provided Qutoutiao with considerably greater strategic benefits than were previously available to it for developing and expanding its mobile content business, which benefits we are unlikely to be able to match.

In addition, in recent years the Internet industry in China has been increasingly dominated by Alibaba, Baidu and Tencent. Alibaba and Tencent, in particular, have been able to expand their reach in the industry through acquisitions and by developing close ties with other Internet companies through equity investments and cooperative strategic relationships. These dominant companies may be able to further strengthen their influence in the industry by encouraging cooperation among the companies in which they invest or with which they establish strategic relationships. We may not be able to compete successfully and avoid marginalization in the industry if we are unable to develop our own comparable business ecosystem, which may be difficult for us to do in view of our relatively limited resources in comparison to these dominant companies.

[Table of Contents](#)

Further, new competitors may emerge and acquire significant market share. For example, high-quality smaller Internet companies have emerged in the Internet industry recently with competitive advantages over us, including that many are led by young entrepreneurs who have a particular understanding of the needs and interests of younger users and that, in view of their relatively small size, they are able to adapt more easily than we are to rapid changes in the industry by adjusting their product strategies, market focus, and profit models. Such smaller competitors compete with us in such areas as vertical content production, video playback, and live broadcast.

As a result, we are likely to need additional financial and additional strategic resources in order to compete effectively in the primary markets in which we operate. If our competitors are more successful than we are in developing products or in attracting and retaining users and advertisers, our revenues and growth rates could decline.

If we fail to successfully develop and introduce new products, features and services, our ability to attract and retain users and generate revenues could be harmed.

We are continually developing new products, features and services for our users. The planned timing or introduction of new products, features and services is subject to risks and uncertainties. Actual timing may differ materially from original plans. Unexpected technical, operational, distribution or other problems could delay or prevent the introduction of one or more of our new products or services. Emerging start-ups may be able to innovate and provide new products, features and services faster than we can. Moreover, we cannot be sure that any of our new products, features and services will achieve widespread market acceptance or generate incremental revenue.

In addition, we may experience difficulties in promoting our new products, features and services as a result of the significant market power of our competitors or any anti-competitive practices they might engage in. As a result, despite considerable efforts in this regard, we may fail to attract and retain users.

As our products and services are currently accessed primarily through mobile phones, tablets and other internet-enabled mobile devices, we believe that we must develop products and applications for such devices if we are to maintain or increase our market share and revenues, and we may not be successful in doing so.

Devices other than personal computers, such as mobile phones, tablets, wearable devices and other internet-enabled mobile devices, are used increasingly in China and in overseas markets, and have surpassed personal computers as the primary means to access the Internet in the key Chinese markets in which we operate. We believe that, for our business to be successful when our content and services are delivered over mobile devices, we need to design, develop, promote and operate products and applications that are attractive to users of such devices, as well as enhance targeted delivery of our content and advertising services to our users and advertising customers. The design and development of new products and applications, and our efforts to enhance the effectiveness of such targeted delivery, may not be successful. We may encounter difficulties with the installation of such new products and applications for mobile devices, such products and applications may not function smoothly, and algorithms we develop for targeted delivery may not be effective in identifying the interests and needs of our users and advertising customers. As new devices are released or updated, we may encounter problems in developing and upgrading our products or applications for use on mobile devices and we may need to devote significant resources to the creation, support, and maintenance of such products or applications for mobile devices.

Our business depends on a strong brand; thus we will not be able to attract users, customers and clients of our products and offerings if we do not maintain and develop our brands.

It is critical for us to maintain and develop our brands so as to effectively expand our user base and our revenues. We believe that the importance of brand recognition will increase as the number of Internet users in China grows. In order to attract and retain Internet users, brand advertising, search, online game and mobile customers, we may need to substantially increase our expenditures for creating and maintaining brand loyalty. Our success in promoting and enhancing our brands, as well as our ability to remain competitive, will also depend on our success in offering high quality content, features and functionality. If we fail to promote our brands successfully or if our users or advertisers do not perceive our content and services to be of high quality, we may not be able to continue growing our business and attracting users, advertisers, online game players and mobile users.

Our failure to keep up with rapid technology changes may severely affect our future success.

The Internet industry is undergoing rapid technological changes. Our future success will depend on our ability to respond to rapidly evolving technologies, adapt our services to changing industry standards and improve the performance and reliability of our services. If we fail to adapt to such changes, our business may be adversely affected. For example, with the emergence of cloud computing technology, the primary Internet technology platform has been transformed from a traditional platform to a cloud computing platform. If we fail to adapt to the transformation, our products and services upgrade process will fall behind our competitors, and accordingly weaken our capacity to adapt our technology to the market. Furthermore, cloud computing itself is a significant business opportunity. If we fail to seize the opportunity, we will lose our ability to capture a share of that market. In addition, as mobile devices other than personal computers are increasingly used to access the Internet, we must develop products and services for such devices. To meet advertisers' needs in targeting potential advertisers accurately, we need to develop and operate a more effective system for our advertising delivery, tracking and recording. Otherwise, we will not be able to maintain or increase our revenues and market share. In the meantime, the Ministry of Industry and Information Technology (the "MIIT") and other PRC governmental authorities can be expected to regularly promulgate standards and other regulations regarding Internet software and other Internet-based technologies. Adapting to any such standards and regulations could require us to make significant expenditures in the future.

Table of Contents

Our strategy of acquiring complementary assets, technologies and businesses or making other strategic investments may fail and result in impairment losses.

As a component of our growth strategy, we have acquired and intend to actively identify and acquire assets, technologies and businesses that are complementary to our existing businesses. Our acquisitions could result in the use of substantial amounts of cash, issuance of potentially dilutive equity securities, significant impairment losses related to goodwill or amortization expenses related to intangible assets, and exposure to undisclosed or potential liabilities of acquired companies. Companies that we have invested in could be adversely affected by the novel coronavirus disease (“COVID-19”) outbreak, which may lead to impairment in the fair values of our investments and in turn adversely affect our financial condition and operating results.

In 2017 Changyou recognized a \$83.5 million impairment loss for goodwill and a \$3.4 million impairment loss for intangible assets relating to the MoboTap business, which Changyou disposed of in 2018; in 2018 Changyou recognized a \$16.4 million impairment loss for goodwill relating to the 17173.com Website; in 2019 Changyou ceased operation of its cinema advertising business and recognized a \$17.0 million impairment loss related to the assets of the business. Also in 2019, Sohu recognized a \$7.2 million impairment loss for a domain name related to the 56.com Website, and a total of \$23.2 million in impairment losses for equity investments in a third-party entity.

We may be required to record a significant charge to earnings if we are required to reassess our goodwill or other amortizable intangible assets.

We are required under U.S. GAAP to test for goodwill impairment annually or more frequently if facts and circumstances warrant a review. Currently our brand advertising business is losing money, and goodwill will be impaired if the losses continue. We are also required to review our amortizable intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization and slower or declining growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined. For example, we recognized impairment losses of \$10.4 million, \$4.0 million and \$1.5 million, respectively, in 2018, 2019 and 2020 with respect to Sohu Video’s purchased video content.

Any changes in accounting rules for share-based compensation, or any changes we make in our employee share incentive plans, may adversely affect our operating results, our stock price and our competitiveness in the employee marketplace.

Our performance is largely dependent on talented and highly skilled individuals. Our future success depends on our continuing ability to identify, develop, motivate and retain highly skilled personnel for all areas of our organization. We have a history of using employee share options and restricted stock units to align employees’ interests with the interests of our shareholders and encourage quality employees to join us and retain our quality employees by providing competitive compensation packages. We have adopted guidance on accounting for share-based compensation that requires the measurement and recognition of compensation expense for all share-based compensation based on estimated fair values. As a result, our operating results contain a charge for share-based compensation expense related to employee share options and restricted share units. The recognition of share-based compensation in our statement of comprehensive income has had and will have a negative effect on our reported results and earnings per share, which can in turn negatively affect our ADS price. On the other hand, if we alter our employee share incentive plans to minimize share-based compensation expense, it may limit our ability to continue to use share-based awards as a tool to attract and retain our employees, which may adversely affect our operations. It is possible that there will be changes in the accounting rules for share-based compensation in the future that could have an adverse effect on our ADS price and our competitiveness in the employee marketplace.

Our failure to manage growth and adapt to evolving industry trends and business models could harm us.

The retention and growth of personnel requires significant time and resource commitments from us and our senior management. If we are unable to effectively manage a large and geographically dispersed group of employees or anticipate our future growth, our business could be adversely affected. As we have approximately 7,600 employees, it can be difficult for us to fully monitor each employee’s behavior. In addition, as we have several branch offices in China, it is harder for us to monitor and regulate the overall behavior of our branch offices or of individual employees at such branch offices, to effectively implement our strategy to local offices and to manage the growth of these local operations. We cannot assure you that we will be able to maintain policies and procedures that are rigorous enough or that we will be able to cause all of our employees or all of our branch offices to behave in conformity with those policies and procedures, or to ensure that our employees will not engage in conduct that could expose us to third-party liability or governmental sanctions, which may limit our future growth and hamper our business strategy. Additionally, our business relies on our financial reporting and data systems (including our systems for billing users of our fee-based services), which have grown increasingly complex, due to acquisitions and the diversification and complexity of our business. Our ability to operate our business efficiently depends on these systems, and if we are unable to adapt to these changes, our business could be adversely affected.

[Table of Contents](#)

Moreover, to keep pace with the rapidly developing and evolving Internet industry, we must continually explore new products, services or revenue models for our business. Since we may have limited experience in new business areas, we may fail to manage growth and adapt to industry trends and business models.

In addition, as the Internet industry has seen a significant shift from traditional personal computers to mobile devices, we must develop products and services that are adaptable to mobile devices so as to attract users and cause our existing users and advertisers to remain with us. See “- As our products and services are currently accessed primarily through mobile phones, tablets and other internet-enabled mobile devices, we believe that we must develop products and applications for such devices if we are to maintain or increase our market share and revenues, and we may not be successful in doing so.”

If we fail to establish and maintain relationships with content, technology and infrastructure providers, we may not be able to attract and retain users.

We rely on third party providers for high-quality news, video, audio and text content in order to make our Internet platforms more attractive to users and advertisers. Our content providers may increase the fees they charge us for their content, which would cause our costs and operating expenses to increase and could affect our ability to obtain content at an economically acceptable cost. Video content purchase costs have escalated sharply in recent years. If we are not able to purchase or produce enough video content, the size of our video library will be reduced and our attractiveness to users will be severely impaired and advertisers may choose not to advertise through our Internet platforms. Except for exclusive content that we obtain from certain of our video content providers, much of the third-party content provided to our Internet platforms is also available from other sources or may be provided to other Internet companies. If other Internet companies present the same or similar content in a superior manner, it would adversely affect our user traffic.

We have made efforts to create a culture for user-generated content (“UGC”) and professional generated content (“PGC”), a sub-category of UGC where the content is created by a large group of professional or semi-professional content studios, that will allow and encourage Internet users to play an active role in the process of collecting, reporting, analyzing and disseminating content, and to encourage our users and other content providers to establish and disseminate their content through our Internet platforms. We increasingly rely on high-quality news, video, audio and text content provided by UGC and PGC providers to generate user traffic, retain our existing users and attract new users. If we are not able to continue to attract users or other content providers to establish quality content on our Internet platforms, or if the UGC and PGC providers on our Internet platform are not able to provide quality content that is appealing to Internet users in general, the volume of our user traffic may decrease and our business and prospects may be adversely affected. Also see “We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely to us, materially disrupt our business.”

Our business also depends significantly on relationships with leading technology and infrastructure providers and the licenses that the technology providers have granted to us. Our competitors may establish the same relationships as we have, which may adversely affect us. We may not be able to maintain these relationships or replace them on commercially attractive terms.

We depend on key personnel and our business may be severely disrupted if we lose the services of our key executives and employees.

Our future success is heavily dependent upon the services of our key executives, particularly Dr. Charles Zhang, who is the founder, Chief Executive Officer, Chairman of the Board, and a major shareholder of our company. We rely on his expertise in our business operations. For Changyou, we rely heavily on the services of Dewen Chen, Changyou’s Chief Executive Officer. For Sogou, we rely heavily on the services of Xiaochuan Wang, Sogou’s Chief Executive Officer. If one or more of our key executives and employees are unable or unwilling to continue in their present positions, we may not be able to replace them easily and our business may be severely disrupted. In addition, if any of our key executives or employees joins a competitor or forms a competing company, we may lose know-how, key professionals and staff members as well as customers, suppliers and incur additional expenses to recruit and train personnel. Each of our executive officers has entered into an employment agreement and a confidentiality, non-competition and non-solicitation agreement with us. However, the degree of protection afforded to an employer pursuant to confidentiality and non-competition agreements governed by PRC law may be more limited when compared to the degree of protection afforded under the laws of other jurisdictions.

We also rely on a number of key members of our technology staff for our business. Given the competitive nature of the industry, and in particular our competitors’ increasingly aggressive efforts to provide competitive compensation packages to attract talent in the key Chinese markets where we operate, the risk of key technology staff leaving Sohu is high and could have a disruptive impact on our operations.

[Table of Contents](#)

Our growth may cause significant pressures upon our financial, operational, and administrative resources.

Our financial, operational, and administrative resources may be inadequate to sustain the growth we want to achieve. As the demands of our users and the needs of our customers change, the number of our users and volume of advertising increase, requirements for maintaining sufficient servers to provide high-definition online video and to provide game players smooth online game experiences increase, requirements for search traffic and users' requirements as to the quality of search services increase, and mobile activities increase, we will need to increase our investment in our network infrastructure, facilities and other areas of operations. If we are unable to manage our growth and expansion effectively, the quality of our services could deteriorate and our business may suffer. Our future success will depend on, among other things, our ability to:

- access financial resources;
- adapt our services and maintain and improve the quality of our services;
- protect our Internet platforms from hackers and unauthorized access;
- continue training, motivating and retaining our existing employees and attract and integrate new employees; and
- maintain and improve our operational, financial, accounting and other internal systems and controls.

Unauthorized use of our intellectual property by third parties, and the expenses incurred in protecting our intellectual property rights, may adversely affect our business.

We regard our copyrights, trademarks, trade secrets and other intellectual property as critical to our success. Unauthorized use of our intellectual property by third parties may adversely affect our business and reputation. For example, a third-party Internet platform operator might provide its users access to video content on our Internet platforms while blocking Internet advertisements embedded in our video content, which could adversely affect our advertising revenues and our reputation with our current and potential advertising clients. We rely on trademark and copyright law, trade secret protection and confidentiality agreements with our employees, customers, business partners and others to protect our intellectual property rights. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without authorization. For example, some of our self-developed Web series video productions were disseminated by third parties without our authorization. Furthermore, under the *Patent Law*, the State Council's Patent Administration Department may grant a compulsory license to individuals or entities to use one or more of our patents if our exploitation of the patents has been determined to violate the antitrust laws. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet-related industries are uncertain and still evolving. In particular, the laws of the PRC and certain other countries are uncertain or do not protect intellectual property rights to the same extent as do the laws of the United States. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Future litigation could result in substantial costs and diversion of resources. We cannot be certain that judgments from the lawsuits will be issued in our favor, or that any resulting damages will cover our business losses and litigation expenses. If our campaigns and lawsuits against piracy do not achieve their intended effect, our business and operation may be adversely affected.

We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely to us, materially disrupt our business.

We cannot be certain that the products, services and intellectual property used in our normal course of business do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We have in the past been, and may in the future be, subject to claims and legal proceedings relating to the intellectual property of others in the ordinary course of our business and have in the past been, and may in the future be, required to pay damages or to agree to restrict our activities. In particular, if we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, may be ordered to pay damages or fines, and may incur licensing fees or be forced to develop alternatives. We may incur substantial expense in defending against third party infringement claims, regardless of their merit. Successful infringement claims against us may result in substantial monetary liability or may materially disrupt the conduct of our business by restricting or prohibiting our use of the intellectual property in question. In March 2008, we were sued by four major record companies, Sony BMG, Warner, Universal and Gold Label, which alleged that we had provided music search links and download services that violated copyrights they owned. Although the lawsuits were settled in 2013 without any payment of damages by us, we may be subject to similar lawsuits in the future. In addition, it is possible that content on our Internet platforms, which not only includes content developed by us but also provides a platform for a significant amount of content generated by others, may violate the intellectual property rights of third parties. As we produce more self-developed content for our Internet platforms as part of our new content strategy, we, as the primary provider of such content, may incur relatively higher monetary liability if such content is found to have infringed the intellectual property rights of third parties. Also, as we increasingly rely on content provided by third-party UGC and PGC providers on our Internet platforms, either developed by the outlets themselves or adapted from content of parties separate from such outlets, it will become increasingly difficult for us to fully monitor such content, which could make us more vulnerable to potential infringement claims. Furthermore, PRC governmental authorities have recently been drawing attention to issues regarding the infringement of online intellectual property rights. For example, a governmental program, called the "Jian Wang Campaign," aimed at cracking down on network copyright infringement, has been in effect for several years. The Jian Wang Campaign for 2020, which targets copyright infringement related to the online transmission of games, music, and other copyrighted audio-visual works on or through e-commerce, online education, knowledge sharing, and other social platforms, and aims to strengthen the protection of online literature, application software, and other copyrighted content, was launched on June 12, 2020.

[Table of Contents](#)

We may be subject to, and may expend significant resources in defending against, claims based on the content and services we provide over our Internet platforms.

As our services may be used to download and distribute information to others, there is a risk that claims may be made against us for defamation, negligence, copyright or trademark infringement or based on the nature and content of such information. Furthermore, we could be subject to claims for the online activities of our users and incur significant costs in our defense. In the past, claims based on the nature and content of information that was posted online by users have been made in the United States against companies that provide online services. We do not carry any liability insurance against such risks.

We could be exposed to liability for the selection of listings that may be accessible through our Internet platforms or through content and materials that our users may post using our interactive services. If any information provided through our services contains errors, third parties may make claims against us for losses incurred in reliance on the information. We also offer Web-based e-mail and subscription services, which expose us to potential liabilities or claims resulting from:

- unsolicited e-mail;
- lost or misdirected messages;
- illegal or fraudulent use of e-mail; or
- interruptions or delays in e-mail service.

Investigating and defending any such claims may be expensive, even if they do not result in liability.

We may not have exclusive rights to trademarks, designs and technologies that are crucial to our business.

We have applied for initial registrations in the PRC and overseas, and/or changes in registrations relating to transfers of our key trademarks in the PRC, including Sohu.com logos, Sohu Fox logos, www.focus.com.cn, Sohu Focus, GoodFeel logos, Go2Map, Sogou's name, trademarks relating to Sogou products such as Sogou Input Method, Sogou logos, trademarks relating to Changyou products such as ChangYou.com, cyou.com, New Blade Online, 17173, and the corresponding Chinese versions of the marks, so as to establish and protect our exclusive rights to these trademarks. Changyou has the right to use trademarks including TLBB, TLBB logos, and TLBB 3D for its PC game TLBB and its mobile games TLBB 3D and Legacy TLBB Mobile under Changyou's existing license agreements with the holder of the intellectual property rights with respect to the popular Chinese martial arts novel Tian Long Ba Bu written by Louis Cha, who died in 2018. After the expiration of their terms Changyou may not be able to renew these license agreements with commercial terms that are favorable to Changyou, if at all, and Changyou's inability to renew these license agreements could force Changyou to lose the right to use the trademarks related to those games to the extent that they relate to Tian Long Ba Bu. We have also applied for patents relating to our business. While we have succeeded in registering the trademarks for most of these marks in the PRC under certain classes, the applications for initial registration, and/or changes in registrations relating to transfers, of some marks and/or of some of marks under other classes are still under examination by the Trademark Office of the China National Intellectual Property Administration (the "CNIPA") and relevant authorities overseas. While we have succeeded in obtaining some patents, some of our patent applications are still under examination by the Patent Office of the CNIPA. Approvals of our initial trademark registration applications, and/or of changes in registrations relating to such transfers, or of our patent applications, are subject to determinations by the Trademark Office of the CNIPA, the Patent Office of the CNIPA and relevant authorities overseas that there are no prior rights in the applicable territory. We cannot assure that these applications will be approved. Any rejection of these applications could adversely affect our rights to the affected marks, designs and technologies. In addition, even if these applications are approved, we cannot assure you that any registered trademark or issued patent will be sufficient in scope to provide adequate protection of our rights.

We may be subject to claims for invasion of personal privacy, which may force us to incur legal expenses and, if determined adversely to us, disrupt our business.

We allow users to upload written materials, images, pictures and other content on our platform and download, share, link to audio, video and other content either on our platform or from other Websites through our platform. Procedures that we have designed to reduce the likelihood that content will be used without proper licenses or third-party consents may not be effective in preventing the unauthorized posting or sharing of content. We cannot be certain that content uploaded or shared by our users is legal and will not violate the privacy of others, and we may be unable to anticipate the existence of such content on our platform or to implement adequate preventative measures. We may be subject to claims and legal proceedings relating to violations of the personal privacy of others in the ordinary course of our business and may be required to pay damages or fines or to restrict our activities. We are also subject to various regulatory requirements relating to the protection of personal privacy. See "Government Regulation and Legal Uncertainties - Miscellaneous - Laws and Regulations Related to Consumer Protection and Privacy Protection - Privacy Protection." Complying with such requirements could cause us to incur substantial expenses or necessitate that we alter or change our practices in a manner that could harm our business.

[Table of Contents](#)

Information security breaches relating to our platforms could damage our reputation and expose us to penalties and legal liability.

We collect, process, and store on our servers significant amounts of data concerning our users. Although we have taken steps to protect our user data, our security measures could be compromised, because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, and we may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, we are subject to various regulatory requirements relating to the security and privacy of such data, including restrictions on the collection and use of personal information of users and steps we must take to prevent personal data from being divulged, stolen, or tampered with. Regulatory requirements regarding the protection of such data are constantly evolving and can be subject to significant change, making the extent of our responsibility in that regard uncertain. For example, the Internet Security Law became effective in June 2017, but the circumstances and standards for application of the law and what might be found to constitute a violation are unclear. See “Government Regulation and Legal Uncertainties—Miscellaneous - Laws and Regulations Related to Security and Censorship.” It is possible that our data protection practices are at present or will in the future be inconsistent with regulatory requirements.

Pending or future litigation could have an adverse impact on our financial condition and results of operations.

From time to time, we have been, and may in the future be, subject to lawsuits brought against us by our competitors, individuals, or other entities. For example, a group of plaintiffs brought a lawsuit against Changyou in the Cayman Islands claiming that they were entitled to assert dissenters’ rights in the Changyou Merger. The trial ruled in the plaintiffs’ favor, and Changyou’s appeal of the trial court’s decision to the Cayman Court of Appeal is pending. There is also a putative class action lawsuit that was filed against Sohu.com Limited, Sohu.com (Game) Limited (“Sohu Game”), Changyou, and others in the United States District Court for the Eastern District of New York that alleges violations of U.S. securities laws in connection with the Changyou Merger.

Where we can make a reasonable estimate of the liability relating to pending litigation against us and determine that an adverse result for us from such litigation is probable, we record a related contingent liability. As additional information becomes available, we assess the potential liability and revise estimates as appropriate. However, due to the inherent uncertainties relating to litigation, the amount of our estimates may be inaccurate. While we do not believe that any currently pending proceedings are likely to have a material adverse effect on our business, financial condition and results of operations, if there were adverse determinations in legal proceedings against us we could be required to pay substantial monetary damages or adjust our business practices, which could have an adverse effect on our financial condition and results of operations.

We face risks related to natural disasters, terrorist attacks, and health epidemics, such as the COVID-19 pandemic.

Our business has been and could in the future be adversely affected by natural disasters, such as earthquakes, floods, landslides, and tsunamis; terrorist attacks and other acts of violence or war; social instability; and recurrences of outbreaks of previous health epidemics such as avian influenza, severe acute respiratory syndrome (or “SARS”), the Zika virus, and the Ebola virus; or new outbreaks of health epidemics.

COVID-19 spread rapidly in 2020 to become a worldwide pandemic. In response to the emergence of the COVID-19 virus, the Chinese government implemented several control measures that had a negative impact on the Chinese economy, and on our business, during the first half of 2020. For example, in the first quarter of 2020, our brand advertising customers curtailed their spending on online advertising, which had an adverse impact on our results of operations. In addition, some of our advertising customers required additional time to pay us, and such trends may continue during 2021. The extent to which COVID-19 impacts our results of operations will depend on future developments, including the possibility of a resurgence of the COVID-19 outbreak in China, which remain uncertain and difficult to predict.

We do not have business insurance coverage.

The insurance industry in China is still at an early stage of development. Insurance companies in China offer limited business insurance products, or offer them at a high price. As a result, we do not have any business liability, loss of data or disruption insurance coverage for our operations in China. Any business disruption, litigation or natural disaster might result in our incurring substantial costs and the diversion of our resources.

[Table of Contents](#)

The brand advertisement market includes many uncertainties, which could cause our brand advertising revenues to decline.

We generate a portion of our revenues from the sale of advertising for posting on our Internet platforms. Brand advertising revenues represented approximately 20% and 26% of our total revenues for the years ended December 31, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, sales to our five largest advertising agencies and advertisers accounted for approximately 27% and 28%, respectively, of our total brand advertising revenues. The growth of our brand advertising revenues relies on increased revenue from the sale of advertising for posting our Internet platforms, which may be affected by many of the following risk factors:

- The advertising market is still evolving in China. Our current and potential advertising clients may not devote a significant portion of their advertising budgets to Internet-based advertising in general, or to us in particular;
- Changes in government policy could restrict or curtail our brand advertising services. For example, during the last several years, the PRC government enacted a series of regulations, administrative instructions and policies to restrict online medical advertising. As a result of these regulations, we may lose some of our existing medical advertising clients. For another example, see “Government Regulation and Legal Uncertainties - Specific Statutes and Regulations - Regulation of Other Services - Real Estate Services” for a description of the Beijing Measures and other regulations affecting Focus’s business;
- Advertising clients may adopt new methods and strategies other than brand advertising to promote their brand and therefore our advertising revenue would be negatively affected;
- The acceptance of the Internet as a medium for advertising depends on the development of standards for measuring the effectiveness of advertisements disseminated over the Internet, and no standards have been widely accepted for the measurement of the effectiveness of brand advertising over the Internet. Industry-wide standards may not develop that are sufficient to support the Internet as an effective advertising medium. If these standards do not develop, advertisers may choose not to advertise on the Internet in general or through our portals or search engines;
- We may not have systems that are sufficiently well-developed to support our brand advertising business, and as a result, we may suffer system bugs that cause bad user experiences errors or omission in publishing our client’s advertisements, which could have a negative impact on our brand advertising business.

In addition, our ability to generate and maintain significant brand advertising revenues will also depend upon:

- the development of a large base of users possessing demographic characteristics attractive to advertising clients;
- the acceptance of brand advertisement as an effective way for business marketing by advertising clients;
- the effectiveness of our advertising delivery, tracking and reporting systems;
- the resistance pressure on brand advertising prices and limitations on inventory; and
- the establishment of a successful business model to make our new products adaptable to portable devices, which has required, and will continue to require us, to make significant expenditures for research, development, promotion and operations.

Many advertisers have shifted their PC online advertising budgets to advertising on mobile devices. Hence we must successfully optimize, adapt and make attractive our various product and service offerings for access on mobile devices and must effectively deliver advertising content in a manner that attracts and retains users’ interest and attention or our online advertising business will suffer.

The operation of our online video services requires us to make substantial expenditures for content, technology, infrastructure, and brand promotion. We may not be able to effectively contain these costs or sell sufficient advertising to recoup our continuing costs, and our relatively limited financial resources compared to those of many of our competitors in the online video market may prevent us from competing effectively.

It has been, and can be expected to continue to be, necessary for us to invest significant financial, operational, strategic, technological, personnel, and other resources for our online video services. Although we have attempted to control our expenditures for online video services, in part by using relatively more self-developed video content, which we produce in house or contract with independent third-party studios to produce for us, and relatively less content acquired from third parties, our total operating costs in this regard are still large, and continue to exceed the amount of our revenues derived from advertising on our online video platforms. Further, we compete with popular vertical online video sites, such as those operated by iQiyi, Tencent, Alibaba’s online video subsidiary Youku, and Mango TV, that have substantially greater financial resources than we do. These expenditures have had, and are likely to continue to have, an adverse impact on our operating results and have significantly strained, and can be expected to continue to strain, our resources. If we are unable to continue to expend the resources necessary to self-develop or acquire the rights to, and provide on our video platforms, quality video content, we may not be able to compete effectively against these other popular sites, or grow or maintain the level of our user traffic, which could make our video platforms less attractive to advertisers, have a negative impact on our ability to generate advertising revenues, and make it difficult for us to stem our losses from operation of our online video services or to recoup our substantial expenditures. In addition, when we obtain rights to video content from third parties we are often required to pay license fees upfront, prior to production of the content. There often are delays of several months, or sometimes up to two or three years, between our payment of such up-front fees and the time when we are able to offer fully-developed content online and begin to receive advertising dollars. These delays have often placed, and can be expected to continue to place, significant strains on our cash flow. Our up-front payments also subject us to a certain level of credit risk, as content producers to which we make such payments may fall into financial difficulties and be unable to deliver the content we have purchased.

[Table of Contents](#)

Further, when we purchase rights to the online versions of TV series, we generally rely on the expectation that the series will be broadcast on nationwide TV channels according to a specified schedule. If there are delays in such TV broadcasts, we will have to delay, perhaps indefinitely, our presentation of the online version of the series. We are also subject to the risk that TV content we purchase will be broadcast on less popular TV channels than expected, which would be likely to cause our online viewership and advertising revenues to be correspondingly lower than we expected.

As we continue a strategic shift from purchasing licensed video content to focusing on self-developed video content that we develop in house or contract with third parties to produce for us, we face the risk that such self-developed content may not be well received by viewers and/or fail to attract advertisers, and we may not be able to generate sufficient advertising revenues to stem our losses from our online video services or to ultimately recoup our costs.

With the goal of reducing our overall costs for our online video business, we have been making a strategic shift to reduce our purchase of licensed video content and focus more on self-developed video content, which generally requires relatively lower expenditures by us than those required for obtaining license rights from third parties. Accordingly, we have spent, and expect to continue to spend, significant resources on self-developed video content. We have also invested, and expect to invest in the future, in the production of movies and other content by selected independent third-party studios. However, we are subject to the risk that the quality of our self-developed video content, or movies or other content in which we invest, will not be up to our expectations or those of our target viewer audience. If our self-developed video content, or such movies and other content produced for us by third parties, are not well received by viewers and/or fail to attract sufficient advertising placements from advertisers, or if the development of any such content or movies is not completed as a result of financial, regulatory, or other restraints, we may not be able to recoup our production costs and other expenditures. In addition, if developing in-house content becomes more widespread in the online video business in China, we could face significant competition from other online video sites with respect to the acquisition of quality and popular intellectual property, such as story lines, plots, and characters, for use in such content, and the cost of obtaining such intellectual property would therefore be likely to increase.

We may not be able to reverse the decline in revenues from our online video business. If we fail to do so, Sohu Video may not be able to become profitable, in which case we will be unable to recoup our substantial expenditures for the development of our online video business.

Our brand advertising revenues in general, and the revenues of our online video business in particular, have declined in recent years. Although China's online video industry has experienced substantial growth in recent years in terms of both users and content, we cannot assure you that the online video industry will continue to grow as rapidly as it has in the past, if at all. With the development of technology, new forms of media may emerge and render online video Websites or Mobile Apps less attractive to users. Growth of the online video industry is affected by numerous factors, such as users' general online video experience, technological innovations, development of Internet and Internet-based services, regulatory changes in general, and regulations affecting copyright in particular, and the macroeconomic environment. If the online video industry in China does not grow as quickly as expected or if we fail to benefit from such growth by successfully implementing our business strategies, our user traffic may decrease, our advertising revenues may continue to decline, and our business and prospects may be adversely affected. For Sohu Video to become profitable, it will be necessary for us to both increase our revenues from Sohu Video and control or reduce our expenditures for video content and other costs. If Sohu Video fails to become profitable, we will be unable to recoup our substantial expenditures for the development of our online video business.

We rely on advertising agencies to sell our brand advertising services. As the brand advertising market in China is effectively controlled by a small number of large advertising agencies, such advertising agencies may be in a position to demand higher sales rebates or to delay payments to us, which would adversely affect our gross margin.

Most of our brand advertising services are distributed by advertising agencies. In 2020, for example, approximately 67% of our brand advertising revenues were derived from advertising agencies. In consideration for these agencies' services, we are required to pay certain percentages of revenues as sales rebates. As the brand advertising market is effectively controlled by a small number of large advertising agencies, such advertising agencies may be in a position to demand higher sales rebates based on increased bargaining power, or to delay in payments to us, which could negatively affect our brand advertising growth and the timing of our collection of payments. During 2020 the biggest five advertising agencies in China contributed approximately 26% of our brand advertising revenues.

The expansion of Internet advertisement blocking measures may result in a decrease in our advertising revenues.

The development of Web software that blocks Internet advertisements before they appear on a user's screen may hinder the growth of online advertising. For example, some Internet platforms allow their users to access video content from our Internet platforms, while completely blocking our advertisements from being viewed by their users. Since our advertising revenues are generally based on user views, the expansion of advertisement blocking on the Internet may decrease our advertising revenues because, when an advertisement is blocked, it is not downloaded from the server, which means such advertisements will not be tracked as a delivered advertisement. In addition, advertisers may choose not to advertise on the Internet or on our Internet platforms because of the use by third parties of Internet advertisement blocking measures. In addition, increasing numbers of browsers include technical barriers designed to prevent Internet information service providers such as us to trail the browsing history of the Internet users, which is also likely to adversely affect the growth of online advertising.

Table of Contents

If our video content fails to attract and retain users and advertisers, we may not be able to generate sufficient user traffic to allow us to maintain or increase our video revenues.

Our online video business largely depends on our ability to generate sufficient user traffic, through provision of attractive products, to in turn attract advertisers to place advertisements on our Internet platforms for video. In order to attract and retain users, we have needed, and will continue to need, to expend resources to develop our own or acquire from third parties' high-quality video content, including films and TV dramas. In 2015 and 2016, we purchased significant amounts of exclusive video content, through which we generated user traffic and revenues by bartering for other video content from other parties or distributing to other third parties. As some films and TV dramas are required to obtain permits from the National Radio and Television Administration (the "NRTA"), the National Film Administration (the "NFA"), or their respective local branches before they are transmitted via the Internet, if we are not able to timely obtain the required permits, users might access pirated versions of such films and TV dramas and become less likely to view them on our Internet platforms when they become available, which would significantly affect the ability of our exclusive video content to attract and retain users, and cause our online traffic and advertising revenues to be lower than we expected. In recent years, our strategy has gradually shifted from purchasing expensive head content to self-producing content. We cannot assure you that we will continue to be able to acquire exclusive content rights or develop premium content in the future and our user traffic and revenues generated from such exclusive content rights and self-developed content could be reduced. Moreover, if we fail to produce by ourselves or acquire from third parties high-quality video content, or if video content we develop by ourselves or acquire proves to be less attractive to users than we anticipated, our user traffic and our market share could be adversely effected, which could result in our being unable to maintain or increase our video revenues.

Videos and other types of content and materials displayed on our Internet platforms may be found objectionable by PRC regulatory authorities, may subject us to penalties and other administrative actions, and may be subject us to liabilities for infringement of third-party intellectual property rights or other allegations.

The PRC government has adopted regulations governing Internet access and the distribution of videos over the Internet. In addition to professionally produced content, we allow our users to upload videos to our Internet platforms. Our users can upload all types of content, including user-created and professionally produced content, and can upload graphic files for limited purposes, such as updating user biographies. Although we have adopted internal procedures to monitor the content displayed on our Internet platforms, due to the significant amount of content uploaded by our users, we may not be able to identify all videos or other content that may violate relevant laws and regulations, and the risk may be greater as we increasingly rely on content provided by UGC and PGC providers through our Internet platforms, as we do not have an opportunity to fully review such content prior to its publication. Failure to identify and prevent illegal or inappropriate content, such as content that is defamatory, is racially or religiously discriminatory, compromises national security, or infringes the intellectual property rights of third parties, from being displayed on our Internet platforms may subject us to liability.

To the extent that PRC regulatory authorities find any content displayed on our Internet platforms objectionable, they may require us to limit or eliminate the dissemination of such content on our Internet platforms, with take-down orders or otherwise. The State Administration of Press, Publication, Radio, Film and Television (the "SAPPRFT"), which in March 2018 was reorganized into three separate governmental authorities—the National Radio and Television Administration, the National Film Administration, and the State Press Publication Administration, prior to March 31, 2018 published, and one or more of those successor entities have published or can be expected to publish, from time to time lists of content that they consider objectionable, and we must dedicate teams of employees to continually monitor user-uploaded content and remove content that is deemed objectionable. In addition, regulatory authorities may impose penalties on us based on content displayed on or linked to our Internet platforms in cases of significant violations, including a revocation of our operating licenses or a suspension or shutdown of our online operations. In the event that PRC regulatory authorities find the video content on our Internet platforms objectionable and impose penalties on us or take other administrative actions against us in the future, our business and reputation may be adversely affected. Moreover, the costs of compliance with these regulations may continue to increase as more content is uploaded by our users.

In addition, under PRC laws and regulations governing online advertising, online publishers, such as us, are required to monitor advertising content displayed on their Internet platforms for accuracy, and for compliance with PRC law governing the dissemination of content over the Internet that is deemed to be unlawful or inappropriate. If we were found to have failed to fulfill our obligation to monitor the advertisements of an advertising customer, we could be subject to various penalties, including being prohibited from providing advertising services for advertisers in the entire industry of the customer. For example, PRC governmental authorities required that we suspend our News Apps from the Apple App Store for two weeks during 2018, based on a claim that our News Apps had been displaying unlawful and inappropriate advertising content.

We have been involved in litigation based on allegations of infringement of third-party copyright and other rights, such as privacy and image rights, due to the videos displayed on our Internet platforms. See "Risks Related to Our Business - We may be subject to intellectual property infringement claims, which may force us to incur substantial legal expenses and, if determined adversely to us, materially disrupt our business." While we have implemented internal procedures to review videos uploaded by our users and remove promptly from our Internet platforms any infringing videos after we receive infringement notifications from rights owners, due to the significant number of videos uploaded by users, we may not be able to identify all content that may infringe on third-party rights. Moreover, some rights owners may not send us a notice before bringing a lawsuit against us. Thus, our failure to identify unauthorized videos posted on our Internet platforms has subjected us to, and may in the future subject us to, claims of infringement of third-party intellectual property rights or other rights. In addition, we may be subject to administrative actions brought by the National Copyright Administration (the "NCA") or its local branches for alleged copyright infringement.

We may also face litigation or administrative actions for defamation, negligence, or other purported injuries resulting from videos and advertisements that we display on our Internet platforms. Such litigation and administrative actions, with or without merit, may be expensive and time-consuming and may result in significant diversion of resources and management attention from our business operations. Furthermore, such litigation or administrative actions may adversely affect our brand image and reputation.

Risks Related to China's Telecommunications Infrastructure

The telecommunications infrastructure in China, which is not as well developed as in the United States, may limit our growth.

The telecommunications infrastructure in China is not as well developed as it is in the United States. Our growth will depend on the PRC government and state-owned enterprises establishing and maintaining a reliable Internet and telecommunications infrastructure to reach a broader base of Internet users in China. The Internet infrastructure, standards, protocols and complementary products, services and facilities necessary to support the demands associated with continued growth may not be developed on a timely basis or at all by the PRC government and state-owned enterprises.

We depend on China Mobile, China Unicom, and China Telecom for telecommunications services, and any interruption in these services may result in severe disruptions to our business.

Although private Internet service providers exist in China, almost all access to the Internet is maintained through China Mobile, China Unicom and China Telecom under the administrative control and regulatory supervision of the MIIT. We rely on this infrastructure and China Mobile, China Unicom, and China Telecom to provide data communications capacity primarily through local telecommunications lines. Although the government has announced aggressive plans to develop the national information infrastructure, this infrastructure may not be developed and the Internet infrastructure in China may not be able to support the continued growth of Internet usage. In addition, we will have no access to alternative networks and services, on a timely basis if at all, in the event of any infrastructure disruption or failure.

We have signed Bandwidth Provision and Server Hosting Agreements with China Mobile, China Unicom, and China Telecom. Under these agreements, we maintained servers in China to support most of our core services. However, as there are limited telecommunication infrastructure service providers, we may not be able to lease additional bandwidth on acceptable terms, on a timely basis, or at all. If we are not able to lease additional bandwidth, the development of our business can be affected.

To the extent we are unable to scale our systems to meet the increasing PRC Internet population, we will be unable to expand our user base and increase our attractiveness to advertisers and merchants.

As Internet volume and traffic increase in China, we may not be able to scale our systems proportionately. To the extent we do not successfully address our capacity constraints, our operations may be severely disrupted, and we may not be able to expand our user base and increase our attractiveness to advertisers and merchants. Even if we scale our systems proportionately, any unforeseen increase in traffic may disrupt our operations and make it difficult for our users to visit our Internet platforms, or even cause users to be unable to access our Internet platforms at all, which could result in a loss of users.

Unexpected network interruptions caused by system failures may result in reduced user traffic, reduced revenue and harm to our reputation.

Our Internet platforms operations are dependent upon Web browsers, Internet service providers, content providers and other Internet platforms operators in China, which have experienced significant system failures and system outages in the past. Our users have in the past experienced difficulties due to system failures unrelated to our systems and services. Any system failure or inadequacy that causes interruptions in the availability of our services, or increases the response time of our services, as a result of increased traffic or otherwise, could reduce our user satisfaction, future traffic and our attractiveness to users and advertisers.

Our operations are vulnerable to natural disasters and other events, as we only have limited backup systems and do not maintain any backup servers outside of China.

We have limited backup systems and have experienced system failures and electrical outages from time to time in the past, which have disrupted our operations. Our disaster recovery plan cannot fully ensure safety in the event of damage from fire, floods, typhoons, earthquakes, power loss, telecommunications failures, break-ins and similar events. If any of the foregoing occurs, we may experience a complete system shutdown. We do not carry any business interruption insurance. To improve the performance and to prevent disruption of our services, we may have to make substantial investments to deploy additional servers or one or more copies of our Internet platforms to mirror our online resources.

[Table of Contents](#)

Although we carry property insurance with low coverage limits, our coverage may not be adequate to compensate us for all losses, particularly with respect to loss of business and reputation that may occur.

Our network operations may be vulnerable to hacking, viruses and other disruptions, which may make our products and services less attractive and reliable, and third-party online payment platforms that we partner with may be susceptible to security breaches, which may damage our reputation and adversely affect our business.

Internet use can decline if any well-publicized compromise of security occurs. “Hacking” involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware or other computer equipment. Hackers, if successful, could misappropriate proprietary information or cause disruptions in our service. We may be required to expend capital and other resources to protect our Internet platforms against hackers, and measures we may take may not be effective. In addition, the inadvertent transmission of computer viruses could expose us to a risk of loss or litigation and possible liability, as well as damage our reputation and decrease our user traffic.

Furthermore, we could be liable for security breaches of our users’ confidential information, such as credit card numbers and expiration dates, personal information and billing addresses, stored by the third-party online payment platforms that we partner with. Since our revenues are derived in part from such payment platforms, any security breach resulting from Internet payment transactions could damage our reputation and deter current and potential users from using our online services.

Risks Related to Our Corporate Structure

Although the Sohu Group holds substantial amounts of cash and cash equivalents, a significant portion of such cash and cash equivalents is held by Sogou, and it can be difficult for Sohu to have access to the portion held by Sogou.

Sohu has made significant expenditures in recent years, and expects to continue to do so through the current fiscal year. Although we hold a significant amount of cash and cash equivalents in the Sohu Group, the amount of cash directly available to Sohu, without including cash and cash equivalents of our subsidiary Sogou, which are now included in assets held for sale in our consolidated balance sheets, is limited. As of December 31, 2020, Sohu and Changyou together held approximately \$217.1 million in cash and cash equivalents; Sogou held approximately \$287.2 million in cash and cash equivalents, which was included in assets held for sale in our consolidated balance sheet.

Sohu can obtain access, for use in its business, to cash held or generated by Sogou only through dividends paid by Sogou to its shareholders, or through loans made by Sogou to Sohu. Further, if the transactions contemplated by the Tencent/Sohu Sogou Share Purchase Agreement and the Sogou Merger Agreement are completed as planned, Sohu will no longer have any ability to access Sogou’s cash. In addition, payment of dividends by Sogou is subject to approval of the Board of Directors of Sogou. Moreover, cash held by Mainland China-based subsidiaries and VIEs of Sogou, and also of our wholly-owned subsidiary Changyou, can only be available for distribution by Sogou or Changyou as dividends to shareholders after compliance with restrictions and requirements imposed by PRC law, including PRC profit appropriation and PRC withholding tax, that will reduce the amount available for such subsidiaries and VIEs to distribute to Sogou Inc. and Changyou.com Limited for payment of dividends to their shareholders. Further, payments of such dividends by Sogou would reduce the cash and cash equivalents of the Sohu Group as a whole, as non-controlling shareholders of Sogou would be entitled to a pro rata share of such dividends. See “Risks Related to China’s Regulatory Environment -Our Offshore entities may need to rely on dividends and other distributions on equity paid by our Mainland China-based subsidiaries, including the Mainland China-based subsidiaries of our subsidiaries Changyou and Sogou, to fund any cash requirements those Offshore entities may have. Our Offshore entities may not be able to obtain cash from distributions because our subsidiaries and VIEs in Mainland China are subject to restrictions imposed by PRC law on paying such dividends or making other payments,” and “- Dividends we receive from our operating subsidiaries located in the PRC are subject to PRC profit appropriation and PRC withholding tax.”

Sohu’s ability to obtain loans from Sogou for use by Sohu in its business is subject to determination by the Board of Directors of Sogou that making any such loans is in the best interests of Sogou separate from Sohu.

Our interests in our wholly-owned subsidiary Changyou and in our controlled subsidiary Sogou could be diluted from the issuance of equity incentive shares.

Our percentage and economic interests in our wholly-owned subsidiary Changyou and in our controlled subsidiary Sogou could be diluted by the implementation and operation of existing or future equity incentive plans, or any equity issued by Sogou as consideration for acquisitions. For example, in August 2019 Changyou adopted a new share incentive plan that reserves Changyou Class A ordinary share for issuance, and in November 2017 Sogou adopted a share incentive plan that reserves Sogou Class A Ordinary Shares for issuance. These reserved shares, if and when issued, would reduce our percentage interests in Changyou and Sogou. The issuance of these reserved shares or the occurrence of any of such other dilutive events with respect to Changyou or Sogou in the future would cause our share of the earnings of the affected subsidiary to be reduced.

Table of Contents

In order to comply with PRC regulatory requirements, we operate our main businesses through companies with which we have contractual relationships but in which we do not have an actual ownership interest. If our current ownership structure is found to be in violation of current or future PRC laws, rules or regulations regarding the legality of foreign investment in the PRC Internet sector, we could be subject to severe penalties.

Various regulations in the PRC restrict or prohibit WFOEs from operating in specified industries such as Internet information, online game, mobile, Internet access, and certain other industries. We are a Cayman Islands company and, in order to comply with PRC regulatory requirements, we conduct our Internet and value-added telecommunication operations in the PRC through our VIEs, which are incorporated in the PRC and owned by Dr. Charles Zhang and/or certain of our other employees. Through a series of contractual arrangements, our VIEs, for which Sohu is the primary beneficiary, are effectively controlled by our indirect PRC subsidiaries.

The MIIT issued a circular in 2006 that emphasizes restrictions on foreign investment in value-added telecommunications businesses. In addition, a notice issued in 2009 by the SAPPRFT, the NCA, and the National Office of Combating Pornography and Illegal Publications states that foreign investors are not permitted to invest in online game operating businesses in China or to exercise control over or participate in the operation of such businesses through indirect means. While we are not aware of any internet company which uses the same or similar contractual arrangements as we do having been penalized or ordered to terminate operations by PRC authorities claiming that the arrangements constituted foreign investment in value-added telecommunication services or a kind of control over or participation in the operation of online game operating businesses through indirect means, it is unclear whether and how the various regulations of the PRC authorities might be interpreted or implemented in the future. For a detailed discussion of PRC regulations, notices and circulars with respect to such restrictions, see “Government Regulation and Legal Uncertainties—Specific Statutes and Regulations - Regulation of Foreign Direct Investment in Value-Added Telecommunications Companies” and “Government Regulation and Legal Uncertainties - Specific Statutes and Regulations - Regulation of the Online Game Services - Online Games and Cultural Products.”

In addition, pursuant to the *Notice on Establishing a Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (“Circular 6”) and the Ministry of Commerce (the “MOFCOM”) Security Review Rules, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire “de facto control” of domestic enterprises with “national security” concerns and prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or Offshore transactions. These national security review-related regulations are relatively new and there is a lack of clear statutory interpretation regarding the implementation of the rules, and PRC authorities may interpret these regulations to mean that the transactions implementing our VIE structures should have been submitted for review. For a discussion of these PRC national security review requirements, see “Government Regulation and Legal Uncertainties - Specific Statutes and Regulations - Miscellaneous - Regulation of M&A and Overseas Listings.”

If we were found to be in violation of any existing or future PRC law or regulations relating to foreign ownership of value-added telecommunications businesses and security reviews of foreign investments in such businesses, including online games businesses, regulatory authorities with jurisdiction over the operation of our business would have broad discretion in dealing with such a violation, including levying fines, confiscating our income, revoking the business or operating licenses of PRC subsidiaries and/or VIEs, requiring us to restructure our ownership structure or operations, requiring us to discontinue or divest ourselves of all or any portion of our operations or assets, restricting our right to collect revenues, blocking our Internet platforms, or imposing additional conditions or requirements with which we may not be able to comply. Any of these actions could cause significant disruption to our business operations and have an adverse impact on our business, financial condition and results of operations. Further, if changes were required to be made to our ownership structure, our ability to consolidate our VIEs could be adversely affected.

We may be unable to collect long-term loans to our officers and employees in connection with High Century, Heng Da Yi Tong, Tianjin Jinhu, Gamease, Guanyou Gamespace, and Sogou Information or exercise control over these entities.

As of December 31, 2020, Sohu had outstanding long-term loans of \$7.6 million to Dr. Charles Zhang and to certain PRC entities owned by Dr. Zhang and/or certain other employees. These long-term loans were used to finance investments in our VIEs Beijing Century High-Tech Investment Co., Ltd. (“High Century”), Beijing Heng Da Yi Tong Information Technology Co., Ltd. (“Heng Da Yi Tong”), Tianjin Jinhu Culture Development Co., Ltd. (“Tianjin Jinhu”), Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”), Beijing Guanyou Gamespace Digital Technology Co., Ltd. (“Guanyou Gamespace”), and Beijing Sogou Information Service Co., Ltd. (“Sogou Information”), which are used to facilitate our participation in telecommunications, Internet content, online games and certain other businesses in China where foreign ownership is either prohibited or restricted.

The loan agreements contain provisions that, subject to PRC laws, (i) the loans can only be repaid to us by transferring the shares of High Century, Heng Da Yi Tong, Tianjin Jinhu, Gamease, Guanyou Gamespace, and Sogou Information to us; (ii) the shares of High Century, Heng Da Yi Tong, Tianjin Jinhu, Gamease, Guanyou Gamespace, and Sogou Information cannot be transferred by the borrowers without our approval; and (iii) we have the right to appoint all directors and senior management personnel of High Century, Heng Da Yi Tong, Tianjin Jinhu, Gamease, Guanyou Gamespace and Sogou Information. Under the loan agreements the borrowers have pledged all of their shares in High Century, Heng Da Yi Tong, Tianjin Jinhu, Gamease, Guanyou Gamespace, and Sogou Information collateral for the loans, and the loans bear no interest and are due on the earlier of a demand or such time as Dr. Charles Zhang or one of the other employee borrowers, as the case may be, is not an employee of Sohu. Sohu does not intend to request repayment of the loans as long as PRC regulations prohibit it from directly investing in businesses engaged in by the VIEs.

[Table of Contents](#)

Because these loans can only be repaid by the borrowers' transferring the shares of the various entities, our ability to ultimately realize the effective return of the amounts advanced under these loans will depend on the profitability of High Century, Heng Da Yi Tong, Tianjin Jinhu, Gamease, Guanyou Gamespace, and Sogou Information, and is therefore uncertain.

Furthermore, because of uncertainties associated with PRC law, ultimate enforcement of the loan agreements is uncertain. Accordingly, we may never be able to collect these loans and we may not be able to continue to exercise influence over High Century, Heng Da Yi Tong, Tianjin Jinhu, Gamease, Guanyou Gamespace, and Sogou Information.

We depend upon contractual arrangements with our VIEs for the success of our business and these arrangements may not be as effective in providing operational control as direct ownership of these businesses and may be difficult to enforce.

Because we conduct our Internet operations mainly in the PRC, and are restricted or prohibited by the PRC government from owning Internet content, telecommunication, online games operations and certain other operations in the PRC, we are dependent on our VIEs in which we have no direct ownership interest, to provide those services through contractual agreements among the parties and to hold some of our assets, including some of the domain names and trademarks relating to our business. These arrangements may not be as effective in providing control over our Internet content, telecommunications operations, online games operations and certain other as direct ownership of these businesses. For example, if we had direct ownership of our VIEs, we would be able to exercise our rights as a shareholder to effect changes in their boards of directors, which in turn could effect changes at the management level. Due to our VIE structure, we have to rely on contractual rights to effect control and management of our VIEs, which exposes us to the risk of potential breach of contract by the VIEs or their shareholders, such as their failing to use the domain names and trademarks held by them, or failing to maintain our Internet platforms, in an acceptable manner or taking other actions that are detrimental to our interests. In addition, as each of our VIEs is jointly owned by its shareholders, it may be difficult for us to change our corporate structure if such shareholders refuse to cooperate with us. In addition, some of our subsidiaries and VIEs could fail to take actions required for our business, such as entering into content development contracts with potential content suppliers or failing to maintain the necessary permits for the content servers. Furthermore, if the shareholders of any of our VIEs were involved in proceedings that had an adverse impact on their shareholder interests in such VIE or on our ability to enforce relevant contracts related to the VIE structure, our business would be adversely affected.

The shareholders of the VIEs may breach, or cause the VIEs to breach, the VIE contracts for a number of reasons. For example, their interests as shareholders of the VIEs and the interests of our subsidiaries may conflict and we may fail to resolve such conflicts; the shareholders may believe that breaching the contracts will lead to greater economic benefit for them; or the shareholders may otherwise act in bad faith. If any of the foregoing were to happen, we might have to rely on legal or arbitral proceedings to enforce our contractual rights. In addition, disputes may arise among the shareholders of any of our VIEs with respect to their ownership of such VIE, which could lead them to breach their agreements with us. Such arbitral and legal proceedings and disputes may cost us substantial financial and other resources, and result in disruption of our business, and the outcome might not be in our favor. For example, a PRC court or arbitration panel could conclude that our VIE contracts violate PRC law or are otherwise unenforceable. If the contractual arrangements with any of our VIEs were found by PRC authorities with appropriate jurisdiction to be unenforceable, we could lose control over the assets owned by such VIE and lose our ability to consolidate such VIE's results of operations, assets and liabilities in our consolidated financial statements and/or to transfer the revenues of such VIE to our corresponding PRC subsidiary.

A failure by our VIEs or their shareholders to perform their obligations under our contractual arrangements with them could have an adverse effect on our business and financial condition.

As all of these contractual arrangements are governed by PRC law and provide for the resolution of disputes through either arbitration or litigation in the PRC, they would be interpreted in accordance with PRC law and any disputes would be resolved in accordance with PRC legal procedures. We would have to rely for enforcement on legal remedies under PRC law, including specific performance, injunctive relief or damages, which might not be effective. For example, if we sought to enforce the equity interest purchase right agreements for the transfer of equity interests in any of our VIEs, if the transferee was a foreign company the transfer would be subject to approval by PRC governmental authorities such as the MIIT and the MOFCOM, and the transferee would be required to comply with various requirements, including qualification and maximum foreign shareholding percentage requirements. As these PRC governmental authorities have wide discretion in granting such approvals, we could fail to obtain such approval. In addition, our VIE contracts might not be enforceable in China if PRC governmental authorities, courts or arbitral tribunals took the view that such contracts contravened PRC law or were otherwise not enforceable for public policy reasons.

Furthermore, the legal environment in the PRC is not as developed as in other jurisdictions, such as the United States. As a result, uncertainties in the PRC legal system could further limit our ability to enforce these contractual arrangements. In the event we were unable to enforce these contractual arrangements, we would not be able to exert effective control over our VIEs, and our ability to conduct our business, and our financial condition and results of operations, would be severely adversely affected.

[Table of Contents](#)

The contractual arrangements between our subsidiaries and our VIEs may result in adverse tax consequences.

PRC laws and regulations emphasize the requirement of an arm's length basis for transfer pricing arrangements between related parties. The laws and regulations also require enterprises with related party transactions to prepare transfer pricing documentation to demonstrate the basis for determining pricing, the computation methodology and detailed explanations. Related party arrangements and transactions may be subject to challenge or tax inspection by PRC tax authorities.

Under a tax inspection, if our transfer pricing arrangements between our China-based subsidiaries and VIEs are judged as tax avoidance, or related documentation does not meet the requirements, our China-based subsidiaries and VIEs may be subject to material adverse tax consequences, such as transfer pricing adjustment. A transfer pricing adjustment could result in a reduction, for PRC tax purposes, of adjustments recorded by VIEs, which could adversely affect us by (i) increasing VIE's tax liabilities without reducing our subsidiaries' tax liabilities, which could further result in interest and penalties being levied on us for unpaid taxes; or (ii) limiting the ability of our PRC companies to maintain preferential tax treatment and other financial incentives. In addition, if for any reason we needed to cause the transfer of any of the shareholders' equity interest in any of our VIEs to a different nominee shareholder (such as if, for example, one of such shareholders was no longer employed by us), we might be required to pay individual income tax, on behalf of the transferring shareholder, on any gain deemed to have been realized by such shareholder on such transfer.

We may lose the ability to use and enjoy assets held by any of our VIEs that are important to the operation of our business if such VIE declares bankruptcy or becomes subject to a dissolution or liquidation proceeding.

Each of our VIEs holds assets, such as our core intellectual property, licenses and permits, that are critical to our business operations. Although the equity interest purchase right agreements among our WFOEs, our VIEs and the shareholders of our VIEs contain terms that specifically obligate the shareholders of our VIEs to ensure the valid existence of our VIEs, in the event the shareholders breached these obligations and voluntarily liquidated our VIEs, or if any of our VIEs declared bankruptcy and all or part of its assets became subject to liens or rights of third-party creditors, we might be unable to continue some or all of our business operations. Furthermore, if any of our VIEs were to undergo a voluntary or involuntary liquidation proceeding, its shareholders or unrelated third-party creditors might claim rights to some or all of such VIE's assets and their rights could be senior to our rights under the VIE contracts, thereby hindering our ability to operate our business.

Frequent press reports in the United States questioning the VIE structure used by us and other Chinese companies publicly-traded in the United States appear to have created concern among investors, and may cause such an effect in the future.

In recent years various prominent Western news outlets have questioned the use by Chinese companies that are publicly-traded in the United States of VIE structures as a means of complying with Chinese laws prohibiting or restricting foreign ownership of certain businesses in China, including businesses we are engaged in such as Internet information and content, online advertising, online game, sponsored search, and value-added telecommunication services. Some of such news reports have also sought to draw a connection between recent widely reported accounting issues at certain Chinese companies and the use of VIE structures. Such news reports appear to have had the effect of causing concern among investors in several Chinese companies, including us, that are publicly-traded in the United States. While we are not aware of any causal connection between the recently reported accounting scandals and the use of VIE structures, it is possible that investors in our common stock will believe that such a connection exists. Any of such circumstances could lead to further loss of investor confidence in Chinese companies such as ours and cause fluctuations in the market prices of our common stock and, if such prices were to drop sharply, could subject us to shareholder litigation, which could cause the price for our shares to drop further.

Risks Related to China's Regulatory Environment

Political, economic and social policies of the PRC government could affect our business.

Substantially all of our business, operating assets, fixed assets and operations are located in China, and substantially all of our revenues are derived from our operations in China. Accordingly, our business may be adversely affected by changes in political, economic or social conditions in China, adjustments in PRC government policies or changes in laws and regulations.

The economy of China differs from the economies of most countries belonging to the Organization for Economic Cooperation and Development in a number of respects, including:

- structure;
- level of government involvement;
- level of development;
- level of capital reinvestment;
- growth rate;

Table of Contents

- control of foreign exchange; and
- methods of allocating resources.

Since 1949, China has been primarily a planned economy subject to a system of macroeconomic management. Although the PRC government still owns a significant portion of the productive assets in China, economic reform policies since the late 1970s have emphasized decentralization, autonomous enterprises and the utilization of market mechanisms. We cannot predict the future effects of the economic reform and macroeconomic measures adopted by the PRC government on our business or results of operations. Furthermore, the PRC government began to focus more attention on social issues in recent years and has promulgated or may promulgate additional laws or regulations in this area, which could affect our business in China.

While the Chinese economy has grown significantly over the past thirty years, the growth has been uneven geographically among various sectors of the economy, and during different periods. The Chinese economy may not continue to grow, and if there is growth, such growth may not be steady and uniform; if there is a slowdown, such a slowdown may have a negative effect on our business. The Chinese economy experienced high inflation in 2010 and 2011, and to curb the accelerating inflation the PBOC, China's central bank, raised benchmark interest rates three times in 2011. The level of exports from the PRC also declined significantly recently. According to the National Bureau of Statistics of China, the growth rate of China's gross domestic product, compared to that of the same period in the previous year, slowed from 6.6% in 2018, to 6.0% in 2019, and to 2.3% in 2020. Various macroeconomic measures and monetary policies adopted by the PRC government to guide economic growth and manage inflation and the allocation of resources may not be effective in sustaining the growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long run, may have an adverse effect on us if they reduce the amount of money that our existing or future advertisers devote to online advertising.

The PRC legal system embodies uncertainties which could limit the legal protections available to us and you, or could lead to penalties on us.

The PRC legal system is a civil law system based on written statutes. Unlike common law systems, it is a system in which decided legal cases have little precedential value. In 1979, the PRC government began to promulgate a comprehensive system of laws and regulations governing economic matters in general. Our PRC operating subsidiaries Beijing Sohu New Momentum Information Technology Co., Ltd. ("Sohu New Momentum"), Beijing Sohu New Era Information Technology Co., Ltd., ("Sohu Era"), Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media"), Fox Information Technology (Tianjin) Limited ("Video Tianjin"), Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame"), Beijing Changyou Gamespace Software Technology Co., Ltd. ("Gamespace"), Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology"), and Beijing Sogou Network Technology Co., Ltd. ("Sogou Network") are WFOEs, which are enterprises incorporated in China and wholly-owned by our indirect off-shore subsidiaries. Those WFOEs are subject to laws and regulations applicable to foreign investment in China. In addition, all of our subsidiaries and VIEs are incorporated in China and subject to all applicable Chinese laws and regulations. Because of the relatively short period for enacting such a comprehensive legal system, it is possible that the laws, regulations and legal requirements are relatively recent, and their interpretation and enforcement involve uncertainties. These uncertainties could limit the legal protections available to us and other foreign investors, including you. Such uncertainties may also make it easier for others to infringe our intellectual property without significant cost, and new entrants to the market may tend to use gray areas to compete with us. In addition, uncertainties in the PRC legal system may lead to penalties imposed on us because of a difference in interpretation of the applicable law between the relevant governmental authority and us. For example, under current tax laws and regulations, in order to be entitled to the preferential tax treatment afforded to "Software Enterprises" or KNSEs we are responsible for conducting a self-assessment and filing required supporting documentation with tax authorities. However, since there is no clear guidance as to the applicability of certain areas of preferential tax treatment, we may be found to be in violation of the tax laws and regulations based on the interpretation of local tax authorities with regard to the applicable tax rates, and therefore might be subject to penalties, including monetary penalties. In addition, we cannot predict the effect of future developments in the PRC legal system, particularly with regard to the Internet, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the preemption of local regulations by national laws.

The enforcement of the PRC Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and results of operations.

In 2007, the Standing Committee of the National People's Congress enacted the *Labor Contract Law*, which was amended on December 28, 2012. The Labor Contract Law introduced specific provisions related to fixed-term employment contracts, part-time employment, probationary periods, consultation with labor unions and employee assemblies, employment without a written contract, dismissal of employees, severance, and collective bargaining to enhance previous PRC labor laws. Under the Labor Contract Law, an employer is obligated to sign an unlimited-term labor contract with any employee who has worked for the employer for ten consecutive years. Further, if an employee requests or agrees to renew a fixed-term labor contract that has already been entered into twice consecutively, the resulting contract, with certain exceptions, must have an unlimited term. With certain exceptions, an employer must pay severance to an employee where a labor contract is terminated or expires. In addition, PRC governmental authorities have continued to introduce various new labor-related regulations since the effectiveness of the Labor Contract Law. For example, there are regulations which require that annual leave ranging from five to 15 days be made available to employees and that employees be compensated for any unused annual leave days at a rate of three times their daily salary, subject to certain exceptions.

[Table of Contents](#)

Under the *PRC Social Insurance Law* and the *Administrative Measures on Housing Fund*, employees are required to participate in pension insurance, work-related injury insurance, medical insurance, unemployment insurance, maternity insurance and housing funds and employers are required, together with their employees or separately, to pay the social insurance premiums and housing funds for their employees.

These laws designed to enhance labor protection tend to increase our labor costs. In addition, as the interpretation and implementation of these regulations are still evolving, our employment practices may not be at all times be deemed in compliance with the regulations. As a result, we could be subject to penalties or incur significant liabilities in connection with labor disputes or investigations.

If we are found to be in violation of current or future PRC laws, rules or regulations regarding Internet-related services and telecom-related activities, we could be subject to severe penalties.

The PRC has enacted regulations that apply to Internet-related services and telecom-related activities. While many aspects of these regulations remain unclear, they purport to limit and require licensing of various aspects of the provision of Internet information and content, online advertising, online game, and mobile services.

The Catalogue of Classification of Internet Audio-Video Program Services (Trial) issued by the SAPPRFT on March 17, 2010 and amended on March 10, 2017, classifies the business of providing public program searching and watching services through the Internet to the public as an Internet audio-video program service for which a Permit for the Network Transmission of Audiovisual Programs is required. Sohu Internet received a renewal of a Permit for the Network Transmission of Audiovisual Programs from the SAPPRFT on June 20, 2020. However, Sogou Information has not yet been granted such a license. If Sogou's provision of video search services is later challenged by the NRTA, which was established in connection with the reorganization of the SAPPRFT in 2018 and assumed certain responsibilities previously held by the SAPPRFT, such as the issuance of Permits for Network Transmission of Audiovisual Programs, we may be subject to severe penalties, including fines or the suspension of our video search services or even our operations. In addition, Sohu's online video businesses are operated under various Internet platforms, such as sohu.com, Focus.cn and sogou.com, but current PRC laws and regulations are lack of clear provisions indicating whether it is permissible to provide video services over several Internet platforms that are owned by a single company under one permit and the NRTA might claim that such operation under one permit is not allowed under the *Provisions on the Administration of Private Network and Targeted Communication Audiovisual Program Services*. If the NRTA were to make such a claim, we could face penalties from the NRTA, such as fines, cancellation of our existing permit, or the forced discontinuation or restriction on our video services or even our operations. If we are ordered to suspend our services, our user traffic will be reduced and therefore our revenues will be negatively affected.

Current PRC laws and regulations require us to obtain an Internet publishing service license for our online game services, Sogou's online literature services, and Sogou Ask. An Internet publishing service license may also be required for image search services, as these services may be considered to be "online publication services," which require an Internet publishing service license under current PRC laws and regulations. Sohu Internet, Gamease, and Guanyou Gamespace have each been granted such a license. However, none of Sogou's VIEs currently holds such a license. In addition, an internet news information services permit is required under current PRC laws and regulations for news dissemination, search, and newsfeed services. Although Sohu Internet holds such a permit, none of Sogou's VIEs currently holds such a license.

The Cyberspace Administration of China (the "CAOC") issued a series of regulations and administrative measures regulating Internet users' social accounts accessible by the public, group information platforms, BBS communities, and news information platforms, which require Internet platform operators to establish specific management rules for their platforms, and subject them to various specific obligations. See "Government Regulation and Legal Uncertainties - Specific Statutes and Regulations - Regulation of the Provision of Internet Content - Internet Information Services" and "Government Regulation and Legal Uncertainties - Specific Statutes and Regulations - Regulation of the Provision of Internet Content - Online News Dissemination and Online News Search Services" for further descriptions of the Internet platform operators' obligations as required by several administrative measures issued by the CAOC. Complying with such requirements could cause us to incur substantial expense or necessitate that we alter or change our existing practices in a manner that could harm our business.

On February 7, 2021, the Anti-Monopoly Committee of the State Council issued the *Anti-Monopoly Guidelines for the Platform Economy Sector* (the "Platform Guidelines"), which provide guidance on competition and compliance for companies operating in Internet-related businesses. While we do not expect that the Platform Guidelines and related regulations will have a material impact on our business and results of operations, such regulations may increase our compliance burden in our already highly-regulated industry. Further, the Platform Guidelines are indications of PRC governmental authorities' continual enhancement of anti-monopoly law enforcement and supervision of internet platform operators.

PRC laws, rules, regulations and governmental policies governing the online lending industry and microcredit businesses are at a relatively early stage, and can be expected to continue to evolve. Although Sogou has not made new loans to borrowers since September 30, 2020 and while Sogou was making loans Sogou implemented measures intended to comply with applicable PRC laws and regulations governing its online lending and microcredit businesses, due to the lack of clear interpretation and rules regarding the implementation of such laws and regulations, the measures Sogou took may not have been sufficient to ensure such compliance. Failure to comply with such laws and regulations could result in Sogou's being subject to, among other things, regulatory warnings, fines, or criminal penalties.

[Table of Contents](#)

We cannot assure you that we have fully complied with or will in the future always comply with PRC rules and regulations regarding Internet-related services and telecom-related activities. In addition, the PRC government may promulgate new laws, rules or regulations at any time. If current or future laws, rules or regulations regarding Internet-related activities are interpreted to be inconsistent with our ownership structure and/or our business operations, our business could be severely impaired and we could be subject to severe penalties.

PRC laws and regulations mandate complex procedures for some acquisitions of Chinese companies by foreign investors, which could make it more difficult for us to make acquisitions in China.

PRC laws and regulations, such as the M&A Rules, which were jointly issued by six PRC regulatory agencies on August 8, 2006 and were amended on June 22, 2009, the Anti-Monopoly Law, Circular 6 and the MOFCOM Security Review Rules, established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. The Platform Guidelines stipulate that any business combinations or acquisitions of control (“Concentrations of Undertakings”) involving VIE structures fall within the scope of anti-monopoly review. If a Concentration of Undertakings meets the criteria for declaration as stipulated by the State Council, an operator shall report such Concentration of Undertakings to the anti-monopoly law enforcement agency under the State Council in advance. PRC laws and regulations also require certain merger and acquisition transactions to be subject to a merger control security review. The MOFCOM Security Review Rules, effective from September 1, 2011, further provide that, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to a security review by the MOFCOM, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements of Offshore transaction. Factors that the MOFCOM considers in its review are whether (i) an important industry is involved, (ii) such transaction involves factors that have had or may have an impact on national economic security and (iii) such transaction will lead to a change in control of a domestic enterprise that holds a well-known PRC trademark or a time-honored PRC brand. The *Measures for the Security Review of Foreign Investment* (the “Security Review Measures”), promulgated by the MOFCOM and the NDRC, which became effective on January 18, 2021, further stipulate that any foreign investment that affects or may affect national security will be subject to a security review by relevant governmental authorities. If a business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company. Complying with the requirements of the relevant regulation to complete any such transaction could be time-consuming, and any required approval process, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business.

Even if we are in compliance with PRC governmental regulations relating to licensing and foreign investment prohibitions, the PRC government may prevent us from distributing, and we may be subject to liability for, content that it believes is inappropriate.

The PRC has enacted regulations governing Internet access and the distribution of news and other information. In the past, the PRC government has stopped the distribution of information over the Internet that it believes to violate PRC law, including content that is obscene, incites violence, endangers national security, is contrary to the national interest or is defamatory. In addition, we may not publish certain news items, such as news relating to national security, without permission from the PRC government. Furthermore, the Ministry of Public Security (the “MPS”) has the authority to make any local Internet service provider block any Website maintained outside the PRC at its sole discretion. Even if we comply with PRC governmental regulations relating to licensing and foreign investment prohibitions, if the PRC government were to take any action to limit or prohibit the distribution of information through our network or to limit or regulate any current or future content or services available to users on our network, our business would be harmed.

We are also subject to potential liabilities for content on our Internet platforms that is deemed inappropriate and for any unlawful actions of our subscribers and other users of our systems under regulations promulgated by the MIIT, such potential liabilities including the imposition of fines or even the shutting down of the Internet platforms.

Furthermore, we are required to delete content that clearly violates the laws of the PRC and report content that we suspect may violate PRC law. We may have difficulty determining the type of content that may result in liability for us and, if we are wrong, we may be prevented from operating our Internet platforms.

Dividends we receive from our operating subsidiaries located in the PRC are subject to PRC profit appropriation and PRC withholding tax.

PRC legal restrictions permit payment of dividends by our China-based WFOEs only out of their accumulated profits, if any, determined in accordance with PRC accounting standards and regulations. In addition, PRC law requires our China-based WFOEs to set aside no less than 10% of their net income each year to fund certain reserve funds until these reserves equal 50% of the amount of registered capital. These reserves are not distributable as cash dividends.

Table of Contents

Furthermore, the PRC Corporate Income Tax Law (the “CIT Law”) and its implementing regulations provide that a withholding tax at a rate of up to 10% may be applicable to dividends payable to non-PRC investors that are “non-resident enterprises,” to the extent that such dividends are derived from sources within the PRC. Under the Arrangement Between the PRC and the Hong Kong Special Administrative Region on the Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income (the “China-HK Tax Arrangement”), which became effective on January 1, 2007, the dividend withholding tax rate may be reduced to 5% if a Hong Kong resident enterprise is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong resident enterprise is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividends may remain subject to withholding tax at a rate of 10%. The State Administration of Taxation (the “SAT”) issued an *Announcement on Issues in Tax Treaties Relating to “Beneficial Owner”* (“Announcement 9”), effective April 1, 2018, which provides guidance on determining whether an enterprise is a “beneficial owner” of dividends under China’s tax treaties and tax arrangements. Announcement 9 provides that, in order to be a beneficial owner, an entity generally must be a direct owner of, and have the right to control, the income of the enterprise that is paying the dividends or must be a direct owner of, and have the right to control, the tangible or intangible assets generating such income, and also specifies that a company that is not organized for the purpose of engaging in substantive business activities may not be regarded as a beneficial owner. If any of our Hong Kong subsidiaries is, in the light of Announcement 9, determined by the SAT to not be a beneficial owner for purposes of the China-HK Tax Arrangement, any dividends paid to it by any of our PRC subsidiaries would not qualify for the preferential dividend withholding tax rate of 5%, but rather would be subject to the regular withholding tax rate of 10% under the CIT Law.

Furthermore, to the extent that the VIEs have undistributed after-tax profits, we must pay tax on behalf of our employees who hold interests in the VIEs when the VIEs distribute dividends in the future. The current individual income tax rate is 20%.

Our Offshore entities may need to rely on dividends and other distributions on equity paid by our Mainland China-based subsidiaries, including the Mainland China-based subsidiaries of our subsidiaries Changyou and Sogou, to fund any cash requirements those Offshore entities may have. Our Offshore entities may not be able to obtain cash from distributions because our subsidiaries and VIEs in Mainland China are subject to restrictions imposed by PRC law on paying such dividends and making other payments.

Sohu.com Limited is a holding company with no operating assets other than investments in Chinese operating entities through our intermediate Offshore holding companies. Our Offshore entities may need to rely on dividends and other distributions on equity paid by Mainland China-based subsidiaries for the cash requirements in excess of any cash raised from investors and retained by Sohu.com Limited or our other Offshore entities. In addition, for subsidiaries engaging in Sohu’s business in Mainland China to be able to use the proceeds of cash dividends from Changyou or Sogou, the dividends would have to be paid through the Sohu Cayman Islands entities Sohu Game and Sohu Search that hold Sohu’s shares in Changyou and Sogou. The primary source of any dividend payments to our Offshore entities would need to be our subsidiaries in Mainland China after they receive payments from our VIEs under various service agreements and other arrangements. It is possible that our Mainland China-based subsidiaries will not continue to receive payments in accordance with our contracts with our VIEs or that such payments will become subject to restrictions imposed by PRC law. If our subsidiaries and VIEs incur debt on their own behalf in the future, the instruments governing the debt may restrict their ability to pay dividends or make other distributions to us through the intermediate companies. In addition, amounts available for dividends are further reduced because transfers of funds out of Mainland China generally are subject to a withholding tax of 10%, and of 5% if transfers are made to Hong Kong and subject to the China-HK Tax Arrangement.

The PRC government also imposes controls on the convertibility of the RMB into foreign currencies and, in certain cases, the remittance of currencies out of Mainland China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currencies. If we or any of our subsidiaries are unable to receive the revenues from our operations through these service agreements and other arrangements, we may be unable to effectively fund any cash requirements we may have.

Activities of Internet content providers are or will be subject to additional PRC regulations, which have not yet been put into effect. Our operations may not be consistent with these new regulations when put into effect, and, as a result, we could be subject to severe penalties.

The MIIT has stated that the activities of Internet content providers are subject to regulation by various PRC government authorities, depending on the specific activities conducted by the Internet content provider. Various government authorities have stated publicly that they are in the process of preparing new laws and regulations that will govern these activities. The areas of regulation currently include online advertising, online news reporting, online publishing, provision of online or mobile music, online securities trading, the provision of industry-specific information (such as, for example, drug-related information) over the Internet and foreign investment in value-added telecommunication services. Other aspects of our online operations may be subject to additional regulations in the future. For example, our online interactive broadcasting video platform enables users to perform real time musical acts, exchange information, interact with others and engage in various other online activities. Although we have obtained a permit to engage in the online interactive broadcasting video platform services, we cannot assure you that the PRC regulatory authorities will not issue new laws or regulations specifically regulating the operation of an online interactive broadcasting video platform. Our operations might not be consistent with current laws and regulations or any such new regulations and, as a result, we could be subject to penalties.

Regulation and censorship of information distribution in China may adversely affect our business.

China has enacted regulations governing Internet access and the distribution of news and other information. Furthermore, the Propaganda Department of the Chinese Communist Party takes the responsibility to censor news published in China to ensure, supervise and control a particular political ideology. In addition, the MIIT has published implementing regulations that subject online information providers to potential liability for contents included in their portals and the actions of subscribers and others using their systems, including liability for violation of PRC laws prohibiting the distribution of content deemed to be socially destabilizing. Furthermore, because many PRC laws, regulations and legal requirements with regard to the Internet are relatively new and untested, their interpretation and enforcement may involve significant uncertainty. In addition, the PRC legal system is a civil law system in which decided legal cases have limited binding force as legal precedents. As a result, in many cases an Internet platform operator may have difficulties determining the type of content that may subject it to liability.

Periodically, the MPS has stopped the distribution over the Internet of information which it believes to be socially destabilizing. Meanwhile, the MPS also has the authority to require any local Internet service provider to block any Website maintained outside China at its sole discretion. If the PRC government were to take action or exercise its authority to limit or eliminate the distribution of information through our portal or to limit or regulate current or future applications available to users of our portal, our business would be adversely affected.

The State Secrecy Bureau, which is directly responsible for the protection of state secrets of all PRC government and Chinese Communist Party organizations, is authorized to block any Website it deems to be leaking state secrets or failing to meet the relevant regulations relating to the protection of state secrets in the distribution of online information. Under the applicable regulations, we may be held liable for any content transmitted on our portal. Furthermore, where the transmitted content clearly violates the laws of the PRC, we will be required to delete it. Moreover, if we consider transmitted content suspicious, we are required to report such content. We must also undergo computer security inspections, and if we fail to implement the relevant safeguards against security breaches, we may be shut down. In addition, the State Secrecy Bureau has adopted regulations stipulating that Internet companies, such as us, that provide bulletin board systems, chat rooms or similar services must apply for the approval of the State Secrecy Bureau. As the implementing rules of these new regulations have not been issued, we do not know how or when we will be expected to comply, or how our business will be affected by the application of these regulations.

We may be adversely affected by the PRC government's ongoing crackdown on Internet pornographic content.

The Chinese government has stringent prohibitions on online pornographic information and has launched several crackdowns on Internet pornography recently. On December 4, 2009, the MIIT and other three PRC government authorities jointly issued the *Incentives Measures for Report of Pornographic, Obscene and Vulgar Messages on Internet and Mobile Media* (the "Anti-Pornography Notice") to further crackdown on online pornography. Pursuant to this Anti-Pornography Notice, rewards of up to RMB10,000 will be provided to Internet users who report Websites that feature pornography, and a committee has been established to review such reports to determine an appropriate award. On April 13, 2014, the National Working Group on Anti-Pornography and three other PRC government authorities jointly issued the Anti-Pornography Proclamation, under which Internet service providers must immediately remove texts, images, video, advertisements and other information that contain pornographic content. The relevant government authority may order enterprises or individuals who flagrantly produce or disseminate pornographic content to stop conducting business, and may revoke relevant administrative permits. Although we require all users upon account registration to agree to our terms of service, which specify the types of content that are prohibited on our platform, and we have deleted from our relevant channels and communities all Web pages with material that we believe could reasonably be considered to be vulgar and have strengthened our internal censorship and supervision of links and content uploaded by users, it is possible that our users may engage in obscene conversations or activities on our platform that may be deemed illegal under PRC laws and regulations. For example, we provide an online interactive broadcasting video platform for users, and because the video and audio communication on this platform is conducted in real time, we are unable to examine the content generated by our hosts and users on air before the content is streamed on the platform. There is no assurance that content considered vulgar by PRC government agencies will not appear in the future. We may be subject to fines or other disciplinary actions, including in serious cases suspension or revocation of the licenses necessary to operate our platform, if we are deemed to have facilitated the appearance of inappropriate content placed by third parties on our platform under PRC laws and regulations. In addition, if we are accused by the government of hosting vulgar content, our reputation could be adversely affected.

Regulations relating to the online transmission of foreign films and TV dramas may adversely affect our online video business.

On September 2, 2014, the SAPPRFT issued a *Notice on Further Strengthening the Administration of Online Foreign Audiovisual Content* (the "September 2014 SAPPRFT Notice"), which requires that operators of audiovisual Websites obtain from the SAPPRFT a Film Public Screening Permit, TV Drama Distribution Permit, or TV Animation Distribution Permit for all foreign films and TV dramas before they are transmitted via the Internet in China. The September 2014 SAPPRFT Notice further stipulates that before any foreign films or TV dramas for transmission exclusively via the Internet are purchased after the promulgation of the September 2014 SAPPRFT Notice, operators of audiovisual Websites must declare their annual purchasing plans with the SAPPRFT before the end of the year preceding the year of the intended broadcast and obtain the SAPPRFT's approval. The September 2014 SAPPRFT Notice also states that the number of foreign films and TV dramas to be purchased by an operator and transmitted via its Website in a single year may not exceed 30% of the total amount of the Chinese films and TV dramas purchased and transmitted by the same Website in the previous year.

[Table of Contents](#)

The promulgation of the September 2014 SAPPFRFT Notice could have an adverse impact on our online video business. If we are not able to obtain the required SAPPFRFT approval in time, there will be a delay in our ability to broadcast such foreign films and TV dramas on our Internet platforms and in our generation of advertising revenues from such films and TV dramas. We are also subject to the risk that users might access pirated versions of such films and TV dramas during any such delay, and become less likely to view them on our Internet platforms when they become available, which would cause our online traffic and advertising revenues to be lower than we expected. If we fail to obtain the required approval by the SAPPFRFT, we may not be able to recoup the costs we spent in acquiring the broadcasting rights of, and marketing, those films and TV dramas. In addition, it could be necessary for us to recognize impairment charges related to foreign films and TV dramas we have purchased. The requirement of a minimum ratio of domestic video content to foreign-sourced content in the September 2014 SAPPFRFT Notice may require us to purchase more domestic video content in order for us to be permitted to maintain a sufficient portfolio of online foreign films and TV dramas. If, on the other hand, we respond to the minimum ratio requirement of the September 2014 SAPPFRFT Notice by reducing our purchases of foreign films and TV dramas, our attraction to users, traffic or advertisers on our online video Internet platforms could be reduced, resulting in a decrease in our advertising revenues.

Regulation and censorship of online interactive broadcasting services in China may adversely affect our business.

As online interactive broadcasting has surged in popularity in China, PRC governmental authorities have increased their efforts to regulate it. The Ministry of Culture and Tourism of the People's Republic of China (the "MCT") issued an *Online Performance Notice*, which became effective on July 1, 2016, and issued the *Online Performance Measures*, which became effective on January 1, 2017; the CAOC issued *Live Social Video Provisions* on November 4, 2016; and the MIIT and several other PRC governmental authorities issued a *Notice on Strengthening the Administration of Live Online Social Video Services* on August 1, 2018, providing for the administration and censorship of online interactive broadcasting. The Live Social Video Provisions require us to implement procedures to detect and block illegal, fraudulent, politically-sensitive and inappropriate content and activities conducted through our online interactive broadcasting platform. Although we have implemented procedures for our online interactive broadcasting platform designed to detect and prevent material and activity that we believe could reasonably be considered to be prohibited, it is possible that hosts and users of our platform may distribute content and engage in activities that may be deemed illegal, but that we do not detect and identify as such. Furthermore, we may not be able to immediately block all such content uploads or activities generated by our hosts and users, because there is often a lag between the time our hosts and users upload and stream content on our platform and the time we are able to examine such content. If PRC authorities believe that illegal or inappropriate activities have been conducted through our online interactive broadcasting platform, or if there is negative media coverage concerning our platform, PRC government authorities may hold us liable for non-compliance and subject us to administrative penalties or other sanctions, which could cause our business to suffer or have an adverse effect on our user base. See "Government Regulation and Legal Uncertainties—Specific Statutes and Regulations—Regulation of the Provision of Internet Content—Online Cultural Products."

Regulations relating to Offshore investment activities by PRC residents may limit our ability to acquire PRC companies and could adversely affect our business.

In July 2014, the State Administration of Foreign Exchange (the "SAFE") promulgated Circular 37, which replaced Circular 75, promulgated by the SAFE in October 2005. Circular 37 requires PRC residents, including PRC institutions and individuals, to register with the local SAFE branch in connection with their direct establishment or indirect control of an Offshore entity, referred to in Circular 37 as a "special purpose vehicle," for the purpose of holding domestic or Offshore assets or interests. PRC residents must also file amendments to their registrations in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. In February 2015, the SAFE promulgated the Circular for Further Simplifying and Improving Policies of Foreign Exchange Administration Applicable to Direct Investment, which provides that effective June 2015 designated local banks are delegated authority under Circular 37 to review and process PRC residents' applications for their initial foreign exchange registrations or amendments to their registrations in connection with their overseas direct investments. Under these regulations, PRC residents' failure to comply with specified registration procedures may result in restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its Offshore parent, as well as restrictions on capital inflows from the Offshore entity to the PRC entity, including restrictions on the ability to contribute additional capital to the PRC entity.

It is possible that some or all of our shareholders who are PRC residents will not comply with all the requirements required by Circular 37 or related rules. Any future failure by any of our shareholders who is a PRC resident, or controlled by a PRC resident, to comply with relevant requirements under these regulations could subject us to fines or legal sanctions imposed by the PRC government, including restrictions on our subsidiaries' ability to pay dividends or make distributions to us and our ability to increase our investment in these subsidiaries and restrict our cross-border investment activities, which could in turn limit our ability to distribute dividends to holders of our ordinary shares and ADSs.

[Table of Contents](#)

We may be subject to fines and legal sanctions if we or our employees who are PRC citizens fail to comply with PRC regulations relating to employee share options.

Under the *Administration Measures on Individual Foreign Exchange Control* issued by the People's Bank of China (the "PBOC") and the related Implementation Rules issued by the SAFE, all foreign exchange transactions involving an employee share incentive plan, share option plan or similar plan participated in by PRC citizens may be conducted only with the approval of the SAFE. Under the *Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company* ("Offshore Share Incentives Rule"), issued by the SAFE on February 15, 2012, PRC citizens who are granted share options, restricted share units or restricted shares by an overseas publicly listed company are required to register with the SAFE or its authorized branch and comply with a series of other requirements. The Offshore Share Incentives Rule also provides procedures for registration of incentive plans, the opening and use of special accounts for the purpose of participation in incentive plans, and the remittance of funds for exercising options and gains realized from such exercises and sales of such options or the underlying shares, both outside and inside the PRC. We, and any of our PRC employees or members of our Board of Directors who have been granted share options, restricted share units or restricted shares, are subject to the *Administration Measures on Individual Foreign Exchange Control*, the related Implementation Rules, and the Offshore Share Incentives Rule. Circular 37 was the first regulation to regulate the foreign exchange registration of a non-listed special purpose vehicle's equity incentives granted to PRC residents, there remains uncertainty with respect to its implementation. If we, or any of our PRC employees or members of our Board of Directors who receive or hold options, restricted share units or restricted shares in us or any of our subsidiaries, fail to comply with these registration and other procedural requirements, we may be subject to fines and other legal or administrative sanctions.

If the status of certain of our PRC subsidiaries and VIEs as "High and New Technology Enterprises," KNSEs, or "Software Enterprises" is revoked or expires, we may have to pay additional taxes or make up any previously unpaid tax and may be subject to a higher tax rate, which would adversely affect our results of operations.

The CIT Law generally imposes a uniform income tax rate of 25% on all enterprises, but grants preferential treatment to HNTes, pursuant to which HNTes are instead subject to an income tax rate of 15%, subject to a requirement that they re-apply for HNTe status every three years. During this three-year period, an HNTe must conduct a qualification self-review each year to ensure it meets the HNTe criteria, and will be subject to the regular 25% income tax rate for any year in which it does not meet the criteria. The CIT Law and its implementing regulations provide that a "Software Enterprise" can enjoy an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. An entity that qualifies as a KNSE can enjoy a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of Software Enterprises or KNSEs must perform a self-assessment each year to ensure they meet the relevant criteria for qualification. If at any time during the preferential tax treatment years an enterprise uses the preferential CIT rates but the relevant authorities determine that it failed to meet applicable criteria for qualification, the authorities may revoke the enterprise's Software Enterprise or KNSE status, as applicable.

There are uncertainties regarding future interpretation and implementation of the CIT Law and its implementing regulations. It is possible that the HNTe, Software Enterprise, and KNSE qualifications of our operating entities currently qualified as such, or their entitlement to an income tax exemption or refund of their VAT, will be challenged by higher level tax authorities and be repealed, or that there will be future implementing regulations that are inconsistent with current interpretation of the CIT Law. For example, in 2016 the SAT issued a circular with new criteria for certifying a Software Enterprise. Therefore, it is possible that the qualification of one or more of our PRC Subsidiaries or VIEs as a Software Enterprise will be challenged in the future or that such companies will not be able to take any further actions, such as re-application for Software Enterprise qualification, to enjoy such preferential tax treatment. If those operating entities cannot qualify for such preferential income tax status, our effective income tax rate will be increased significantly and we may have to pay additional income tax to make up the previously unpaid tax, which would reduce our net income.

We may be deemed a PRC resident enterprise under the CIT Law and be subject to PRC taxation on our worldwide income.

The CIT Law provides that enterprises established outside of China whose "de facto management bodies" are located within China are considered "resident enterprises" and are generally subject to the uniform 25% enterprise income tax rate on their worldwide income (including dividend income received from subsidiaries). Under the *Implementing Regulations for the Corporate Income Tax Law*, "de facto management body" is defined as a body that has material and overall management and control over the manufacturing and business operations, personnel and human resources, finances and treasury, and acquisition and disposition of properties and other assets of an enterprise. Since substantially all of our operational management is currently based in the PRC, it is unclear whether PRC tax authorities would require (or permit) us to be treated as a PRC-resident enterprise. If we are treated as a resident enterprise for PRC tax purposes, we will be subject to PRC tax on our worldwide income at the 25% uniform tax rate, which could have an impact on our effective tax rate and an adverse effect on our net income and the results of operations, although dividends distributed from our PRC Subsidiaries to us could be exempted from Chinese dividend withholding tax, since such income is exempted under the CIT Law for PRC-resident recipients.

[Table of Contents](#)

Dividends payable by us to our foreign investors and profits on the sale of our shares may be subject to tax under PRC tax laws.

Under the *Implementing Regulations for the Corporate Income Tax Law*, PRC income tax at the rate of 10% is applicable to dividends payable to investors that are “non-resident enterprises,” not having an establishment or place of business in the PRC, or which do have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent that such dividends have their sources within the PRC. Similarly, any profits realized through the transfer of shares by such investors are also subject to 10% PRC income tax if such profits are regarded as income derived from sources within the PRC. It is unclear whether dividends we pay with respect to our share, or the profits you may realize from the transfer of our shares, would be treated as income derived from sources within the PRC and be subject to PRC tax. If we are required under the *Implementing Regulations for the Corporate Income Tax Law* to withhold PRC income tax on dividends payable to our non-PRC investors that are “non-resident enterprises,” or if you are required to pay PRC income tax on the transfer of our shares, the value of your investment in our shares may be materially and adversely affected.

Restrictions on currency exchange may limit our ability to use our revenues effectively.

Substantially all of our revenues and operating expenses are denominated in RMB. The RMB is not freely tradable in “capital account” transactions, which include foreign direct investment. Foreign exchange transactions classified as capital account transactions are subject to limitations and require approval from the SAFE. This could affect our China-based subsidiaries’ ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

Further, although the RMB is at present freely convertible in “current account” transactions, which include dividends, and trade and service-related foreign exchange transactions, and our China-based subsidiaries may purchase and retain foreign exchange for settlement of such transactions, including payment of dividends, without the approval of the SAFE, the relevant PRC governmental authorities may limit or eliminate our ability to purchase and retain foreign currencies in the future.

Since a significant amount of our future revenues are likely to be in the form of RMB, these existing restrictions, and any future restrictions, on currency exchange may limit our ability to use revenues generated in RMB to fund our business activities outside of China, or to make expenditures denominated in foreign currencies.

We may suffer currency exchange risks if the RMB depreciates or appreciates relative to the U.S. dollar.

Our reporting currency is the U.S. dollar. However, substantially all of our revenues are denominated in RMB. In July 2005, China reformed its exchange rate regime by establishing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The RMB is no longer pegged to the U.S. dollar and the exchange rate will have some flexibility. Hence, considering the floating exchange rate regime, if the RMB depreciates relative to the U.S. dollar, our revenues as expressed in our U.S. dollar financial statements will decline in value. Conversely, if the RMB appreciates relative to the U.S. dollar, our revenues as expressed in our U.S. dollar financial statements will appreciate in value, while not illustrating fully the relative strength of our operating results following such appreciation compared to prior periods. Also, we currently have outstanding loans from overseas banks that are denominated in U.S. dollars. To repay these loans, we will need to first convert our cash denominated in RMB into U.S. dollars. If the RMB depreciates relative to the U.S. dollar, we will have to use a larger amount of cash in RMB for any such loan repayment.

Between 2007 and 2014, the PBOC frequently announced that it was the PBOC’s policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market. Between June 19, 2010 and February 2014, when the center point of the RMB’s official trading band hit 6.1146, the RMB appreciated by more than 11.7%.

However, between 2014 and 2016 the RMB depreciated significantly. The center point of the currency’s official trading band was 6.5486 in January 2016, and was 6.9189 in December 2016, which contributed to a decline in our revenues reported in U.S. dollars. In 2018 and 2019, the RMB exchange rate against the U.S. dollar again depreciated significantly, mainly due to changes in political and economic conditions, including trade friction between China and the U.S. The center-point of the currency’s official trading band was 6.4395 and 6.7953, respectively, in January 2018 and 2019, and was 6.8844 and 7.0129, respectively, in December 2018 and 2019, which led to a decline in our revenues reported in U.S. dollars and an increase in the amount of cash in RMB necessary to meet our repayment obligations for U.S. dollar-denominated Offshore loans in each such year. On the other hand, the center point of the currency’s official trading band was 6.9140 in January 2020, and was 6.5415 in December 2020, representing appreciation of approximately 5.4% in 2020.

There are limited hedging transactions available in China to reduce our exposure to exchange rate fluctuations. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure, if at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into U.S. dollars.

Risks Related to Our Ordinary Shares and ADSs

We are a Cayman Islands company and, because judicial precedent regarding the rights of shareholders is more limited under Cayman Islands law than that under U.S. law, our shareholders may have less protection for their shareholder rights than they would under U.S. law.

Our corporate affairs are governed by our Memorandum and Articles of Association, the Companies Act (as amended from time to time, currently the Companies Act (2021 Revision)) of the Cayman Islands and the common law of the Cayman Islands. The rights of shareholders to take action against our directors, actions by minority shareholders, and the fiduciary responsibilities of our directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as from English common law, which has persuasive, and in some cases binding, authority on a court in the Cayman Islands. The rights of our shareholders and the fiduciary responsibilities of our directors under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedent in some jurisdictions in the United States, such as the State of Delaware, where many United States-based corporations are organized. In particular, the Cayman Islands has a less developed body of securities laws as compared to the United States, and provides significantly less protection to investors. In addition, shareholders in Cayman Islands companies may not have standing to initiate a shareholder derivative action in U.S. federal courts. As a result, our public shareholders may have more difficulty in protecting their interests through actions against us, our management, our directors or our major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States such as Delaware.

It may be difficult to enforce any civil judgments against us or our Board of Directors or officers, because most of our operating and/or fixed assets are located outside the United States.

We are incorporated in the Cayman Islands, all of our assets are located outside the United States, and a substantial portion of our operations are conducted in the PRC. In addition, most of our directors and executive officers are nationals and residents of countries other than the United States (primarily the PRC or Hong Kong) and most, if not all, of the assets of these persons are located outside the United States. As a result, it may be difficult for holders of our ADSs to effect service of process within the United States upon these persons. It may also be difficult for holders of our ADSs to enforce in Cayman Islands courts or PRC courts judgments obtained in U.S. courts based on the civil liability provisions of the U.S. federal securities laws or of the securities laws of any state of the United States against us and our officers and directors.

The trading prices of our ADSs and of the common stock of our predecessor Sohu.com Inc. have been volatile, and the trading price of our ADSs will likely continue to be volatile. The price of our ADSs may fluctuate significantly, which may make it difficult for shareholders to sell our ADSs when desired or at attractive prices.

Our ADSs, each representing one ordinary share, have traded on the NASDAQ Global Select Market in place of the common stock of Sohu.com Inc. since the dissolution of Sohu.com Inc. on May 31, 2018. During 2017 the trading price of Sohu.com Inc.'s common stock ranged from a low of \$34.59 per share to a high of \$70.86 per share, and during 2018, the trading price per share of Sohu.com Inc.'s common stock, until May 31, 2018, and the trading price of our ADSs, after May 31, 2018, ranged from a low of \$15.89 per ADS to a high of \$47.98 per ADS. During 2019, the trading price of our ADSs ranged from a low of \$8.79 to a high of \$22.71. During 2020, the trading price of our ADSs ranged from a low of \$5.41 to a high of \$25.71. On February 26, 2021, the closing price of our ADSs was \$18.26 per ADS.

In addition, the NASDAQ Global Select Market and the NYSE have from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of technology companies, and particularly Internet-related companies. For example, the actual and perceived worldwide economic effect of the COVID-19 pandemic caused a significant drop in prices on global stock markets in the spring of 2020, and appeared to have similarly had an adverse impact on the market price of our ADSs at that time.

The price for our ADSs may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, news reports relating to trends in our markets or general economic conditions, and the occurrence of an event that causes the Tencent/Sohu Sogou Share Purchase Agreement and/or the Sogou Merger Agreement to be terminated without the Tencent/Sohu Sogou Share Purchase and the Sogou Merger being completed. Further, volatility or a lack of positive performance in our ADS price may adversely affect our ability to retain key employees, all of whom have been granted share options or other share incentive awards.

It is possible that Sogou's currently pending going-private transaction with Tencent will not be completed, which could have an adverse effect on the market price of Sohu's ADSs and Sogou's ADSs.

It is possible that the Tencent/Sohu Sogou Share Purchase and the Sogou Merger will not occur as planned if events arise that result in the termination of the Tencent/Sohu Sogou Share Purchase Agreement and the Sogou Merger Agreement, or if one or more of the various closing conditions to the Tencent/Sohu Sogou Share Purchase and the Sohu Merger, including anti-trust clearance of the Tencent/Sohu Sogou Share Purchase under PRC law, are not satisfied or waived. We have incurred, and will continue to incur, significant costs, expenses, and fees for professional services and other transaction costs in connection with the Tencent/Sohu Sogou Share Purchase and the Sogou Merger. All the fees and costs in connection with the Tencent/Sohu Sogou Share Purchase and the Sogou Merger will be payable by us and/or Sogou, even if the transactions are not completed. If the Tencent/Sohu Sogou Share Purchase and the Sogou Merger are not completed, we will not receive the proposed purchase price from the Tencent/Sohu Sogou Share Purchase and the prices of our ADSs and Sogou's ADSs could decline.

[Table of Contents](#)

Holders of our ADSs may be subject to limitations on transfer of their ADSs.

Our ADSs are transferable on the books of the depository. However, the depository may close its transfer books at any time or from time to time when it deems it expedient in connection with the performance of its duties. In addition, the depository may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depository are closed, or at any time if we or the depository deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the Deposit Agreement governing our ADSs (the "Deposit Agreement"), which was filed as an exhibit to our Registration Statement on Form F-4 (File No. 333-224069) filed with the Securities and Exchange Commission (the "SEC") on April 19, 2018 and is filed as an exhibit to this annual report, or for any other reason.

Holders of ADSs have limited voting rights and may not receive voting materials in time to be able to exercise their right to vote.

Except as described in this annual report and in the Deposit Agreement, holders of our ADSs will not be able to exercise voting rights attaching to the shares represented by our ADSs on an individual basis. Holders of our ADSs may instruct the depository how to exercise the voting rights attaching to the shares represented by the ADSs. Holders of our ADSs may not receive voting materials in time to instruct the depository to vote, and it is possible that direct holders of ADSs, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote.

ADS holders' right to participate in any future rights offerings may be limited, which may cause dilution to their holdings and ADS holders may not receive cash dividends if it is impractical to make them available to such holders.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. However, we cannot make rights available to ADS holders in the United States unless we register the securities to which the rights relate under the Securities Act of 1933 (the "Securities Act"), or an exemption from registration requirements is available. Also, under the Deposit Agreement, the depository bank will not make rights available to ADS holders unless the distribution to ADS holders of both the rights and any related securities are either registered under the Securities Act or exempted from registration under the Securities Act. We are under no obligation to file a registration statement with respect to any such rights or securities or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, holders of our ADSs may be unable to participate in our rights offerings and may experience dilution in their holdings.

In addition, the depository of our ADSs has agreed to pay to ADS holders the cash dividends or other distributions it or the custodian receives on our ordinary shares or other deposited securities after deducting its fees and expenses. ADS holders will receive these distributions in proportion to the number of ordinary shares such holders' ADSs represent. However, the depository may, at its discretion, decide that it is inequitable or impractical to make a distribution available to any holders of ADSs. For example, the depository may determine that it is not practicable to distribute certain property through the mail, or that the value of certain distributions may be less than the cost of mailing them, or that the distribution requires certain governmental approval, such as requirement for registration or approval for currency conversion. In these cases, the depository may decide not to distribute that property and ADSs holders will not receive that distribution.

ADS holders will experience dilution if additional share options are granted and exercised.

As of December 31, 2020, there were no outstanding options for the purchase of our ordinary shares, restricted shares or other share-based awards. However, ADS holders will experience dilution to the extent that additional ordinary shares are issued upon exercise or settlement of options, restricted shares or other share-based awards that we may grant from time to time.

We may need additional capital and may sell additional ADSs or other equity securities or incur indebtedness, which could result in additional dilution to our shareholders or increase our debt service obligations.

We may require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our cash resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities or equity-linked debt securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Substantial future sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the price of our ADSs to decline.

Additional sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2020, there were 39,306,323 of our ordinary shares outstanding, and there were no outstanding options for the purchase of our ordinary shares or other share-based awards. However, we may grant or sell additional options, restricted shares or other share-based awards in the future under our share incentive plan to members of our management, our employees and other persons, the settlement and sale of which would dilute our outstanding shares, which could drive down the price of our ADSs.

Table of Contents

We believe that we may be classified as a passive foreign investment company (a “PFIC”), for the 2020 taxable year, which would likely result in adverse United States federal income tax consequences to U.S. holders of our ADSs or ordinary shares.

We believe that we may have been classified as a PFIC for United States federal income tax purposes for our taxable year ended November 30, 2020. There can be no assurance that we will not continue to be classified as a PFIC in the current taxable year or in any future taxable year. The determination of whether we would continue to be treated as a PFIC is based in significant part on our operations and the composition of our earnings and assets (including goodwill) for a given taxable year, including the valuation of our assets based on the market price of our ADSs.

If we are treated as a PFIC for any taxable year during which a U.S. holder (as defined under “Taxation - United States Federal Income Taxation - Passive Foreign Investment Company”) holds an ADS or an ordinary share, certain adverse United States federal income tax consequences likely would apply to such U.S. holder. See “Taxation-United States Federal Income Taxation - Passive Foreign Investment Company” in Item 10 of this annual report.

If we are a PFIC, a U.S. holder of our ADSs or ordinary shares could make a variety of elections that might alleviate certain of the tax consequences referred to above, and certain of these elections may be made retroactively. However, it is expected that the conditions necessary for making certain of such elections will not apply in the case of our ADSs or ordinary shares. See “Taxation - United States Federal Income Taxation - Passive Foreign Investment Company” in Item 10 of this annual report.

U.S. holders and prospective holders of our ADSs are urged to consult their own tax advisors regarding the application of the PFIC rules to an investment in our ADSs or ordinary shares.

Press reports in 2011 concerning possible increased scrutiny by Chinese authorities of the VIE structure used by us and various other Chinese companies publicly-traded in the United States appear to have created concern at the time among investors and to have caused the price of the ADSs of various Chinese companies, including us, that are publicly traded in the United States to drop, and similar reports in the future could have a similar adverse effect on the price of our ADSs.

In 2011 various prominent western news outlets reported that the MOFCOM and the China Securities Regulatory Commission (the “CSRC”), among other Chinese regulatory authorities, might be considering increased scrutiny or enhanced regulation of Chinese companies that use VIE structures, such as we do, as a means of complying with Chinese laws restricting foreign ownership of certain businesses in China, including online game businesses such as ours. Some of such news reports also sought to draw a connection between accounting issues at certain Chinese companies, which were widely reported at the time, and the use of VIE structures. Such news reports appear to have had the effect of causing significant drops at the time in the market prices of the shares of many Chinese companies, including us. It is possible that in the future there will be increased scrutiny or enhanced regulation by Chinese regulatory authorities of Chinese companies, including us, that use VIE structures. See “If the PRC government determines that the VIE structure for operating our business does not comply with applicable PRC government restrictions on foreign investment in telecommunication industry, we could face severe penalties.” In addition, while we are not aware of any causal connection between the reported accounting scandals and the use of VIE structures, it is possible that holders or potential purchasers of our ADSs will believe that such a connection exists. Any of such circumstances could lead to further loss of investor confidence in Chinese companies and cause fluctuations in the market prices of our ADSs and, if such prices were to drop sharply, could subject us to shareholder litigation, which could cause the price for our shares to drop further.

A small group of our existing shareholders, whose interests may differ from other shareholders, hold a significant percentage of our outstanding shares.

Dr. Charles Zhang, our Chairman and Chief Executive Officer, beneficially owns approximately 26.1% of our outstanding ordinary shares and is our largest shareholder. Our executive officers and members of our Board of Directors as a group, including Dr. Zhang, beneficially own approximately 26.7% of our outstanding ordinary shares. Accordingly, these shareholders will have significant influence in determining the outcome of any corporate transaction or other matters submitted to the shareholders for approval, including mergers, consolidations, the sale of all or substantially all of our assets, election of directors and other significant corporate actions. They will also have significant influence in preventing or causing a change in control. In addition, without the consent of these shareholders, we may be prevented from entering into transactions that could be beneficial to us. The interests of these shareholders may differ from the interests of the other shareholders.

Certain provisions of our Memorandum and Articles of Association, Cayman Islands law regarding mergers and similar arrangements, and our Shareholders’ Rights Agreement could delay or deter a change in control.

Some provisions of our Memorandum and Articles of Association may make it more difficult to acquire our company or effect a change in control of our company, even if an acquisition or change in control would be in the interest of our shareholders or if an acquisition or change in control would provide our shareholders or holders of our ADSs with a premium for their shares over then current market prices. For example, our Memorandum and Articles of Association provides for the division of our Board of Directors into two classes with staggered two-year terms and provides that shareholders have no right to take action by written consent and may not call extraordinary general meeting of shareholders. In addition, under Cayman Islands law, a merger of our company with another company would require approval of the holder of not less than two-thirds of our outstanding ordinary shares. Each of these provisions may make it more difficult for a third party to gain control of our board in connection with, or obtain any necessary shareholder approval for, a proposed acquisition or change in control.

[Table of Contents](#)

In addition, in January 2019 we entered into a Shareholders' Rights Agreement with The Bank of New York Mellon, as Rights Agent, pursuant to which if a person or group acquires more than 15% or more of our outstanding ordinary shares (including ordinary shares represented by our ADSs), except as specifically permitted under the agreement, all our other shareholders and holders of our ADSs would have the right to purchase securities from us at a substantial discount to those securities' fair market value, thus causing substantial dilution to the holdings of the person or group which acquires more than 15%. The Shareholders' Rights Agreement may inhibit a change in control and, therefore, could adversely affect our shareholders' ability to realize a premium over the then-prevailing market price for our ADSs in connection with such a transaction.

The power of our Board of Directors to designate and issue preferred shares could have an adverse effect on holders of our ordinary shares and ADSs.

Our Memorandum and Articles of Association authorizes our Board of Directors to designate and issue one or more series of preferred shares, having rights and preferences as the board may determine, and any such designations and issuances could have an adverse effect on the rights of holders of our ordinary shares and our ADSs.

The U.S. Holding Foreign Companies Accountable Act, which was signed into law by the U.S. President in December 2020, could result in the delisting of our ADSs from NASDAQ or of Sogou's ADSs from the NYSE and the prohibition of their trading in the U.S. over-the-counter markets.

Starting in 2011, we and the PRC affiliates of the "big four" accounting firms, including our independent registered public accounting firm, have been affected by a conflict between U.S. and PRC law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the U.S. Public Company Accounting Oversight Board (the "PCAOB") sought to obtain from the PRC big four affiliate firms access to their audit work papers and related documents. However, the firms were advised and directed that under PRC law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC. On December 18, 2020, the U.S. President signed the Holding Foreign Companies Accountable Act, which, among other things, directs the SEC to prohibit trading on U.S. stock exchanges and in the U.S. over-the-counter markets the securities of foreign-based companies if their financial statements are audited by accounting firms that the PCAOB determines it has been unable to inspect or investigate completely for a period of three consecutive audit years, because of a position taken by the authorities in a foreign jurisdiction in which the accounting firms are based. Also on December 18, 2020 the Chair of the SEC, in response to the enactment of the Holding Foreign Companies Accountable Act, reported in a published statement that he had directed the staff of the SEC to consider providing a single consolidated proposal for the SEC's consideration on issues related to the PCAOB's access to audit work papers, exchange listing standards, and trading prohibitions. If the PCAOB determines that it has been unable to inspect or investigate completely our independent registered public accounting firm for a period of three consecutive audit years, the Holding Foreign Companies Accounting Act, together with any rules promulgated by the SEC pursuant to the statute, could require that our ADSs and Ordinary Shares be delisted from NASDAQ and not traded in the over-the-counter market, which would substantially reduce or effectively terminate the trading of our ADSs in the United States. In addition, the provisions of the Holding Foreign Companies Accounting Act could cause investors and potential investors in our ADSs to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

Proceedings instituted by the SEC against PRC affiliates of the "big four" could also result in the delisting of our ADSs from NASDAQ or of Sogou's ADSs from the NYSE and the prohibition of their trading in the U.S. over-the-counter markets

In late 2012, the SEC commenced administrative proceedings under Rule 102(e) of its Rules of Practice and under the Sarbanes-Oxley Act of 2002 against the PRC big four affiliate accounting firms, including our independent registered public accounting firm. In February 2015, the firms reached a settlement with the SEC pursuant to which the SEC accepted that future requests by the SEC for the production of documents would be made to the CSRC. The firms were to receive matching requests, and were required to abide by a detailed set of procedures with respect to such requests, which in substance required them to facilitate production of the requested documents via the CSRC. If the firms failed to meet specified criteria during a period of four years starting from the settlement date, the SEC retained the authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Under the terms of the settlement, the underlying proceedings against the four China-based accounting firms were deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. However, we cannot predict if the SEC will further challenge the four China-based accounting firms' compliance with U.S. law. If such a further challenge resulted in our independent registered public accounting firm being denied, even temporarily, the ability to practice before the SEC, and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). Such a determination could lead to the delisting of our ADSs and Ordinary Shares from NASDAQ and/or termination of their registration under the Exchange Act. In addition, news about any such future proceedings against these PRC big four affiliate accounting firms could cause investor uncertainty regarding China-based, U.S.-listed companies and the market price of our ADSs could be adversely affected.

Risks Related to Our Financing Activities

Sogou's status as a publicly-traded company that is controlled, but less than wholly-owned, by us could have an adverse effect on Sohu.

Sogou's American depositary shares ("Sogou ADSs") are listed and traded on the New York Stock Exchange. Given that Sogou is not a wholly-owned subsidiary of Sohu, it is possible that Sohu's and Sogou's interests could diverge in the future, as we may need to consider the interests of shareholders of Sogou other than Sohu. If Sogou's interests differ from, or are contrary to, our interests, our business operations may be adversely affected, and Sohu may have disagreements with Sogou on certain matters that could also have an adverse effect on our business. Also see "Item 4. Information on the Company-History and Development of the Company" for a description of the currently pending going-private transaction with respect to Sogou.

If we default on loans that we have taken out to fund our acquisition of the non-controlling interests in our subsidiary Changyou, or if Changyou defaults on its existing loans, we could lose valuable assets that we have pledged to secure the loans, which include a building in Beijing, as well as other valuable assets.

In order to fund our acquisition of the non-controlling interests in our subsidiary Changyou, we entered into loan arrangements with Industrial and Commercial Bank of China Limited ("ICBC") and Industrial and Commercial Bank of China Limited, Tokyo Branch ("ICBC Tokyo"), secured by pledges of deposit certificates evidencing the RMB equivalent to the principal amount of the loan outstanding at an exchange rate of RMB7.20 to \$1.00.

In addition, Changyou entered into a loan arrangement with China Merchants Bank ("CMB") secured by (i) a mortgage on a building owned by us and (ii) pledges by Changyou of deposit certificates evidencing RMB deposits with CMB at least equivalent to the principal amount of the loan outstanding from time to time.

If we or Changyou were to default under any of these loan arrangements, the affected lender or lenders would be entitled, among other remedies, to seize the corresponding pledged assets, all of which have significant value, and could potentially also seize other valuable assets of ours, to cover any shortfalls in amounts due under the loans. See Note 10 "Fair Value Measurements - Short Term Receivables and Payables - Short Term Bank Loans" to our audited consolidated financial statements, which begin on page F-1 of this report.

Risks Related to Changyou.com Limited

Risks Related to Changyou's Business

Overall Risks

The markets for Changyou's products and services are evolving rapidly and significantly, which makes evaluating its business and prospects difficult.

Changyou's two primary businesses are the online game business and the platform channel business, which consists primarily of online advertising and mobile game distribution services. Changyou's businesses and the industries in which it operates are evolving rapidly. Changyou was incorporated on August 6, 2007 in the Cayman Islands and began its online game business as an indirect wholly-owned subsidiary of Sohu.com Inc. In 2007 Sohu transferred all of its PC game business to Changyou. In 2011 Changyou acquired 7Road and began generating Web game revenues. In 2012, Changyou began to develop and operate mobile games, but did not begin to generate any significant revenues from mobile games until late in 2014 when Changyou launched TLBB 3D; and in May 2017, Changyou launched another in-house developed mobile game, Legacy TLBB Mobile. In August 2015, as revenues from Changyou's Web games Wartune and DDTank had begun to decline, Changyou sold 7Road's operating entity, and as a result Changyou has no remaining significant Web games in operation or development. In 2011, Changyou began to expand into the platform channel business with its acquisition from Sohu of the 17173.com Website, which operates Changyou's online advertising business. In December 2013, Changyou acquired RaidCall, which operated free social communication software; and in July 2014 Changyou acquired a majority interest in MoboTap Inc. ("MoboTap"), which operated the Dolphin Browser. However, Changyou's acquisitions of RaidCall and MoboTap were not successful, and Changyou sold MoboTap in 2018 and ceased operating the RaidCall business in March 2019. In 2011, Changyou acquired the entities that operated its cinema advertising business. Although Changyou's cinema advertising business initially experienced growth, it generated significant net losses in each of 2017, 2018 and 2019, and as a result Changyou discontinued the business in August 2019.

[Table of Contents](#)

Changyou's past successes in its online games business with PC games may not provide a meaningful basis to evaluate its current business and prospects, as a substantial number of game players have migrated from personal computers to mobile devices to access online games and the relative popularity of PC games continues to decline. In response to such rapid migration, Changyou has devoted and Changyou expects to continue to devote substantial resources to the development of its mobile games as a critical component of its business strategy. However, Changyou's mobile games strategy has not been proven, and presents very different challenges from those presented in the past by its operation of PC games and Web games. Despite the early success of Changyou's mobile game TLBB 3D after Changyou introduced it in late 2014 and of Changyou's mobile game Legacy TLBB Mobile after Changyou launched it in May 2017, the popularity of, and the revenues generated from, TLBB 3D and Legacy TLBB Mobile continued to decline from 2019 through 2020. We cannot be certain that Changyou will be successful in its efforts to launch additional mobile games that generate sufficient revenues and income to sustain or grow Changyou's mobile game business.

There are additional risks and uncertainties that may be experienced by companies operating in a rapidly developing and evolving industry. Some of these risks and uncertainties relate to Changyou's ability to:

- raise Changyou's brand recognition and game players' loyalty;
- develop, license or operate new games that are appealing to game players; adapt to new trends and game player tastes; meet Changyou's expected timetables for their launch; and, if they are successful, have acceptably long lifespans and result in an acceptable level of profit for Changyou;
- successfully adapt to evolving business models, industry trends and market environments by developing and investing in new business strategies, products, services and technologies, including, in particular, virtual reality, or VR, technology, for Changyou's new games;
- arrange for its mobile games to be distributed through popular mobile application stores with commercial terms, including revenue-sharing arrangements, that are favorable enough to Changyou and allow it to achieve an acceptable level of profit from the games;
- integrate new technologies, businesses and personnel of acquired entities, and generate sufficient revenues to offset the costs and expenses of such acquisitions; and
- maintain or expand Changyou's marketing efforts to attract more game players to its games and to the game information portal of the 17173.com Website in a rapidly changing and increasingly competitive business environment, and generate sufficient revenues to offset the costs and expenses of such marketing efforts; and reverse the recent decline in Changyou's revenues from the 17173.com Website, particularly in view of the rapid emergence of mobile games and the decline in the relative popularity of PC games and Web games as users switched to mobile devices.

If Changyou does not adapt its business to address these risks and uncertainties, its ability to continue its past success or to expand its business in the future is likely to be impeded.

Changyou's business may not succeed in a highly competitive market.

Competition in the online game market in China is becoming increasingly intense. Changyou competes primarily with other online game developers in China, such as Tencent and NetEase, Inc. Many of Changyou's competitors have, or may over time be able to gain, competitive advantages over Changyou in terms of:

- greater financial and technical resources;
- more aggressive and effective strategies for hiring talent for game development, which may make it difficult for Changyou to retain its existing employees and attract new employees, which are necessary for Changyou to be able to grow its business;
- substantially greater financial resources and more effective methods for acquiring exclusive license rights to the titles, characters, themes and story lines of popular works in order to adapt online games from such works (which has become increasingly important for new online games to be successful);
- more aggressive and effective marketing strategies for promoting their online games and penetrating the mobile game market; and
- more capability for developing and releasing new software for mobile devices to attract a growing number of game players that access Internet products and services through mobile devices.

[Table of Contents](#)

The 17173.com Website derives revenue primarily from providing online advertising services to advertisers that develop, operate and distribute PC games. As the market demand for PC games continues to decline, the 17173.com Website faces intense competition, particularly from mobile application stores and other Internet platforms through which game players access mobile games, for advertising business targeting online players of mobile games. Changyou competes with other game information portals, such as duowan.com, operated by YY Inc., and game.qq.com, operated by Tencent, and other Internet portals which have, or may over time be able to build, competitive advantages over Changyou in terms of:

- greater brand recognition among game players and advertising clients;
- larger user and customer bases;
- more extensive and well-developed marketing and sales networks;
- more attractive mobile versions of their game information portals and more extensive mobile game-related products and services, such as mobile game discussion forums, in response to the rapid migration of users of Internet services from PCs to mobile devices such as tablets and mobile phones, and the unique preferences and demands of mobile users and mobile game players; and
- substantially greater financial and technical resources.

In order to compete effectively in the PRC, as well as in the worldwide market, Changyou must continue to invest in research and development, to enhance its technology and its existing games, advertising and other services, and to introduce new game products and services in order for it to adapt to industry trends and shifting demands of game players and advertising clients and to remain competitive. If Changyou's products and services are not responsive to the needs of its game players and advertisers, are not appropriately timed with market opportunities, or are not effectively brought to market, or if its competitors are more successful than Changyou is in developing compelling products or in attracting and retaining game players and advertisers, Changyou may not be able to compete effectively.

Changyou's business could suffer if Changyou does not successfully manage any future growth.

Changyou experienced a period of rapid growth and expansion through 2013 that placed strain on its management personnel, systems and resources. In addition, to accommodate any future growth, Changyou anticipates that it will need to implement a variety of new and upgraded operational and financial systems, including procedures and controls, and improvement of its accounting and other internal management systems and security systems related to the foregoing, all of which require substantial management efforts and financial resources. Changyou will also need to continue to train, manage and motivate its workforce, and manage its relationships with its third-party operators, distributors and service providers and its game player base. All of these endeavors will require substantial management effort and skills and the incurrence of additional expenditures. Changyou may not be able to efficiently or effectively implement its growth strategies and manage the growth of its operations, and any failure to do so may limit its future growth and hamper its business strategy.

Changyou may not be able to avoid slowing growth or declines in its revenues, or future losses.

Changyou's revenues grew significantly in a relatively short period of time prior to 2014, but its revenue growth stalled in 2014 and 2015, and its revenues decreased in 2016. Changyou's revenue increased slightly in 2017, but decreased in 2018. While Changyou's revenues increased for the years ended December 31, 2019 and 2020 as a result of improved performance of some of its older games and the successful launch of new games, Changyou is not likely to experience rates of revenue growth in the future similar to those that it experienced prior to 2014, in 2019, and in 2020. Changyou's net income attributable to Changyou.com Limited also decreased in 2017, 2018 and 2020, while increasing slightly in 2019.

Changyou may experience declines in its revenues or suffer net losses in the future due to a number of factors, including, among other things, expected continued declines in revenues from TLBB, Legacy TLBB Mobile, and TLBB 3D; the uncertain level of popularity of Changyou's future games; uncertainty as to Changyou's ability to develop and launch high-quality mobile games that are commercially successful; the relatively higher game development and distribution costs generally associated with mobile games; the need to expend greater amounts in order to develop or acquire new games, technologies, assets, and businesses; and uncertainty as to Changyou's ability to integrate such newly acquired games, technologies, assets and businesses. Accordingly, you should not rely on the results of any prior period as an indication of Changyou's future financial and operating performance.

Table of Contents

Changyou's previous and any future acquisitions and/or strategic alliances may have an adverse effect on its ability to manage its business and may also result in impairment charges.

Changyou has made acquisitions of, and may potentially acquire in the future, technologies, businesses or assets that are complementary to its business and/or enter into strategic alliances in order to leverage its position in the China market and expand its business domestically and internationally. Such acquisitions or strategic alliances may expose Changyou to potential risks, including risks associated with the integration of new technologies, businesses and personnel including its continued reliance on the management teams of the acquisition targets to operate the acquired businesses, unforeseen or hidden liabilities, the diversion of management attention and resources from its existing business, and the inability to generate sufficient revenues to offset the costs and expenses of acquisitions or strategic alliances. Any difficulties encountered in the acquisition and strategic alliance process may have an adverse effect on Changyou's ability to manage its business. In addition, acquired businesses may not perform to Changyou's expectations for various reasons, including the loss of key personnel or key clients, and Changyou's strategic focus may change. As a result, Changyou may not realize the benefits it anticipated. If Changyou fails to integrate acquired technologies, businesses and assets or realize the expected benefits, Changyou may not receive a return on its investment and its transaction costs for such acquisitions. The benefits of an acquisition or investment may also take considerable time to develop, and we cannot be certain that any particular acquisition or investment will produce the intended benefits, which could adversely affect its business and operating results. Acquisitions could result in contingent liabilities or amortization expenses related to intangible assets or write-offs of goodwill and/or intangible assets, and/or result in impairment losses related to assets of acquired businesses, which could adversely affect Changyou's results of operations. For example, in 2018 Changyou recognized a \$16.4 million impairment loss for goodwill relating to the 17173.com Website and Changyou sold MoboTap; and in 2019 Changyou ceased operation of its cinema advertising business, as the business had generated significant net losses in 2017 and 2018 and Changyou's efforts to eliminate the losses were unsuccessful, and recognized a \$17.0 million impairment loss related to the assets of the business.

Changyou is dependent upon its management and upon its key development and technical personnel, and Changyou's business may be disrupted if it loses the services of any of them.

Changyou's future success depends substantially on the services of the members of its management and its key development and technical personnel, such as Changyou's Chief Executive Officer Dewen Chen and its key game development personnel. If one or more of the members of Changyou's management or key development or technical personnel were unable or unwilling to continue in their present positions, Changyou might not be able to replace them easily, or at all. If any of the members of Changyou's management or its key employees joins a competitor or forms a competing company, not only would Changyou lose know-how, key professionals, staff members and suppliers, but such members of Changyou's management and key employees could develop and operate games and other services that could compete with and take game players and users away from its existing and future business. Although each of these members of Changyou's management and key personnel has entered into an employment agreement with non-competition provisions, these non-competition provisions may not be enforceable in China.

Changyou's prospects for growth may be adversely affected if Changyou cannot successfully manage and make timely adjustments to its hiring needs to support its business strategies.

The Internet industry in China is characterized by high demand and intense competition for talent, particularly for game developers and related technical personnel, and Changyou's success in the implementation of its growth strategies depends on Changyou's ability to successfully manage, and make timely adjustments to, its hiring needs. The number of Changyou's employees decreased by 13% in 2017, by 14% in 2018, and by 15% in 2019, as Changyou emphasized the development of mobile games and laid off a number of employees who had been focused primarily on international markets and the platform channel business. Although the number of Changyou's employees stayed stable in 2020, there may be further layoffs. Any such layoffs could have an adverse effect on Changyou's remaining employees' morale and their loyalty to Changyou, and cause Changyou to lose employees whose talent and experience are important for its business, and could also have a negative impact on its reputation as an employer and its ability to attract qualified employees in the future. Laid-off employees could also make claims against Changyou for additional compensation, causing Changyou to incur additional expense.

Changyou may not have exclusive rights to trademarks, designs and technologies that are crucial to its business.

Changyou has applied for initial registrations in the PRC and overseas, and/or changes in registrations relating to transfers of its key trademarks in the PRC, including ChangYou.com, cyou.com, New Blade Online, 17173, and the corresponding Chinese versions of the marks, so as to establish and protect its exclusive rights to these trademarks. Changyou has succeeded in registering the trademarks ChangYou.com, cyou.com, and 17173 in the PRC under certain classes. The applications for initial registration, and/or changes in registrations relating to transfers, of other marks and/or of some of these marks under other classes are still under examination by the Trademark Office of the CNIPA, and relevant authorities overseas. Changyou has the license rights to use the trademarks TLBB, TLBB logos and TLBB 3D for its mobile games TLBB 3D, Legacy TLBB Mobile, and TLBB Honor and for its PC game TLBB under its existing license agreements with the holder of the intellectual property rights with respect to the popular Chinese martial arts novel Tian Long Ba Bu written by Louis Cha, who died in 2018. After the expiration of their terms, Changyou may not be able to renew these license agreements with commercial terms that are favorable to Changyou, if at all, and Changyou's inability to renew these license agreements could force it to lose the right to use the trademarks related to those games. Changyou has applied for patents relating to the design of its games and to technology intended to enhance the functionalities of its games. Changyou has various patent applications under examination by the Patent Office of the CNIPA. Approvals of Changyou's initial trademark registration applications, and/or of changes in registrations relating to such transfers, or of Changyou's patent applications, are subject to determinations by the Trademark Office of the CNIPA, the Patent Office of the CNIPA and relevant authorities overseas that there are no prior rights in the applicable territory. Changyou cannot be certain that these applications will be approved. Any rejection of these applications could adversely affect Changyou's rights to the affected marks, designs and technologies. In addition, even if these applications are approved, we cannot assure you that any registered trademark or issued patent will be sufficient in scope to provide adequate protection of Changyou's rights.

Table of Contents

Changyou may need to incur significant expenses to enforce its proprietary rights, and if it is unable to protect such rights, its competitive position and financial performance could be harmed.

Changyou regards its intellectual property and proprietary rights as critical to its success. In particular, Changyou has spent a significant amount of time and resources in developing its current games and possible future games. Changyou's ability to protect its proprietary rights in connection with its games is critical for their success and Changyou's overall financial performance. While Changyou has registered software in China for copyright protection and has taken various measures to protect its source codes, such measures may not be sufficient to protect its proprietary information and intellectual property. Intellectual property rights and confidentiality protection in China may not be as effective as they are in the United States and other developed countries. Policing unauthorized use of proprietary technology is difficult and expensive. In addition, while Changyou has registered some trademarks relating to its games in the PRC and other jurisdictions, and has applied for additional registrations of trademarks, in some instances Changyou may not succeed in obtaining registration of trademarks that it has applied for in different languages, such as English. We cannot assure that these pending or future trademark applications will be approved. Any failure to register trademarks in any country or region may limit Changyou's ability to protect its rights in such country or region under relevant trademark laws, and Changyou may need to change the name of the relevant trademark in certain cases, which may adversely affect Changyou's branding and marketing efforts.

Despite Changyou's efforts to protect its intellectual property, online game developers may copy Changyou's ideas and designs, and other third parties may infringe Changyou's intellectual property rights. For example, certain third parties have misappropriated the source codes of previous versions of TLBB and have set up unauthorized servers in China and elsewhere to operate TLBB to compete with Changyou. The existence of unauthorized servers may attract game players away from Changyou's games and may result in decreases in Changyou's revenues. Any measures Changyou takes in response may not be successful in eliminating these unauthorized servers. Litigation relating to intellectual property rights may result in substantial costs to Changyou and diversion of resources and management attention away from its business, and may not be successful. In addition, Changyou's ideas and certain of its designs, if not fixed in a tangible form of expression or registered with the appropriate PRC authorities, may not be protected by patents or other intellectual property rights. As a result, Changyou may be limited in its ability to assert intellectual property rights against online game developers who independently develop ideas and designs that compete with Changyou.

Changyou may be exposed to infringement or misappropriation claims by third parties, which, if determined adversely to it, could subject it to significant liabilities and other costs.

Changyou's success depends largely on its ability to use and develop its technology and know-how without infringing the intellectual property rights of third parties. We cannot assure you that third parties will not assert intellectual property claims against Changyou. Changyou is subject to additional risks if entities licensing to it intellectual property, including, for example, game source codes, do not have adequate rights in any such licensed materials. The validity and scope of claims relating to the intellectual property of game development and technology involve complex scientific, legal and factual questions and analyses and, therefore, tend to be uncertain. If third parties assert copyright or patent infringement or violation of other intellectual property rights against it, Changyou will have to defend itself in litigation or administrative proceedings, which can be both costly and time consuming and may significantly divert the efforts and resources of Changyou's technical and management personnel. An adverse determination or settlement in any such litigation or proceedings to which Changyou may become a party could subject it to significant liability to third parties, or require it to seek licenses from third parties, pay ongoing royalties, or redesign its games or subject it to injunctions prohibiting the development and operation of its games.

Risk Related to Online Games

There are uncertainties regarding the future growth of the online game industry in China.

The online game industry, from which Changyou derives most of its revenues, is a rapidly evolving industry. The growth of the online game industry and the level of demand and market acceptance of Changyou's games are subject to a high degree of uncertainty. Changyou's future operating results will depend on numerous factors affecting the online game industry, many of which are beyond Changyou's control, including:

- whether the online game industry, particularly in China and the rest of the Asia-Pacific region, continues to grow and the rate of any such growth;

Table of Contents

- the availability and popularity of other forms of entertainment, particularly games on console systems, which are already popular in developed countries and may gain popularity in China;
- growth in users of the Internet and broadband and penetration in China and other markets in which Changyou offers its games, and the rate of any such growth;
- whether recent declines in the use of personal computers and growth in users of mobile devices such as smart phones and tablets in general, and for purposes of accessing online games in particular, continue or accelerate in China and other markets in which Changyou offers its games;
- changes in consumer demographics and public tastes and preferences; and
- general economic conditions in China, particularly economic conditions adversely affecting discretionary consumer spending, such as the slowdown in China's economic growth that occurred between the first quarter of 2010 and the third quarter of 2012 and from 2014 through 2020.

There is no assurance that online games in general will continue to be popular in China or elsewhere. If the current decline in the popularity of PC games continues or accelerates as users increasingly switch to mobile devices, Changyou's revenues from its PC games may decrease significantly; and if the PC games that Changyou has launched, or expects to launch in the future, are not successful, Changyou may not be able to recoup the investments in its development and marketing of those games.

Changyou currently depends on TLBB for a significant portion of its revenues, and continued decrease in the popularity of TLBB or interruption in its operation will adversely affect Changyou's results of operations.

Changyou currently relies on TLBB for a significant portion of its revenues. Changyou launched TLBB PC in May 2007 and, despite Changyou's efforts to improve TLBB PC and some relatively positive results during the past two quarters, TLBB PC's game players have nevertheless lost interest in it over time as the relative popularity of PC games (which are accessed through personal computers) continues to decline. Accordingly, the popularity, revenues, and profitability of TLBB PC can be expected to continue to decline in the long run. See "Changyou may not be successful in operating and improving its games to satisfy the changing demands of game players."

To prolong TLBB's lifespan and slow down the pace of its decline, Changyou needs to continually improve and update it on a timely basis with new features, including enhanced social interaction features, that appeal to existing game players, attract new game players (including those who played earlier versions of TLBB), and improve player stickiness to the game. If Changyou fails to improve and update TLBB on a timely basis, or if its competitors introduce more popular games, including mobile games, catering to its game player base, the decline in TLBB's popularity can be expected to accelerate, which would cause Changyou's revenues to decrease at a faster pace. Furthermore, if there are any interruptions in TLBB's operation due to unexpected server interruptions, network failures or other factors, game players may be prevented or deterred from making purchases of virtual items, which could also cause significant decreases in Changyou's revenues.

The market demand for PC games in general, and for the PC games that Changyou operates in particular, can be expected to continue to decline and the number of game players of PC games can be expected to continue to decrease, which will have an adverse effect on Changyou's online game business and prospects.

A significant portion of Changyou's online game revenues is generated from its PC games, and from TLBB in particular. However, the popularity of PC games continues to decline and an increasing number of online game developers are delaying or suspending their plans to develop and launch new PC games, as a substantial number of game players have switched to mobile devices to access online games. It has become increasingly difficult for PC game developers and operators to retain existing players of their games and the number of game players who are willing to spend time and money to play new PC games continues to decrease. If this downward trend accelerates, it may make it increasingly difficult for Changyou's existing PC games in general, and TLBB in particular, to slow the decline in their popularity and for Changyou's new PC games to ever become commercially successful; the game player base of Changyou's PC games in general, and of TLBB in particular, may shrink at a more rapid pace, which would accelerate and increase Changyou's costs to acquire and retain players of its PC games and would have a negative impact on its online game revenues. In addition, Changyou's PC games generally produce relatively higher profit margins for it than do its mobile games, because Changyou must distribute its mobile games through third-party mobile game distributors or mobile application stores and enter into revenue-sharing arrangements with such distributors or mobile application stores. Accordingly, any decrease in Changyou's revenues from its PC games may have a relatively larger negative impact on its overall profits.

[Table of Contents](#)

As mobile devices such as tablets, mobile phones, and other devices other than personal computers are increasingly used to access online games, Changyou must continue to acquire or develop increasing numbers of mobile games that work on such devices.

Devices other than personal computers, such as mobile phones and tablets, are used increasingly in China and in overseas markets. We believe that, for its business to be successful, Changyou will need to continue to develop versions of its existing games and any future games that work well with such devices. The games that Changyou develops for such devices may not function as smoothly as its existing games, and may not be attractive to game players in other ways. In addition, manufacturers of such devices may establish restrictive conditions for developers of applications to be used on such devices, and as a result Changyou's games may not work well, or at all, on such devices. As new devices are released or updated, Changyou may encounter problems in developing versions of its games for use on such devices and Changyou may need to devote significant resources to the development, support, and maintenance of games for such devices. Since 2014 Changyou has been investing, and it expects to continue to invest, significant amounts in the development, promotion and operation of games for mobile devices. If Changyou is unable to successfully expand the types of devices on which its existing and future games are available, or if mobile versions of games that Changyou develops for such devices do not function well or are not attractive to users and game players; if the popularity and revenues of Changyou's mobile game Legacy TLBB Mobile continue to decline; or if other mobile games that Changyou has launched, or expects to launch in the future, are not successful, Changyou may not be able to maintain or increase its revenues and recoup its investments in the mobile market.

Changyou's mobile game Legacy TLBB Mobile is currently generating a significant portion of its revenues. Changyou increasingly relies on dominant third-party game distributors and operators that obtain licenses from it to market, distribute, and operate its mobile games, including Legacy TLBB Mobile, which is operated by Tencent under a license from Changyou. If Changyou is not able to establish and maintain collaborative relationships with Tencent and other dominant third-party game distributors and operators for its existing and future mobile games, it is likely that Changyou will not be able to maintain or expand its mobile game business.

Changyou's mobile game Legacy TLBB Mobile has been generating a significant portion of Changyou's revenues since Legacy TLBB Mobile's launch in May 2017. Changyou increasingly relies on dominant third-party game distributors and operators with large user bases, leading big data analytical capabilities, and track records and experience with successful operation of mobile games to operate its mobile games. For example, Tencent, which is an Internet conglomerate with a very large user base and is a dominant game developer and distributor in China, is the exclusive operator and distributor of Legacy TLBB Mobile under license from Changyou, and shares with Changyou the revenues generated by the game. For the year ended December 31, 2019, revenues from Legacy TLBB Mobile were \$101.1 million, accounting for approximately 23% of Changyou's online game revenues and approximately 22% of its total revenues. For the year ended December 31, 2020, revenues from Legacy TLBB Mobile were \$88.3 million, accounting for approximately 16% of Changyou's online game revenues and approximately 16% of its total revenues. If Tencent terminates the current licensing arrangements with Changyou for Legacy TLBB Mobile or curtails Tencent's marketing efforts to promote Legacy TLBB Mobile, or if Changyou is not able to establish and maintain collaborative relationships with other dominant game distributors and operators in China for its existing and future mobile games on commercial terms that are acceptable to Changyou, it will be difficult for Changyou to maintain or expand its mobile game business. In addition, Changyou relies on Tencent and other third-party operators to collect payments from game players for their purchases of virtual items in Changyou's mobile games, and to pay to Changyou the pre-agreed revenue-sharing amounts, and there is usually a delay between the time of a game player's purchase and the time when the operator pays Changyou, which has placed, and may continue to place, constraints on Changyou's cash flow.

Changyou's business will suffer if it is unable to develop successful high-quality games for mobile devices, expand its game portfolio with a variety of genres that are appealing to game players, monetize mobile games that Changyou develops, or acquire and maintain for a reasonable period the popularity and revenue levels of any of Changyou's mobile games that are successful.

Developing high-quality games for mobile devices is an important component of Changyou's online game strategy. China's mobile games market recently has been dominated by a small number of high-quality games, which collectively generate a substantial majority of the total revenues and profits of all mobile games in the market. Changyou has devoted and Changyou expects to continue to devote substantial resources to the development of its mobile games, focusing on those that Changyou believes have the potential to become high-quality games. Despite the early success of Changyou's mobile game Legacy TLBB Mobile, we cannot guarantee that Changyou will be able to develop additional high-quality games that appeal to players or, even if Changyou is able to develop high-quality games that are successful, that such games will have lifespans that are long enough to generate an acceptable level of revenues, as mobile games tend to have relatively shorter lifespans than PC games. In addition, Changyou may encounter difficulty in integrating features into games developed for mobile devices that a sufficient number of players will pay for, or in otherwise sufficiently monetizing mobile games. As the mobile-device market in China is saturated or near saturation, mobile-game developers and operators have increasingly devoted substantial resources to the expansion of their mobile-game portfolios with a variety of genres, such as massively multiplayer online role-playing games ("MMORPGs"), multiplayer online battle arena ("MOBA") games, or first person shooter ("FPS") games, that are appealing in the mobile game market, in order to acquire and retain game players and maintain or increase revenues from the games. However, Changyou has not been successful in the development of mobile games other than those in the MMORPG genre. If Changyou is unable to develop successful high-quality games and expand its game portfolio with games in a variety of genres that are in line with market trends, or implement successful monetization strategies for its mobile games in general, its ability to maintain or grow revenues will be adversely affected.

[Table of Contents](#)

Changyou's ability to successfully develop and monetize games for mobile devices will depend on its ability to:

- expand the portfolio of mobile games, and particularly high-quality games, in a variety of genres that Changyou develops in-house and licenses from third-party developers;
- effectively develop new mobile games for multiple mobile operating systems and mobile devices;
- anticipate and effectively respond to the growing number of players switching to mobile games, the changing mobile landscape and the interests of players;
- attract, retain and motivate talented game designers, product managers and engineers with experience in developing games for mobile devices;
- minimize launch delays and cost overruns on the development of new games;
- effectively monetize mobile games without degrading the social game experience for its players;
- develop games that provide for a compelling and optimal user experience through existing and developing third-party technologies, including third-party software and middleware utilized by its players; and
- acquire and successfully integrate high-quality mobile game assets, personnel, and companies.

Further, even if Changyou develops or acquires license rights to a mobile game that is successful, the game's lifespan may be short, as even successful mobile games tend to have less sustained user loyalty than do successful PC games. For example, the revenues generated from Changyou's mobile game Legacy TLBB Mobile, which was launched in May 2017, declined sequentially from 2018 through 2020, which is typical for a mobile game. In addition, although a relatively large number of the mobile games available at any given time may be low-quality games that attract fewer game players than do high-quality games, such games may on an aggregate level have the effect of attracting away a significant number of game players who would otherwise play high-quality mobile games. In view of the uncertain lifespans of mobile games and the large quantity of mobile games competing for game players, it is necessary for Changyou to make considerable investments in order to have a number of mobile games, and particularly mobile games that have the potential to become high-quality hit games, in its pipeline.

If Changyou is unable to develop or acquire new mobile games in general, and high-quality games in particular, that are successful, or to maintain for a reasonable period the popularity and revenue levels of any mobile games that Changyou develops or acquires that are successful, Changyou may not be able to recoup its development and acquisition costs and its ability to expand its business in the future is likely to be impeded.

We believe that the chance of success for online games is improved if they are adapted from the titles, characters, themes, and story lines of popular works of Chinese and foreign authors. However, there are many risks and uncertainties related to obtaining the rights to adapt such works for online games, and Changyou's games adapted from such works may not be successful.

We believe that, in order for many of the new online games that Changyou develops to be successful in China, it is important for it to obtain license rights, and preferably exclusive license rights, to adapt the titles, characters, themes and story lines of popular works for use in the games. For example, Changyou developed and it operates its PC game TLBB and its mobile games Legacy TLBB Mobile and TLBB 3D with various features that are included in reliance on rights under its existing license agreements with respect to the late Chinese martial arts author Louis Cha's popular novel Tian Long Ba Bu. We believe that these features have had a critical role in attracting and retaining many of the players of TLBB, Legacy TLBB Mobile, and TLBB 3D. However, it can be difficult to identify a sufficient number of such works that are suitable for adaptation for use in online games, and Changyou faces significant competition for the rights to such works from other online game companies that also adapt their online games from popular works. Obtaining license rights, and particularly exclusive license rights, to adapt suitable works for use in online games can involve significant expense, as the license fees, and the percentage of revenues from the games adapted from such works, payable to authors have continued to rise as competition for such license rights has intensified. In addition, Changyou has previously obtained, and intends to continue to seek to obtain, license rights for works from certain authors in foreign countries, and its ability to obtain such rights has previously been, and may be in the future be, adversely affected by greater scrutiny of such works, and a stricter approval process for permission to obtain such rights, by relevant Chinese authorities compared to the scrutiny of and approval process applicable to domestic works.

[Table of Contents](#)

Even if Changyou obtains license rights for works, we cannot assure you that games that Changyou adapts from such works will be popular and commercial successes and that Changyou will be able to recoup the amounts it pays for the license rights. Obtaining such rights and adapting such works for mobile games present additional risks, because of the relatively short lifespans of mobile games. Moreover, after the expiration of the terms of Changyou's existing license agreements with the holder of the copyrights to Tian Long Ba Bu and other holders of copyrights, Changyou may not be able to renew the agreements with commercial terms that are favorable to it, if at all. Changyou's inability to renew such agreements could force it to discontinue the related online games or, in the case of games based on Tian Long Ba Bu, to lose the rights to trademarks that Changyou has claimed as to various features and character names based on or inspired by Tian Long Ba Bu, and have a significant adverse impact on its online game operations and revenues.

Changyou may not be able to distribute its mobile games through its desired Internet platforms, its profits from any successful mobile games can be expected to be relatively lower than the profits Changyou has enjoyed historically from PC games and its mobile game revenues are subject to additional risks as Changyou relies on mobile application stores to collect payments from players of its mobile games.

Changyou may not be able to arrange for its mobile games to be distributed through its desired popular third-party mobile application stores with commercial terms, including revenue-sharing arrangements that are favorable enough to it to allow it to achieve an acceptable level of profit from the games. Changyou's profits from mobile games, even if the games are successful, are likely to be relatively lower than the profits it generates from PC games, because, in order to gain access for its games on mobile application stores, Changyou must enter into revenue-sharing arrangements that generally result in lower profit margins than those generated from its PC games. Due to market competition and pressures, only a handful of third-party mobile application stores and other game distribution channel providers have survived and, of the remaining providers, an even smaller number of key providers, including Tencent and Mobile Hardcore Alliance, collectively control a substantial share of the market. As a result, Changyou has reduced leverage and weaker bargaining power in business negotiations with game distribution channel providers, which may lead to Changyou being forced to agree to receive relatively low revenue-sharing percentages for many of its mobile games.

Changyou relies on mobile application stores to collect payments from game players for their purchases of its virtual items and to pay to Changyou pre-agreed revenue-sharing amounts. If mobile application stores cease to offer Changyou's games over their platforms, change their user payment policies, such as return policies, or fail to make revenue-sharing payments that are due to Changyou, Changyou's revenues will be adversely affected. When Changyou distributes its games through smaller, less well-known application stores, Changyou may not receive revenue-sharing payments when they are due to it. In addition, the iOS-based mobile application store allows game players to use foreign currency to purchase virtual items or game points in Changyou's games, and the store pays to Changyou pre-agreed revenue-sharing amounts after converting the foreign-currency denominated revenues from such purchases into RMB using an exchange rate effective at the time of the payment. Since there is usually a delay between the time of a game player's purchase and the time when the store pays Changyou, if the foreign currency used has depreciated against the RMB during the delay Changyou will receive lower share-sharing amounts at the time of the payment than Changyou would have received if the payment had been made at the time of the game player's purchase.

Changyou's new mobile games will be less likely to be successful if Changyou cannot adopt and implement innovative and effective marketing strategies to attract attention to its games from game players in its targeted demographic groups.

A relatively large number of mobile games are typically available at any given time in the markets in which Changyou launches and operates its mobile games, and such games compete for attention from the same game player population that it targets. Changyou's ability to successfully promote and monetize its mobile games will depend on its ability to adopt and effectively implement innovative marketing strategies, and particularly precision marketing through new media, such as Weibo, WeChat, Douyin, Bilibili.com Website and other online game forums, targeting potential mobile game players in general, and game players in specific demographic groups for certain games in particular, and Changyou's ability to cross-market mobile games to players of its current PC games and mobile games. If Changyou fails to adopt and implement such marketing and cross-marketing strategies, or if the marketing strategies of Changyou's competitors are more innovative and effective than Changyou's, its mobile games will be less likely to be successful and as a result Changyou may not be able to achieve an acceptable level of revenue from those games.

Changyou's development and operation of mobile games may be adversely affected by the promulgation of new, and the implementation and interpretation of existing, PRC laws and regulations affecting mobile games.

As mobile games are a relatively new type of online game in China, developers and operators of mobile games, including Changyou, have been facing increasingly intense regulatory scrutiny from PRC regulatory authorities regarding the development and operation of mobile games. Substantial uncertainties exist regarding the timing of the promulgation of, and any changes to, current and future PRC laws and regulations and the effect of the interpretation and implementation thereof, which may, among other things:

- have an adverse impact on the way Changyou designs its games and game features, which may make the games less attractive to game players;
- have an adverse impact on Changyou's ability to achieve an acceptable level of revenues and profit from its mobile games;

[Table of Contents](#)

- make it harder to access Changyou's mobile games and cause a decrease in its player base;
- increase the cost of the development and operation of Changyou's mobile games; and
- require substantial management attention and effort in monitoring the development of, and ensuring Changyou's compliance with, existing and future PRC laws and regulations affecting the mobile games business.

For a discussion of the risks associated with PRC laws and regulations affecting online games in general and mobile games in particular, see "Risks Related to Doing Business in China" in this Item 3 of this annual report.

Changyou's new games may attract game players away from its existing games.

With Changyou's increasingly diversified game portfolio, we cannot assure you that players of Changyou's existing games will not be attracted to play other newly launched games, including its new mobile games. If this occurs, it will decrease Changyou's existing games' player bases, which could in turn make these games less attractive to other game players, resulting in decreased revenues from its existing games. For example, revenues generated from Changyou's mobile game TLBB 3D decreased significantly in the second quarter of 2017, and we believe that this may have been due in part to the launch of Changyou's mobile game Legacy TLBB Mobile in May 2017. Game players who switch from playing Changyou's existing games to its new games may also spend less money to purchase virtual items in its new games than they would have spent if they had continued playing Changyou's existing games, resulting in an adverse effect on its overall revenues. In addition, game players' switching from playing Changyou's existing PC games to its new mobile games, as well as from its in-house developed games to its licensed games, could cause Changyou's overall online game profits to be relatively lower, as its profits from mobile games and licensed games tend to be relatively lower as a result of revenue-sharing arrangements.

Changyou relies on recorded data for game revenue recognition and tracking of game players' consumption patterns of virtual items. If its data systems fail to operate effectively, such failure will affect the completeness and accuracy of its revenue recognition, and also its ability to design and improve virtual items that appeal to game players.

Changyou's game operation revenues are generated through the direct online sale of game points and sale of its prepaid game cards, and its recognition of those revenues depends on such factors as whether the virtual items purchased by game players are considered consumable or perpetual. Changyou's revenue recognition policy with respect to perpetual virtual items is based on its best estimate of the lives of the items. Changyou considers the average period that paying players typically play its games and other player behavior patterns to arrive at its best estimate of the lives of these perpetual items. However, given the fast-evolving nature of the game industry and the various types of online games that Changyou offers to players with different tastes and preferences, its estimate of the period that players typically play its games may not accurately reflect the actual lives of these perpetual virtual items. Changyou revises its estimates as it obtains additional operating data, and it attempts to refine its estimation process accordingly. Any future revisions to these estimates could adversely affect the time period during which Changyou recognizes revenues from these items. For example, an increase in the estimated lives of these perpetual virtual items would increase the period over which revenues from these items are recognized.

Changyou relies on its data systems to record and monitor the purchase and consumption of virtual items by its game players and the types of virtual items purchased. If its data systems fail to accurately record the purchase and consumption information of the virtual items, Changyou may not be able to accurately recognize its revenues. In addition, Changyou relies on its billing systems to capture such historical game player behavior patterns and other information. If such information is not accurately recorded, or if Changyou does not have sufficient information due to the short operating history of any of its games, Changyou will not be able to accurately estimate the lives of, or the estimated average period the game players play its games with respect to, the perpetual virtual items, which will also affect its ability to accurately recognize its revenues from such perpetual virtual items. If Changyou's data systems were damaged by system failure, network interruption, or virus infection, or attacked by a hacker, the integrity of data would be compromised, which could adversely affect its revenue recognition and the completeness and accuracy of its recognized revenues.

In addition, Changyou relies on its data systems to record game player purchase and consumption patterns, based on which Changyou improves its existing virtual items and designs new virtual items. For example, Changyou intends to increase development efforts on the number and variety of virtual items that its game players like to purchase, and Changyou may also adjust prices accordingly. If its data systems fail to record data accurately, its ability to improve existing virtual items or design new virtual items that are appealing to its game players may be adversely affected, which could in turn adversely affect its revenues.

[Table of Contents](#)

Changyou could be liable for breaches in the security of its online payment platforms and those of third parties with whom Changyou transacts business, and any such breaches could cause its customers to lose confidence in the integrity of the payment systems that Changyou uses.

Currently, Changyou sells a substantial portion of its virtual game points and prepaid game cards to its game players through third-party online payment platforms. In these online transactions, secure transmission of confidential information, such as customers' credit card numbers and expiration dates, personal information and billing addresses, over public networks is essential if Changyou is to maintain its consumers' confidence in it. In addition, Changyou expects that an increasing amount of its sales will be conducted over the Internet as a result of the growing use of online payment systems. As a result, the risk of associated online crime will increase. Changyou's current security measures and those of the third-party online payment platforms with whom Changyou transacts business may not be adequate. Changyou must be prepared to increase its security measures and efforts so that its game players have confidence in the reliability of the online payment systems that it uses, which will require Changyou to incur additional expense. Such increased security measures may still not make its online payment systems completely safe. In addition, Changyou does not have control over the security measures of its third-party online payment vendors. Breaches in the security of online payment systems that Changyou uses could expose it to litigation and liability for failing to secure confidential customer information, and could harm its reputation, ability to attract customers and ability to encourage customers to purchase virtual items.

Any failure of third-party developers of online games that Changyou licenses from or jointly develops with them to fulfill their obligations under Changyou's license or joint operation agreements with them could have an adverse effect on Changyou's operation of and revenues from those games.

Changyou derives a portion of its revenues from PC games and mobile games that Changyou licenses from, or jointly develops with, third-party developers. Under its license and joint development agreements for these games, Changyou relies on the third-party developers to provide game updates, enhancements and new versions, provide materials and other assistance in promoting the games and resolving game programming errors and issues with "bots" and other intrusions. Any failure of third-party developers to provide game updates, enhancements and new versions in a timely manner and that are appealing to game players, provide assistance that enables Changyou to effectively promote the games, or otherwise fulfill their obligations under Changyou's license and joint development agreements could adversely affect the game-playing experience of Changyou's game players, damage its reputation, or shorten the life-spans of those games, any of which could result in the loss of game players, acceleration of Changyou's amortization of the license fees it has paid for those games, or a decrease in or elimination of its revenues from those games.

Furthermore, for games that Changyou licenses from or jointly develops with third parties, Changyou may not have access to the game source codes during the initial period of the license, or at all. Without the source codes, Changyou has to rely on the licensors to provide updates and enhancements, giving it less control over the quality and timeliness of updates and enhancements. If Changyou's game players are not satisfied with the level of services they receive, they may choose to not play the games.

There are additional risks associated with Changyou's licensing from overseas developers of online games that are successful only in particular overseas markets, because such games may not be successful in the China market and other markets if Changyou is not able to successfully customize the games to adapt to differences in culture and user preferences in the China market and other markets.

Changyou receives relatively lower profits from the operation of online games that it licenses from or jointly develops with third-party developers.

Changyou's revenue-sharing arrangements for games that Changyou licenses from or jointly develops with third-party developers provide Changyou with relatively less profit than games that Changyou develops in-house, and in some cases Changyou may not be able to recoup its investments in such games. Moreover, to secure the rights to games from third-party developers, Changyou often must pay up-front fees and also commit to pay additional fees in the future. Changyou also has invested in mobile game development studios in order to assure access to an extensive pipeline of mobile games. Changyou often must make such commitments and investments without knowing whether the games Changyou is licensing or jointly developing will be successful and generate sufficient revenues to enable Changyou to recoup its costs or for the games to be profitable.

[Table of Contents](#)

Changyou faces significant risks and incurs substantial costs when it licenses its games to, or jointly operates them with, third-party operators, and Changyou faces additional risks and costs when it directly operates its games or licenses its games to, or jointly operates its games with, third-party operators in overseas markets.

Changyou currently, and expects to continue to, exclusively license to, or jointly operate with, third-party operators some of its games, including an increasing number of its mobile games, in markets that Changyou selects, including overseas markets. Changyou faces significant risks associated with the licensing or joint operation of Changyou's games, including:

- difficulties in identifying appropriate markets;
- difficulties in identifying, negotiating and maintaining good relationships with licensees or joint operators who are knowledgeable about, and can effectively operate Changyou's games in, particular markets;
- difficulties in maintaining Changyou's reputation and the reputation of its games when its games are operated by licensees or joint operators pursuant to their own standards; and
- difficulties in protecting Changyou's intellectual property.

Changyou currently licenses and operates, and expects to continue to expand the licensing and operation of, some of its existing and future games, either directly or jointly with third-party operators, in selected overseas markets. Additional risks associated with the licensing or direct or joint operation of Changyou's games overseas include:

- difficulties and significant costs in protecting Changyou's intellectual property in overseas markets;
- difficulties in retaining and maintaining local management and key development and technical personnel who are experienced and knowledgeable about, and can effectively operate Changyou's games in, particular markets;
- uncertainties relating to Changyou's ability to develop its games and/or expansion packs catering to particular overseas markets;
- uncertainties relating to Changyou's ability to renew its license and joint operation agreements with licensees and joint operators upon their expiration;
- for Changyou's direct operation of its games overseas, interruptions in the operation of the games due to cross-border Internet connection or other system failures;
- significant costs for translation of its games into the local languages of, or customization of its games for, the overseas markets in which Changyou plans to license or jointly operate its games;
- limited choices of third-party Internet platforms to distribute Changyou's mobile games in certain overseas markets;
- difficulty for Changyou's management to exercise timely and effective supervision and administration of local management and employees in general, and their interactions with local third-party Internet platforms or other service providers in particular, in order to identify and prevent any sloppy, dishonest or illegal activities, which could harm Changyou's business and reputation or subject Changyou to penalties;
- significant marketing costs to promote Changyou's games in certain overseas markets where third-party Internet platforms do not include marketing services as part of the revenue-sharing arrangements;
- different game player preferences in certain overseas markets;
- difficulties and significant costs relating to compliance with the different legal requirements and commercial terms, such as game export regulatory procedures, taxes and other restrictions and expenses, in the overseas markets in which Changyou licenses or directly or jointly operates its games;
- exposure to different regulatory systems governing the protection of intellectual property and the regulation of online games, the Internet and the export of technology;
- costs for compliance with different legal requirements and commercial terms in overseas markets;
- difficulties in verifying revenues generated from Changyou's games by its licensees for purposes of determining royalties payable to Changyou;
- difficulties and delays in contract enforcement and collection of receivables through the use of foreign legal systems;
- changes in the political, regulatory or economic conditions, or public policy, affecting online games in particular foreign countries or regions;

Table of Contents

- the risk that regulatory authorities in foreign countries or administrative regions may impose withholding taxes, or place restrictions on repatriation of Changyou's profits; and
- fluctuations in currency exchange rates.

If Changyou is unable to manage these risks and control these costs effectively, its ability to license or operate its games in China or in regions and countries outside of Mainland China, either directly or jointly with third-party joint operators, may be impaired.

Changyou may not be successful in operating and improving its games to satisfy the changing demands of game players.

Changyou depends on purchases and continual consumption of virtual items by its game players to generate revenues, which in turn depend on the continued attractiveness of its games to the game players and their satisfactory game-playing experience. Various issues could arise that would cause its games to be less attractive to its game players or could limit the continued attractiveness of its games. For example:

- Changyou may fail to provide game updates, expansion packs and other enhancements in a timely manner due to technological or resource limitations, or other factors;
- Changyou's game updates, expansion packs and new versions may contain programming errors, and their installation may create other unforeseen issues that adversely affect the game-playing experience;
- Changyou may fail to timely respond and/or resolve complaints from its game players;
- Changyou may fail to eliminate computer "bots" which can disrupt its games' smooth operation and reduce the attractiveness of its games; and
- Changyou's game updates, expansion packs and other enhancements may change rules or other aspects of its games that its game players do not welcome, resulting in a reduction in the active accounts or active paying accounts of its online games.

Changyou's failure to address these issues could adversely affect the game-playing experience of its game players, damage the reputation of its games, shorten the lifespans of its games, and result in the loss of game players and a decrease in its revenues.

Changyou may fail to launch new games according to its timetable, and its new games may not be commercially successful.

All online games have limited lifespans. Changyou must launch new games that can generate additional revenue and diversify its revenue sources in order to remain competitive. Changyou will not generate any meaningful revenue from a game in development until it is commercially launched after open beta testing, and we cannot assure you that Changyou will be able to meet its timetable for new game launches or that its new games will be successful. A number of factors, including technical difficulties, lack of sufficient game development capabilities, personnel and other resources, failure to obtain or delays in obtaining relevant governmental authorities' approvals and adverse developments in Changyou's relationships with the licensors or third-party operators of its new games could result in delayed launching of its new games or the cancellation of the development of its pipeline games. In addition, we cannot assure you that Changyou's new games will be as well received in the market as TLBB, Legacy TLBB Mobile, and TLBB 3D have been, and you should not view Changyou's historical game revenues or the success of TLBB, Legacy TLBB Mobile, and TLBB 3D as indications of the commercial success of any of its new or future games. Changyou may fail to anticipate and adapt to future technical trends, new business models and changed game player preferences and requirements, fail to effectively plan and organize marketing and promotion activities, or fail to differentiate its new games from its existing games. If the new games Changyou introduces are not commercially successful, Changyou may not be able to generate sufficient revenues from new games to sustain or grow its revenues or to recover its product development costs and sales and marketing expenses, which can be significant. If Changyou acquires and pays for a license giving it the right to adapt an online game from an author's work, but does not complete the development and introduction into the market of the game, or Changyou introduces the game but it is not successful, Changyou may not be able to recover the license fees it has paid.

Changyou generates all of its game revenues under the item-based revenue model, which presents risks related to consumer preferences and regulatory restrictions.

All of Changyou's games, including PC games and mobile games, are operated under the item-based revenue model. Under this revenue model, Changyou's game players are able to play the games for free, but are charged for the purchase of virtual items in the games. The item-based revenue model requires Changyou to design games that not only attract game players to spend more time playing, but also encourage them to purchase virtual items. The sale of virtual items requires Changyou to track closely consumer tastes and preferences, especially as to in-game consumption patterns. If Changyou fails to design and price virtual items so as to incentivize game players to purchase them, Changyou may not be able to effectively translate its game player base and their playing time into revenues. In addition, the item-based revenue model may cause additional concerns with PRC regulators who have been implementing regulations designed to reduce the amount of time that Chinese youths spend on online games and intended to limit the total amount of virtual currency issued by online game operators and the amount purchased by individual game players. A revenue model that does not charge for time played may be viewed by the PRC regulators as inconsistent with these goals. The item-based revenue model may not continue to be commercially successful and in the future Changyou may need to change its revenue model to a time-based or other revenue model. Any change in revenue model could result in disruption of Changyou's game operations, a decrease in the number of its game players and a decline in its revenues.

Undetected programming errors or defects in Changyou's games could harm its reputation and adversely affect its results of operations.

Changyou makes frequent improvement and updates to its online games, which may contain bugs or flaws that become apparent only after the updated games are accessed by users, particularly as Changyou launches new updates under tight time constraints. If for any reason programming bugs or flaws are not resolved in a timely fashion, Changyou may lose some of its users, and third-party operators that license or jointly operate its games may seek to recover damages from it, which could have an adverse effect on Changyou's results of operations, and could harm its reputation and the market acceptance of its games.

Breaches in the security of Changyou's server network, or cloud-based servers that it leases from third-party operators, could cause disruptions in its service or operations, facilitate piracy of its intellectual property, or compromise confidential information of its game players and its business.

Changyou stores on its servers, including physical servers that Changyou owns or rent and cloud-based servers that Changyou leases from third-party operators, and transmits over the Internet considerable and continually increasing amounts of data, much of which is essential to the operation of its business and some of which is highly confidential information concerning its business and its game players. In addition, the expansion of Changyou's business to include mobile games and its need to comply with PRC regulations requiring real-name registration of its game players are likely to cause the amount of personal data concerning its game players that is transmitted over its networks to increase over time. Any breaches by hackers of Changyou's network or of cloud-based servers Changyou leases from third-party operators could cause severe disruptions in its game development and operations and other business activities, allow piracy of the source code used in the operation of its games and allow pirated versions of its games to enter the marketplace, or result in the release of confidential personal or financial information of its game players or confidential information concerning Changyou's business, any of which could have an adverse impact on Changyou's business, its revenues, and its reputation among game players. In order to minimize the likelihood of such breaches as Changyou's business expands and the amount of confidential and sensitive data increases, we expect that Changyou will need to expend considerable resources to maintain and enhance the effectiveness of its security systems.

Rapid technological changes may increase Changyou's game development costs.

Technological development in online game industry is evolving rapidly, so Changyou needs to anticipate new technologies and evaluate their possible market acceptance. For example, the use of VR technology has become prevalent in the industry, and an increasing number of game players hope to have VR included in online games that they access. Changyou has begun investing, and expects to continue to invest in the future, resources to develop VR technology and online games using VR technology. However, Changyou is not aware of any proven business or monetization model for online games using VR technology, and playing online games with VR technology generally requires devices with particularly high-level technical specifications, which may limit the number of players. If online games using VR technology that Changyou develops and launches are not well received by game players, Changyou may not be able to recoup its related development costs. In addition, government authorities or industry organizations may adopt new technical standards that apply to game development. Any new technologies and new standards may require increases in expenditures for PC game and mobile game development and operations and continuing professional training of Changyou's development and technical personnel, and Changyou will need to adapt its business and prepare its workforce to cope with the changes and support these new services to be successful. If Changyou falls behind in adopting new technologies or standards, its existing games may lose popularity, and its newly developed games may not be well received in the marketplace.

The proliferation of "cheating" programs and scam offers that seek to exploit Changyou's games and players harms the game-playing experience and may lead players to stop playing its games.

Third parties have developed, and may continue to develop, "cheating" programs that enable players to exploit Changyou's games, play the games in an automated way or obtain unfair advantages over other players who play fairly. These programs harm the experience of players who play fairly and may disrupt the economics of Changyou's games. In addition, unrelated third parties may attempt to scam Changyou's players with fake offers for virtual items. Changyou needs to devote significant resources to discover, disable and prevent such programs and activities, and if Changyou is unable to do so quickly its operations may be disrupted, its reputation may be damaged and players may stop playing its games. This may lead to lost revenue and increased costs for Changyou to develop technological measures to combat such programs and activities.

Game players' spending on Changyou's games may be adversely affected by slower growth in the Chinese economy and adverse conditions in the global economy.

Changyou relies for its revenues on the spending of its game players, which in turn depends on the players' level of disposable income, perceived future earnings capabilities and willingness to spend. The real estate market in the PRC and the level of exports from the PRC have both experienced significant declines recently and, according to the National Bureau of Statistics of China, the growth rate of China's gross domestic product, compared to that of the previous year, went from 6.6% in 2018, to 6.0% in 2019 and to 2.3% in 2020. Such growth may also slow in the future, which could in turn result in a reduction in spending by Changyou's game players.

In addition, the global economy has experienced significant instability and there has been volatility in global financial and credit markets in recent years, recent growth in the United States economy may not be sustainable and some analysts are concerned that the European Community may experience a sustained downturn. It is unclear how long such instability and volatility will continue, whether it will increase, whether it will lead to a renewed worldwide economic downturn such as the one that began in 2008, and how much adverse impact such instability and volatility or any such downturn might have on the economies of China and other jurisdictions where Changyou operates its games. Any such instability, volatility or adverse impact in China or in overseas markets could cause Changyou's game players to reduce their spending on its games in China or overseas and reduce its revenues.

Risks Related to the Platform Channel Business

Notwithstanding Changyou's significant investment in its platform channel business, Changyou was unable to successfully monetize it beyond the operation of Changyou's 17173.com Website, and Changyou was not able to recoup all of its investment. Changyou may have similar adverse experiences with future investments.

During 2013 and 2014 Changyou made significant investments in acquiring assets and marketing, including both domestic and overseas marketing, and spent considerable sums to increase its staffing levels, with the goal of expanding and promoting its platform channel business beyond the operation of the 17173.com Website. However, Changyou did not generate meaningful revenues from such additions to its platform channel business as its efforts to monetize those products and services were not successful, and Changyou does not expect to be able to make its platform channel business apart from the 17173.com Website profitable or to recoup the investments it made in assets, marketing and staffing for the platform channel business. For example, after Changyou's acquisition of a majority interest in MoboTap, Changyou's management concluded that the Dolphin Browser operated by MoboTap would not be able to provide expected synergies with Changyou's platform channel business, and Changyou recognized substantial impairment charges as a result and sold MoboTap in 2018. Also see "Changyou's previous and any future acquisitions and/or strategic alliances may have an adverse effect on its ability to manage its business and may also result in impairment charges."

Online advertising revenues from the 17173.com Website could fail to grow, or could decline further, as a result of the shift from PC games to mobile games in the online games market and uncertainties in the online advertising market.

Changyou's online advertising revenues of \$11.6 million for the year ended December 31, 2020, which were mainly derived from the operation of the 17173.com Website, represented 2% of Changyou's total revenues for the year, and represented a decline of \$2.1 million, or 15%, from its online advertising revenues for the year ended December 31, 2019. Changyou's ability to avoid further declines in, or grow, its online advertising revenues may be adversely affected by any of the following risk factors:

- Changes in government policy could restrict or curtail Changyou's online advertising services;
- The decline in the demand for online advertising services from developers and operators of PC games, as the relative popularity of such games continues to decline;
- Advertising clients may adopt new methods and strategies other than online advertising to promote their brands, which would have an adverse impact on Changyou's advertising revenues; and
- The acceptance of the Internet as a medium for advertising depends on the development of a measurement standard. No standards for the measurement of the effectiveness of online advertising have been widely accepted. Industry-wide standards may not develop sufficiently to support the Internet as an effective advertising medium. If these standards do not develop, advertisers may choose not to advertise on the Internet in general, or through Changyou's Websites.

Table of Contents

In addition, Changyou's ability to generate and maintain significant online advertising revenues will also depend upon:

- the development of a large base of users possessing demographic characteristics attractive to advertising clients;
- the development of successful mobile versions of the 17173.com Website and the provision of extensive mobile game-related products and services in response to the rapid migration of users of Internet services from PCs to mobile devices, such as tablets and mobile phone;
- the acceptance of online advertisements, either through PCs or mobile devices, as an effective method of business marketing;
- the effectiveness of Changyou's advertising delivery, tracking and reporting systems;
- the extent of resistance from existing or potential customers to online advertising prices; and
- the development of new formats for online advertising, such as streaming video.

The expansion of Internet advertisement blocking software may result in a decrease in advertising revenues.

The development of Web software that blocks Internet advertisements before they appear on a user's screen may hinder the growth of online advertising. The expansion of advertisement blocking on the Internet may decrease Changyou's revenues from the 17173.com Website because, when an advertisement is blocked, it is not downloaded from the server, which means that it will not be tracked as a delivered advertisement. In addition, advertisers may choose not to advertise on the Internet or on Changyou's 17173.com Website because of the use by third parties of Internet advertisement blocking software.

Changyou relies on advertising agencies to sell online advertising services on the 17173.com Website. If current trends of consolidation of advertising agencies in the China market continue, the bargaining power of the large advertising agencies resulting from such consolidation may permit them to require that Changyou pay higher sales rebates, which would adversely affect Changyou's online advertising revenues.

Most of the online advertising services of the 17173.com Website are distributed by, and most of the online advertising revenues of the 17173.com Website are derived from, advertising agencies. For example, in 2020 Changyou engaged five advertising agencies, which contributed approximately 93% of the online advertising revenues of the 17173.com Website. In consideration for these agencies' services, Changyou is required to pay certain percentages of revenues as sales rebates. If the online advertising market is consolidated and effectively controlled by a small number of large advertising agencies, such advertising agencies may be in a position to demand higher sales rebates based on increased bargaining power, which could negatively affect Changyou's online advertising growth, as Changyou books its online advertising revenue net of its sales rebates to advertising agencies.

Risks Related to Doing Business in China

The SAPPRT's, the MIIT's, and other PRC authorities' regulatory supervision of the online game industry may adversely affect Changyou's online game operations.

The SAPPRT has issued a series of regulations affecting the online game industry and providing guidance regarding online game operations. The SAPPRT issued a notice in September 2009 stating that the SAPPRT would be the only governmental agency with the authority to review and approve online games, including reviewing and approving the importation of online games from offshore copyright owners, and that all online game operators must obtain an Internet publishing license in order to operate online games and related services and obtain additional pre-approval from the SAPPRT to make any changes to, or any new versions or expansion packs of, the originally approved online games. The *Measures of Internet Publication Service Administration* issued by the SAPPRT and the MIIT, or the New Internet Publication Measures, which became effective on March 10, 2016 and replaced the *Temporary Measures for Internet Publication Administration* that had become effective in 2002, require that entities in the Internet publishing business apply for an online publishing service license, instead of an Internet publishing license, that entities holding an Internet publishing license apply for an online publishing service license within a specified period of time to replace their Internet publishing license, and that all such entities obtain approval from the SAPPRT prior to the publication of new online games. On May 24, 2016, the SAPPRT issued a *Notice of the SAPPRT on Administration of Mobile Game Publishing Services*, or the Mobile Game Notice, which became effective on July 1, 2016. The Mobile Game Notice provides that the content of mobile games is subject to review, and that mobile game publishers and operators must apply for publishing and authorization codes for the games. Under the Mobile Game Notice, significant upgrades and expansion packs for mobile games that have previously been approved for publishing may be regarded as new works, and the operators will be required to obtain approval for such upgrades and expansion packs before they are released. In the event of any failure to meet these license and approval requirements, an operator may face heavy penalties, such as being ordered to stop operation, or having its business license revoked. In addition, the State Press Publication Administration (the "SPPA"), a successor agency to SAPPRT, first delayed, and then suspended, its review of, and issuance of publishing and authorization codes for, online games, as was the case between April 2018 and December 2018, and has continued to delay such review and issuance during 2019. Changyou's online game business may be adversely affected by these SAPPRT and MIIT notices and related implementation measures, as the launch of online games, new versions, expansion packs and imported games might be delayed because of the approval required. Such delays may result in higher costs for Changyou's online game operation and have an adverse effect on its game revenue. If any of Changyou's online game operating entities are unable to comply with the requirements of any PRC governmental department regarding the online game industry, it may be subject to various penalties and its online game business may be adversely affected.

[Table of Contents](#)

PRC law and regulations governing the online game industry in China are evolving and subject to future changes. Changyou may fail to obtain or maintain all applicable permits, approvals, registrations and filings.

The online game industry in China is highly regulated by the PRC government. Various regulatory authorities of the PRC central government, such as the State Council, the MIIT, the SPPA, the MCT and the MPS, have the power to issue and implement regulations governing various aspects of the online game industry.

Changyou is required to obtain applicable permits and approvals and file registrations with different regulatory authorities in order to operate its online games. For example, in order to distribute games through the Internet in China, Changyou must obtain an ICP license from the MIIT and an Online publishing service license from the SPPA. Any online game Changyou operates needs to be approved by the SPPA prior to its launch. Once a new online game or any upgrade, expansion pack or new version of any existing game is launched, approval of the online publication of such new game or such upgrade must be obtained from the SPPA. If Changyou fails to maintain any required permits or approvals, or to obtain any new permits or approvals on a timely basis, Changyou may be subject to various penalties, including fines and a requirement that it discontinues or limits its operations.

As the online game industry is at an early stage of development in China, new law and regulations may be adopted from time to time to require additional licenses and permits other than those Changyou currently has, and address new issues that arise. In addition, substantial uncertainties exist regarding the interpretation and implementation of current and any future PRC law and regulations applicable to the online game industry. Furthermore, as mobile games are a relatively new type of online game, there are uncertainties relating to whether a game developer, such as Changyou, which provides mobile games to mobile device users, needs to obtain a separate operating license in addition to the ICP license that it has already obtained. For any mobile games Changyou launches, Changyou may be required to apply for a separate operating license for the mobile applications. Therefore, it may not be able to obtain timely, or at all, required licenses or any other new license required in the future, and it may be found to be in violation of current or future PRC law and regulations, which could impede its ability to conduct business.

Changyou operates some of its existing games, and plans to operate certain of its future games, with Internet authorization codes that it obtained through third-party electronic publishing entities. If the SPPA challenges the commercial operation of any of Changyou's games that are operated with Internet authorization codes obtained through third-party publishing entities, Changyou may be subject to various penalties, including restrictions on its operations.

Under regulations issued by the SAPPRFT and the MIIT, online game operators are required to have an online publishing service license (or before the New Internet Publication Measures became effective on March 10, 2016, an Internet publishing license), and an authorization code obtained under such a license is required for each game in operation and publicly available in the PRC. Changyou publishes certain of its existing games with authorization codes obtained under Internet publishing licenses held by third parties. See “Government Regulation and Legal Uncertainties—Specific Statutes and Regulations—Regulation of Online Games Services—Online Games and Cultural Products.” Current PRC regulations are not clear as to the consequence of obtaining authorization codes through the licenses of third-party entities. Changyou's past and expected future practices might be challenged by the SPPA, a successor agency to the SAPPRFT, which could subject Changyou to various penalties, including fines, confiscation of publishing equipment and the revenues generated from the publishing activities, the revocation of its business license, or the forced discontinuation of or restrictions on its operations.

Restrictions on virtual currency may adversely affect Changyou's online game revenues.

Changyou's online game revenues are collected through the online sale of game points and sale of its prepaid cards, which are considered to be the “virtual currency” as such term is defined in the *Notice on Strengthening the Administration of Online Game Virtual Currency*, or the Virtual Currency Notice, which was jointly issued by the MCT and the MOFCOM in 2009. PRC laws and regulations, including the Virtual Currency Notice, have provided various restrictions on virtual currency and imposed various requirements and obligations on online game operators with respect to the virtual currency used in their games, including that (i) the total amount of virtual currency issued by online game operators and the amount purchased by individual users in the PRC is subject to limits, and online game operators are required to report the total amount of their issued virtual currency on a quarterly basis and are prohibited from issuing disproportionate amounts of virtual currency in order to generate revenues; (ii) virtual currency may only be provided to users in exchange for payment in RMB and may only be used to pay for virtual goods and services of the issuer of the currency, and online game operators are required to keep transaction data records for no less than 180 days; (iii) online game operators are prohibited from providing lucky draws or lotteries that are conducted on the condition that participants contribute cash or virtual currency in exchange for game props or virtual currencies; (iv) online game operators are prohibited from providing virtual currency trading services to minors; and (v) companies involved with virtual currency in the PRC must be either issuers or trading platforms, and may not operate simultaneously as issuers and as trading platforms. Changyou must tailor its business model carefully, including designing and operating its databases to maintain users' information for the minimum required period, in order to comply with the requirements of current PRC laws and regulations, including the Virtual Currency Notice, in a manner that in many cases can be expected to result in relatively lower sales of its game coins and an adverse impact on its online game revenues. Although the MCT Approval Scope Notice provides that the MCT is no longer responsible for regulating the online game industry, as of the date of this annual report the Virtual Currency Notice have not been abolished, and their validity and future enforceability remain uncertain.

Table of Contents

Changyou's business may be adversely affected by public opinion and governmental policies in China as well as in other jurisdictions where Changyou operates its online games or licenses its online games to third parties.

Currently, most of Changyou's game players in China are young males, many of whom are students. Due to relatively easy access to personal computers and Internet cafés, the increasing use and popularity of mobile devices such as smart phones and tablets connected to the Internet, and the lack of other appealing forms of entertainment in China, many teenagers in China frequently play online games. This may result in these teenagers spending less time on or refraining from other activities, including education, vocational training, sports, and resting, which could result in adverse public reaction and stricter government regulation. For example, the PRC government has promulgated anti-fatigue-related regulations to limit the amount of time minors can play online games.

Adverse public opinion could discourage game players from playing Changyou's games, and could result in government regulations that impose additional limitations on the operations of online games as well as game players' access to online games. For example, under the Monitor System Circular online game operators are required to adopt various measures to maintain a system to communicate with the parents of minors playing online games and are required to monitor the activities of minors and suspend the accounts of minors if so requested by their parents. The *Notice on Preventing Minors From Indulging in Online Games* (the "Indulgence Prevention Notice"), which the SAPPRFT issued on October 25, 2019 and became effective on November 1, 2019, requires online game operators to implement measures to not give minors access to online game services during specified periods of the day, imposes daily limits on minors' length of use and spending for paid online game services, and prohibits online game operators from providing paid game services to minors under the age of eight.

In addition, the PRC State Administration of Taxation ("the SAT"), has announced that it will tax game players on the income derived from the trading of virtual currencies at the rate of 20%. It is currently unclear how the tax will be collected or if there will be any effect on Changyou's game players or its business, but collection of such a tax might discourage players who are interested in trading virtual currencies from playing its games, which could reduce its revenues.

Moreover, similar adverse public reaction may arise, and similar government policies may be adopted, in other jurisdictions where Changyou licenses or operates its games, which could similarly adversely affect its revenues.

Regulation and censorship of information disseminated over the Internet in China may adversely affect our business, and Changyou may be liable for information displayed on, retrieved from or linked to its Websites.

The PRC government has adopted regulations governing Internet access and the distribution of news and other information over the Internet. Under these regulations, Internet content providers and Internet publishers are prohibited from posting or displaying over the Internet any content that, among other things, violates PRC law and regulations, impairs the national dignity of China, or is obscene, superstitious, fraudulent or defamatory. When Internet content providers and Internet publishers, including online game operators, find that information falling within the above scope is transmitted on their Websites or is stored in their electronic bulletin service systems, they are required to terminate the transmission of such information or delete such information immediately, keep records, and report to relevant authorities. Failure to comply with these requirements could result in the revocation of Changyou's ICP license and other required licenses and the closure of its Websites. Internet content providers may also be held liable for prohibited information displayed on, retrieved from or linked to their Websites.

In addition, the MIIT has published regulations that subject Internet content providers to potential liability for the actions of game players and others using their Websites, including liability for violations of PRC law prohibiting the dissemination of content deemed to be socially destabilizing. As these regulations are subject to interpretation by the relevant authorities, it is not possible for Changyou to determine in all cases the type of content that could result in liability for it as a developer and operator of online games, and as an operator of the 17173.com Website. In addition, Changyou may not be able to control or restrict the content of other Internet content providers linked to or accessible through its Websites, or content generated or placed on its Websites by its game players, despite its attempt to monitor such content. To the extent that regulatory authorities find any portion of its content objectionable, they may require Changyou to curtail its games, which may reduce its game player base, the amount of time its games are played or the purchases of virtual items.

[Table of Contents](#)

There are currently no specific laws or regulations in the PRC governing property rights with respect to virtual assets and therefore it is not clear what liabilities, if any, Changyou may have relating to the loss of virtual assets by its game players.

In the course of playing Changyou's games, game players can acquire and accumulate virtual assets, such as game player experience, skills and weaponry. Such virtual assets can be highly valued by game players and in some cases are traded among game players for real money or assets. In practice, virtual assets can be lost for various reasons, such as data loss caused by delay of network service by a network crash, or by hacking activities. There are currently no specific PRC laws or regulations governing property rights with respect to virtual assets. On May 28, 2020, the National People's Congress issued the *Civil Code of the PRC* (the "Civil Code"), which came into effect on January 1, 2021 and provides only a general principle that if any further law or regulation contains specific provisions in respect of the protection of virtual property, such provisions shall apply. As a result, it is unclear under PRC law and regulations as in effect as of the date of this annual report who the legal owner of virtual assets is and whether the ownership of virtual assets is protected by law. In addition, it is unclear under PRC law and regulations whether an operator of online games such as Changyou would have any liability (whether in contract, tort or otherwise) for loss of such virtual assets by game players. Based on several judgments regarding the liabilities of online game operators for loss of virtual assets by game players, the courts have generally required the online game operators to provide well-developed security systems to protect such virtual assets owned by game players. In the event of a loss of virtual assets, Changyou may be sued by game players and may be held liable for damages.

Changyou's online game operations may be adversely affected by implementation of anti-fatigue-related regulations.

The PRC government may decide to adopt more stringent policies to monitor the online game industry as a result of adverse public reaction to perceived addiction to online games, particularly by minors. Eight PRC government authorities, including the SAPPRFT, the Ministry of Education and the MIIT, jointly issued regulations, or the Anti-Fatigue Notice, requiring all Chinese online game operators to adopt an "anti-fatigue system" in an effort to curb addiction to online games by minors. Under the anti-fatigue system, three hours or less of continuous play is defined to be "healthy," three to five hours is defined to be "fatiguing," and five hours or more is defined to be "unhealthy." Game operators are required to reduce the value of game benefits for minor game players by half when those game players reach the "fatiguing" level, and to zero when they reach the "unhealthy" level. In addition, online game players in China are now required to register their identity card numbers before they can play an online game. This system allows game operators to identify which game players are minors. These restrictions could limit Changyou's ability to increase its business among minors. If these restrictions were expanded to apply to adult game players in the future, Changyou's revenues could be adversely affected.

These eight PRC government authorities subsequently promulgated additional regulations, including a *Notice on Initializing the verification of Real-name Registration for Anti-Fatigue System on Internet Games*, or the Real-name Registration Notice, to strengthen the implementation of the anti-fatigue system and real-name registration. The Real-name Registration Notice's main focus is to prevent minors from using an adult's identity to play Internet games and, accordingly, provides stringent punishment for online game operators for not implementing the anti-fatigue and real name registration measures properly and effectively. The most severe punishment contemplated by the Real-name Registration Notice is termination of the operation of the online game if it is found to be in violation of the Anti-Fatigue Notice, the Real-name Registration Notice or the circular entitled *Implementation of Online Game Monitor System of the Guardians of Minors* ("the Monitor System Circular"). The Indulgence Prevention Notice requires an online game operator to maintain and implement a user real-name registration system, and to not provide online-game services to any user who is not so registered. The Real-name Registration Notice and the Indulgence Prevention Notice increase Changyou's operating risks, as it will be required to spend more resources on the real-name verification and anti-fatigue system, which will lead to an increase in its operating costs. In addition, the amount of time that minors will be able to spend playing online games such as Changyou's will be further limited. The Indulgence Prevention Notice requires online game operators not to give minors access to online game services during a specified period of a day, imposes specified daily limits on minors' period of use and spending for paid online game services, and prohibits online game operators from providing paid game services to minors under eight. Furthermore, if it is found to be violating these regulations, Changyou may be required to suspend or discontinue its online game operations.

In February 2013, 15 PRC government authorities, including the SAPPRFT, the Ministry of Education, the MCT and the MIIT, jointly issued the *Work Plan for the Integrated Prevention of Minors Online Game Addiction*, or the Work Plan, implementing integrated measures by different authorities to prevent minors from being addicted to online games. Under the Work Plan, the current relevant regulations will be further clarified and additional implementation rules will be issued by relevant authorities. As a result, Changyou may have to impose more stringent limits for minor game players, which may lead to an increase in its operating expenses and a reduction in its revenues from minor game players.

In July 2014, the SAPPRFT issued the *Notice on Further Launch Verification of Real-name Registration for Anti-Fatigue System on Internet Games*, stating that, in view of some of the hardware and functionality limitations inherent in mobile devices, anti-fatigue system requirements applicable to Internet games do not currently apply to mobile games. If the SPPA, as a successor agency to the SAPPRFT, in the future decides to expand the anti-fatigue system requirements to mobile games, Changyou's operating expenses would be likely to increase.

Risks Related to Sogou Inc.

Risks Related to Sogou's Business

The online search industry in China is extremely competitive, and if Sogou is unable to compete successfully, it will be difficult for Sogou to maintain or increase Sogou's revenues and profitability.

Sogou operates its business in an extremely competitive industry. Sogou faces intense competition in every aspect of its business, including competition for users, advertisers, technology, and talent. Sogou faces competition for its search and search-related services in China primarily from Baidu Inc. ("Baidu"), and ShenMa, operated by UCWeb Inc. ("UCWeb"), which is a subsidiary of Alibaba Group Holding Limited ("Alibaba"). Both Baidu and Alibaba have considerably greater financial and technical resources available to them than Sogou does. Sogou also faces competition for both users and advertisers from websites and mobile applications that provide specialized search services in China, including travel services and information platforms such as Ctrip and Qunar; group-buy platforms such as Meituan Dianping; online classified advertisement platforms such as 58.com; and short-video platforms such as Douyin and Kuaishou. Sogou competes for advertisers not only with Internet companies, but also with other types of advertising media such as newspapers and magazines, billboards and bus advertisements, television, and radio. It is also possible that multinational businesses with considerably greater financial and other resources than Sogou's could expand their offerings in China, making it harder for Sogou to gain market share.

Sogou's existing and potential competitors compete with it for users and advertisers on the basis of the quality and quantity of search results; the features, availability, and ease of use of products and services; and the number and quality of advertising distribution channels. They also compete with Sogou for talent with technological expertise, which is critical to the sustained development of Sogou's products and services. If Sogou is unable to differentiate itself from its competitors in each of these areas, Sogou may not be able to maintain or increase its user and advertiser base, which would have an adverse impact on its business, results of operations, and growth potential. In addition, Sogou may have difficulty in successfully promoting and differentiating its new products, services, and features as a result of the market power of its competitors.

Sogou must expand its user base to grow its business, and Sogou must continually innovate and adapt its business in an evolving online search industry in order to do so. If Sogou fails to continue to innovate and introduce products and services to enhance user experience, Sogou may not be able to generate sufficient user traffic to remain competitive.

The Internet industry in general and the online search industry in particular have been undergoing rapid changes in technology and in user preferences. Sogou's future success in expanding its user base will depend on its ability to respond to, as well as anticipate and apply, rapidly evolving technologies. Sogou must adapt its existing products and services and develop new products and product areas that will meet the evolving demands of users, deliver attractive experiences for its users that enhance user engagement, and cause its users to return to its services and increase the frequency of their searches on Sogou's platforms. Sogou's development and introduction of new products, features, and services are subject to additional risks and uncertainties. Unexpected technical, operational, distribution, or other problems could delay or prevent the development and introduction of one or more of Sogou's currently planned and any future new products and services. There are constant innovations in the market regarding search services, search and search-related advertising, and providing information to users. If Sogou is unable to predict user preferences or industry changes, or if Sogou is unable to modify its products and services on a timely basis, Sogou may lose users. Sogou's operating results will also suffer if its innovations are not responsive to the needs of its users, are not appropriately timed with market opportunity, or are not effectively brought to market. As search technology continues to develop, there may be offered in the China market products and services that are, or that are perceived to be, substantially similar to or better than those generated by Sogou's search services. As worldwide focus on the development of AI technologies has intensified, it has become increasingly important to apply AI technologies to online search products and features in order to attract and retain users, and we cannot be sure that Sogou will be able to apply such technologies successfully.

Sogou's competitors may develop and offer new products, services, and features that are similar to Sogou's and such new offerings from its competitors may be found by users to be more attractive than Sogou's. Moreover, Sogou's competitors may introduce new products, services, and features to the market before Sogou can, and we cannot be sure that any of Sogou's new products, services, and features will attract additional users and lead to the generation of incremental revenue.

As users increasingly use mobile devices to access search services and other Internet services in China, Sogou will need to continue to design, develop, promote, and operate new products and services tailored for mobile devices. Sogou's design and development of new products and services that are optimized for mobile devices may not be successful. Sogou may encounter difficulties with the installation and delivery of such new products and services, and they may not function smoothly. As new mobile devices are released or updated, Sogou may encounter problems in developing and upgrading its products and services for the new releases and updates, and Sogou may need to devote significant resources to such development and upgrades. If Sogou is not successful in adapting its offerings for mobile devices, maintenance and growth of its business will be impeded.

[Table of Contents](#)

If Sogou's collaboration with Tencent is terminated or curtailed, Sogou's business and prospects for growth will be adversely affected.

Sogou has extensive collaboration with Tencent, one of its largest shareholders. Sogou Search is the default general search engine in various Tencent products that provide general search offerings, such as Mobile QQ Browser, *qq.com*, and the PC Web directories *daohang.qq.com* and *hao.qq.com*. Approximately 39% of Sogou's total search traffic, measured by page views, was contributed by Tencent's Internet properties in December 2020. Sogou Weixin Search is currently the sole general search engine with access to all content published on Weixin Official Accounts, but it is possible that Tencent will grant such access to other general search engines. We cannot assure you that Sogou will be able to maintain the current level of cooperation with Tencent in the future. If Sogou's collaborative relationship with Tencent is terminated or curtailed due to Tencent's initiating its own general search service or partnering with other search engine companies, or if any of the commercial terms were to be revised or made less favorable to Sogou, or if Tencent does not continue to deliver to Sogou an adequate level of access to its platforms or adequately promote Sogou's products and services, Sogou's business and prospects will be adversely affected.

Sogou's efforts to expand its collaboration with Tencent may not be successful.

In September 2018, Sogou and Tencent agreed to extend until September 2023 the period during which Sogou Search will be the default general search engine for Tencent's products that provide general search offerings in accordance with Sogou's existing business collaboration arrangements with Tencent. In addition, Sogou and Tencent have agreed to continue from September 2020 until September 2021 Sogou's initiative for the integration into the existing Weixin/WeChat search service of a search function powered by Sogou Search that allows Weixin/WeChat users to access Internet information outside Weixin/WeChat and have agreed that Sogou Search will be the preferred third-party search function to power such a Weixin/WeChat search function for that period provided Sogou Search meets "Tencent's requirements for user experience," and that the arrangement may be extended for additional successive one-year periods through September 2023 if offering Sogou Search will not "harm the user experience." It is difficult for us to predict the potential impact of the integration of Sogou Search to power such a Weixin/WeChat search function measured under the standards of "Tencent's requirements for user experience" and/or "harm the user experience." The potential for growth of Sogou's business through such integration will be limited if Tencent does not make Sogou Search the preferred search function or decides not to extend the arrangement for such integration and a Tencent search function or a search function of one of Sogou's competitors is given priority over Sogou's in Weixin/WeChat.

The announcement and pendency of Sogou's going-private transaction with Tencent could have an adverse effect on Sogou's business, results of operations, and financial condition.

The process of consummating the pending Tencent/Sohu Sogou Share Purchase and Sogou Merger could cause disruptions in Sogou's business and divert Sogou's management's attention and other resources from day-to-day operations, which could have an adverse effect on Sogou's business, results of operations, and financial condition. The Sogou Merger Agreement, by its terms, imposes restrictions on Sogou's conduct of business prior to the completion of the Sogou Merger, which may delay or prevent Sogou from undertaking certain business opportunities that may arise pending the completion of the Sogou Merger. In addition, Sogou may be subject to claims and legal actions arising in connection with the Sogou Merger, and such claims and legal actions, with or without merit, may be expensive to defend, may divert Sogou's management's attention, and may have an adverse impact on Sogou's reputation. For example, a complaint was filed against Sogou in the United States District Court for the Southern District of New York by a single plaintiff. The complaint alleges, in sum and substance, that a Transaction Statement on Schedule 13E-3 filed by Sogou on December 1, 2020 regarding Sogou's contemplated going-private transaction contained certain statements regarding dissenters' rights that were allegedly rendered false by a subsequent judgment by the Grand Court of the Cayman Islands. The plaintiff seeks an injunction to prevent the Sogou Merger as well as attorneys' fees and costs. Further, current and prospective employees and members of Sogou management could become uncertain about their future roles with Sogou in the event the Sogou Merger is completed. This uncertainty could adversely affect Sogou's ability to retain and hire employees and members of Sogou management. In addition, the announcement and pendency of the Sogou Merger could have an adverse effect on Sogou's relationships with Sogou's customers, suppliers, and other third-party service providers and business partners. For example, Sogou's search and search-related revenues for the three months ended September 30, 2020 decreased, in part as a result of uncertainties on the part of certain advertisers with respect to Sogou's business strategies and policies following the announcement of the Sogou Merger. If Sogou's collaborations and relationships with business partners are terminated or curtailed, Sogou's business, results of operations, and financial condition will be adversely affected.

Sogou's existing business and its expansion strategy depend on certain additional key collaborative arrangements, and any inability to maintain or develop such relationships could have an adverse effect on Sogou's business and prospects for growth.

Sogou's existing business, and its strategy for developing its business, involve maintaining and developing various types of collaborations with third parties, which provide it with access to additional user traffic, search services, products, and technology. For example, Sogou's Wise Doctor delivers healthcare information, and receives healthcare data, through partnerships that provide Sogou with access to articles written by physicians and to a PRC-government sponsored healthcare encyclopedia; Sogou's partnership with Zhihu Technology Limited, a company that engages primarily in the business of operating an online question and answer-based knowledge and information sharing platform ("Zhihu"), provides Sogou with access to a knowledge-sharing platform; Sogou's partnership with Microsoft's Bing provides Sogou with the technology to provide its users with English content on the Internet that Sogou translates to Chinese in connection with its cross-language search service; and Sogou's partnership with China Literature Limited, an online literature platform, enables its users to access literature from a large online collection. In addition, Sogou's various partnerships with third-party Internet properties provide its advertisers significant exposure to users beyond its core search user base. We consider these collaborations to be important to Sogou's ability to deliver attractive service, product, and content offerings to its users, in order to maintain and expand its user and advertiser bases, and we believe that it will continue to be important for Sogou to develop similar partnerships in the future. Sogou's inability to maintain and grow such relationships could have an adverse impact on its existing business and its growth prospects.

[Table of Contents](#)

Sogou also has existing, and hopes to develop additional, relationships with mobile device manufacturers for pre-installation of its search, input method, and related applications. If Sogou is unable to maintain and expand such relationships, the quality and reach of delivery of its services will be adversely affected, and it may also be difficult for Sogou to maintain and expand its user base and enhance awareness of its brand. In addition, Sogou's competitors may establish the same relationships as those Sogou has, which would tend to diminish any advantage Sogou might otherwise gain from these relationships.

If Sogou fails to maintain and expand its collaborations with third-party operators of Internet properties, its revenues and growth may be adversely affected.

Sogou places certain of its advertisers' promotional links on the Internet properties of third parties, thereby expanding the base of users accessing the advertisements beyond Sogou's own user base, and increasing Sogou's pay-for-click revenues. If these third parties decide to use a competitor's or their own online search services, or do not prominently display Sogou's advertisements in comparison to those of other advertisers on their properties, or if Sogou fails to attract additional third-party operators of Internet properties, Sogou's advertising revenues and growth may be adversely affected.

Sogou may not be able to resume its historical growth or successfully manage any future growth.

Sogou's revenues were \$1.12 billion, \$1.17 billion, and \$924.7 million for the years ended December 31, 2018, 2019, and 2020, respectively. The decrease in Sogou's revenues from 2019 to 2020 resulted from uncertainties with respect to Sogou's business policies among certain advertisers as a result of the currently pending Tencent/Sohu Sogou Share Purchase and Sogou Merger, unfavorable macroeconomic conditions resulting from the COVID-19 pandemic, and regulatory headwinds in the Internet industry in China. In addition, although Sogou's traffic acquisition costs increased only moderately for 2020, if they trend higher in the future as they did prior to 2019 due to intensifying competition for channel partnerships, it could be difficult for Sogou to sustain expenditures for traffic acquisition at the same level as Sogou's competitors, which could result in slower or flat growth, or even a reduction, in Sogou's user traffic, which would have a negative impact on Sogou's revenues and revenue growth prospects. Sogou may not be able to resume growth in future periods similar to that it experienced prior to 2020, and Sogou's revenues may continue decline. Accordingly, you should not rely on the results of any prior period as an indication of Sogou's future financial and operating performance.

Sogou is exploring and implementing, and expects to continue to explore and implement in the future, new business initiatives, including in industries in which Sogou has limited or no experience, as well as new business models. Developing new businesses and initiatives requires significant investments of time and resources, and may present new and difficult technological, operational, and legal challenges, as well as subject Sogou to additional regulatory risks. Any failure to effectively manage these risks may limit Sogou's future growth and hamper Sogou's business strategy.

Sogou depends on online advertising for a significant majority of its revenues. If Sogou fails to retain existing advertisers or attract new advertisers for its online advertising services, its business and growth prospects could be harmed.

Sogou earns most of its revenues from its search and search related advertising services. Advertisers will not use Sogou's services if they do not find them to be effective in producing a sufficient volume of click-throughs and desired results for advertisers. Sogou's advertisers are generally able to terminate their relationships with it at any time without penalty if they are not satisfied with its services, choose its competitors for similar services, or advertise in media channels other than Internet search. Therefore, it could be difficult for Sogou to maintain or increase its advertiser base, and its revenues and profits could decline or fail to increase.

Sogou relies on third-party advertising agencies for most of its online advertising revenues.

Sogou relies heavily on third-party advertising agencies for its sales to its advertisers. It is important that Sogou maintain good relationships with these agencies. Sogou does not enter into long-term agreements with any of the advertising agencies and we cannot assure you that Sogou will continue to maintain favorable relationships with them. Further, Sogou provides various types of discounts and rebates to advertising agencies in order to incentivize them to maximize the volume of advertising business that they bring to Sogou. In order to retain or properly incentivize Sogou's advertising agencies, it may become necessary in the future for Sogou to increase the levels of such rebates and discounts, which could have an adverse effect on its results of operations.

If Sogou fails to maintain and enhance awareness of and loyalty to its brand, it will be difficult for Sogou to maintain and increase its user and advertiser bases.

It is critical for Sogou to maintain and further enhance its brand if Sogou is to succeed in expanding its user and advertiser bases. Sogou's success in promoting and enhancing its brand, and its ability to remain competitive, will depend on its success in delivering superior user experience and on its marketing efforts. Enhancing Sogou's brand awareness may require substantial marketing and promotion expenses. If Sogou is unable to maintain and enhance its brand, or incur significant marketing and promotion expenses that do not achieve anticipated business growth, or is subject to negative publicity that harms its brand, Sogou's business and results of operations may be adversely affected.

Table of Contents

Sogou's success depends on the continuing efforts of its senior management team and key employees, and Sogou's business may be harmed if Sogou loses their services.

Sogou's business heavily depends upon the services of its key executives, particularly Xiaochuan Wang, its Chief Executive Officer. If any of Sogou's key executives is unable or unwilling to continue in his or her present position, joins a competitor, or forms a competing company, Sogou's business may be severely disrupted. Although Sogou's executive officers have entered into employment agreements, confidentiality agreements, and non-competition agreements with Sogou, the degree of protection afforded to an employer pursuant to confidentiality and non-competition undertakings by persons employed in the PRC may be more limited when compared to the degree of protection afforded with respect to employees in some other jurisdictions. Sogou does not maintain key-man life insurance for any of its key executives.

Sogou also relies on key highly-skilled personnel for its business. Given the competitive nature of the industry, and in particular Sogou's competitors' increasingly aggressive efforts to provide competitive compensation packages to attract talent in the markets where Sogou operates, it may be difficult for Sogou to recruit and retain qualified personnel, and the risk of members of Sogou's key staff leaving it is high. Any such departure could have a disruptive impact on Sogou's operations, and if Sogou is unable to recruit, retain and motivate key personnel, it may not be able to grow effectively.

Sogou's strategy of investments in and acquiring complementary businesses and assets may fail, which could result in impairment losses.

In addition to organic growth, Sogou may take advantage of opportunities to invest in or acquire additional businesses, services, assets or technologies. However, Sogou may fail to select appropriate investment or acquisition targets, or Sogou may not be able to negotiate optimal arrangements, including arrangements to finance any acquisitions. Acquisitions and the subsequent integration of new assets and businesses into Sogou could require significant management attention and could result in a diversion of resources away from Sogou's existing business. Investments and acquisitions could result in the use of substantial amounts of cash, increased leverage, potentially dilutive issuances of equity securities, goodwill impairment charges, amortization expenses for other intangible assets and exposure to potential liabilities of the acquired business, and the invested or acquired assets or businesses may not generate the financial results Sogou expects. For example, the private companies that Sogou has invested in could be adversely affected by the COVID-19 outbreak, which may lead to impairment in the fair values of Sogou's investments and in turn adversely affect Sogou's financial condition and operating results. Moreover, the costs of identifying and consummating these transactions may be significant. In addition to obtaining the necessary corporate governance approvals, Sogou may also need to obtain approvals and licenses from relevant governmental authorities for the acquisitions to comply with applicable laws and regulations, which could result in increased costs and delays.

Requirements of U.S. GAAP regarding the recognition of share-based compensation expense may adversely affect Sogou's results of operations and its competitiveness in the employee marketplace.

Sogou's performance is largely dependent on talented and highly-skilled individuals. Sogou's future success depends on its continuing ability to identify, develop, motivate, and retain highly-skilled personnel. Sogou has a history of using low or nominally-priced employee share options as an important component of competitive pay packages, in order to align Sogou's employees' interests with the interests of Sogou and its shareholders and to encourage quality employees to join and remain with Sogou. Sogou has adopted guidance on accounting for share-based compensation that requires the measurement and recognition of compensation expense for all share-based compensation based on estimated fair values. As a result, Sogou's operating results contain charges for share-based compensation expense related to employee share options. The historical and future recognition of share-based compensation in Sogou's statements of comprehensive income has had and will have an impact on its results of operations. On the other hand, if Sogou alters its employee share incentive plans to minimize the corresponding share-based compensation expense, it may limit Sogou's ability to continue to use share-based awards as a tool to attract and retain its employees, and it may adversely affect Sogou's operations. In addition, there may be future changes in the U.S. GAAP requirements for recognition of share-based compensation expense, which could have similar effects on Sogou's results of operations and its competitiveness in the market for key employees.

Sogou's user metrics and other estimates are subject to inherent challenges in measuring its operating performance, which may harm its reputation.

Sogou regularly reviews DAU, MAU, number of advertisers, page views, and other operating metrics to evaluate growth trends, measure its performance, and make strategic decisions. These metrics are calculated using internal company data, have not been validated by an independent third party, and may not be indicative of Sogou's future financial results. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring how Sogou's platforms are used across a large population in China. For example, Sogou may not be able to distinguish individual users who have multiple accounts. Errors or inaccuracies in Sogou's metrics or data could result in incorrect business decisions and inefficiencies. For instance, if a significant understatement or overstatement of active users were to occur, Sogou might expend resources to implement unnecessary business measures or fail to take required actions to remedy an unfavorable trend. If partners or investors do not perceive Sogou's user, geographic, or other operating metrics to accurately represent Sogou's user base, or if Sogou discovers inaccuracies in its user, geographic, or other operating metrics, its reputation may be harmed.

[Table of Contents](#)

We have not independently verified the accuracy or completeness of data, estimates, and projections in this annual report that Sogou obtained from third party sources, and such information involves assumptions and limitations.

Certain facts, forecasts, and other statistics relating to the industries in which Sogou competes contained in this annual report have been derived from various public data sources and a commissioned third-party industry report. In connection with our preparation of this annual report, Sogou commissioned iResearch to provide market research concerning the online search industry in China. In deriving the market size of this industry, iResearch may have adopted different assumptions and estimates for certain metrics from what others might have adopted. While we generally believe the report to be reliable, neither we nor Sogou has independently verified the accuracy or completeness of such information. Such report may not be prepared on a comparable basis or may not be consistent with other sources.

Industry data and projections involve a number of assumptions and limitations. Industry data and market share data should be interpreted in the light of the defined industries in which Sogou operates. Any discrepancy in the interpretation of such data could lead to different measurements and projections, and actual results could differ from the projections.

Sogou may not be able to prevent others from making unauthorized use of its intellectual property, which could harm Sogou's business and competitive position.

We regard Sogou's patents, copyrights, trademarks, trade secrets, and other intellectual property as critical to its business. Unauthorized use of Sogou's intellectual property by third parties may adversely affect its business and reputation. Sogou relies on a combination of intellectual property laws and contractual arrangements to protect its proprietary rights. It is often difficult to register, maintain, and enforce intellectual property rights in the PRC. Statutory laws and regulations are subject to judicial interpretation and enforcement and may not be applied consistently due to the lack of clear guidance on statutory interpretation in the PRC. In addition, contractual agreements may be breached by counterparties, and there may not be adequate remedies available to it for any such breach. Accordingly, Sogou may not be able to effectively protect its intellectual property rights or to enforce its contractual rights in China. Policing any unauthorized use of Sogou's intellectual property is difficult and costly and the steps Sogou has taken may be inadequate to prevent the misappropriation of its intellectual property. In the event that Sogou resorts to litigation to enforce its intellectual property rights, such litigation could result in substantial costs and a diversion of its managerial and financial resources. We can provide no assurance that Sogou will prevail in such litigation. In addition, Sogou's trade secrets may be leaked or otherwise become available to, or be independently discovered by, its competitors.

Pending or future litigation could have an adverse impact on Sogou's financial condition and results of operations.

From time to time, Sogou has been, and may in the future be, subject to lawsuits brought by its competitors, individuals, or other entities against it. Sogou is currently involved in several lawsuits in PRC courts where its competitors instituted proceedings or asserted counterclaims against it and Sogou instituted proceedings or asserted counterclaims against its competitors. For example, there are a number of legal proceedings currently pending between Sogou and Baidu in which Sogou alleges that Baidu's input method infringes certain of Sogou's patents relating to Sogou Input Method and seeks monetary damages, while Baidu has asserted in counterclaims or in a legal proceeding that Baidu initiated against Sogou that Sogou Input Method infringes certain of Baidu's patents, and seeks monetary damages. There is also a lawsuit pending against Sogou in which Shanghai Cishu Publications Ltd. has alleged that Sogou used vocabulary content without permission and seeks monetary damages. In addition, PRC courts decided in Baidu's favor a case in which Baidu had alleged that certain functions of Sogou Input Method unfairly divert users to Sogou. There are also two putative class action lawsuits that were filed against Sogou in the United States, one in a State court in the State of California and one in the United States District Court for the Southern District of New York, that alleged violations of U.S. securities laws in connection with Sogou's IPO in 2017. Although the plaintiffs' complaint filed in the United States District Court in New York was found by the court to be without merit, and the lawsuit was dismissed with prejudice, the lawsuit in state court in California remains pending. In addition, a complaint was filed against Sogou in the United States District Court for the Southern District of New York by a single plaintiff, who alleges that the initial Schedule 13E-3 filed with the SEC for the Sogou Merger was false and misleading, purports to demand that certain language be added to the Schedule 13E-3, and seeks an injunction to prevent the Sogou Merger as well as attorneys' fees and costs.

Where Sogou can make a reasonable estimate of the liability relating to pending litigation against it and determine that an adverse result for Sogou from such litigation is probable, Sogou records a related contingent liability. As additional information becomes available, Sogou assesses the potential liability and revise estimates as appropriate. However, due to the inherent uncertainties relating to litigation, the amount of Sogou's estimates may be inaccurate, in which case Sogou's financial condition and results of operation may be adversely affected. In addition, the outcomes of actions Sogou institutes may not be successful or favorable to it. Lawsuits against Sogou may also generate negative publicity that significantly harms its reputation, which may adversely affect its user and advertiser base. In addition to the related cost, managing and defending litigation and related indemnity obligations can significantly divert Sogou's management's and Board of Directors' attention from operating its business. Sogou may also need to pay damages or settle lawsuits with a substantial amount of cash. While we do not believe that any currently pending proceedings are likely to have a material adverse effect on Sogou's business, financial condition, results of operations, and cash flows, if there were adverse determinations in legal proceedings against Sogou, Sogou could be required to pay substantial monetary damages or adjust its business practices, which could have an adverse effect on its financial condition and results of operations, and cash flows.

Table of Contents

Sogou is currently subject to, and in the future may from time to time face, intellectual property infringement claims, which could be time-consuming and costly to defend, and could have an adverse impact on its financial position and results of operations, particularly if Sogou is required to pay significant damages or cease offering any of its products or curtail any key features of its products.

We cannot be certain that the products, services and intellectual property used in Sogou's normal course of business do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. Sogou currently is, and may in the future be, subject to claims and legal proceedings relating to the intellectual property of others in the ordinary course of its business, and may in the future be required to pay damages or to agree to restrict its activities. See “-Pending or future litigation could have an adverse impact on Sogou's financial condition and results of operations.” In particular, if Sogou is found to have violated the intellectual property rights of others, Sogou may be enjoined from using such intellectual property, may be ordered to pay damages, and may incur licensing fees or be forced to develop alternatives. Sogou may incur substantial expense in defending against third-party infringement claims, regardless of their merit. Successful infringement claims against Sogou may result in substantial monetary liability or may materially disrupt the conduct of its business by restricting or prohibiting its use of the intellectual property in question.

Sogou may not have exclusive rights to technology, trademarks, and designs that are crucial to its business.

Sogou has applied for various patents relating to its business. While Sogou has succeeded in obtaining some patents, some of its patent applications are still under examination by the Patent Office of the CNIPA. Approvals of its patent applications are subject to determinations by the Patent Office of the CNIPA and relevant overseas authorities that there are no prior rights in the applicable territory. In addition, Sogou has applied for initial registrations in the PRC and overseas, and/or changes in registrations relating to transfers of its Sogou logos and other of its key trademarks in the PRC, and the corresponding Chinese versions of the trademarks, so as to establish and protect its exclusive rights to these trademarks. While Sogou has succeeded in registering the trademarks for most of these marks in the PRC under certain classes, the applications for initial registration, and/or changes in registrations relating to transfers, of some marks and/or of some of trademarks under other classes are still under examination by the Trademark Office of the CNIPA, and relevant overseas authorities. Approvals of Sogou's initial trademark registration applications, and/or of changes in registrations relating to such transfers, are subject to determinations by the Trademark Office of the CNIPA and relevant overseas authorities that there are no prior rights in the applicable territories. We cannot assure you that these patent and trademark applications will be approved. Any rejection of these applications could adversely affect Sogou's rights to the affected technology, marks, and designs. In addition, even if these applications are approved, we cannot assure you that any issued patents or registered trademarks will be sufficient in scope to provide adequate protection of Sogou's rights.

If Sogou's search results contain information that is inaccurate or harmful to its users, its business and reputation may be adversely affected.

Sogou could be exposed to liability arising from its search results listings if information accessed through its services contains errors, and third parties may make claims against it for losses incurred in reliance on that information. Investigating and defending such claims could be expensive even if they did not result in liability, and Sogou does not carry any liability insurance against such risks.

In addition, if users do not perceive information that they access through Sogou's search services to be authoritative, useful, and trustworthy, Sogou may not be able to retain these users or attract additional users, and its reputation, business, and results of operation may be harmed. In addition, if such content contains inaccuracies, it is possible that users will seek to hold Sogou liable for damages, because Sogou provides links to such content, even though such content is provided by third parties and any negative publicity regarding the accuracy of such content could harm its reputation, and reduce user traffic. In addition, any negative publicity or incident involving Sogou's peer companies could have an adverse impact on its industry as a whole, which in turn could harm its reputation and reduce its user traffic. For example, in early 2016 it was widely reported that an unsuccessful experimental cancer treatment had been promoted in a sponsored search listing on a third party's Internet property. Even though Sogou's search results listings were not involved, we believe that the broad negative publicity surrounding the incident adversely affected the reputation of the online search industry in China in general with an adverse impact on Sogou's user traffic and results of operations in 2016.

Sogou may be subject to regulatory investigations and sanctions for inappropriate or illegal content that is accessed through its search results.

The online search industry in China is subject to extensive regulation. If content accessed through Sogou's search services includes information that PRC governmental authorities find illegal or inappropriate, such as obscenity, pornography, gambling, superstition, terror and violence content, Sogou may be required to curtail or even shut down its search services, and Sogou may be subject to other penalties or suffer loss in revenues, all of which could harm Sogou's reputation and may negatively affect Sogou's business, financial condition, and results of operations and prospects. Although Sogou seeks to prevent fraudulent or otherwise illegal or inappropriate websites and information from being included in its search results, such measures may not be effective. Further, even with such measures it may not be possible for Sogou to prevent fraudulent or otherwise illegal or inappropriate content from being included by Sogou's advertisers in products and services they provide. For example, Sogou suspended part of Sogou's advertising services for 10 days in July 2018 in order to implement remedial measures to ensure compliance with government regulations following a government investigation into certain non-compliant advertisements created by a third party unrelated to Sogou and displayed on Sogou's platform in June 2018. See “Risks Related to China's Regulatory and Economic Environment—Regulation and censorship of information distribution in China may adversely affect our business”; and “Risks Related to China's Regulatory and Economic Environment—The PRC government may prevent us from distributing, and we may be subject to liability for, content that it believes is inappropriate.”

Sogou may be subject to potential liability for claims that search results violate the intellectual property rights of third parties.

It is possible that content that is made available by Sogou through its search results may violate the intellectual property rights of third parties. PRC laws and regulations are evolving, and uncertainties exist with respect to the legal standards for determining the potential liability of online search service providers for search results that provide links to content on third-party websites that infringes copyrights of third parties. In December 2012, the Supreme People's Court of the PRC promulgated a judicial interpretation providing that PRC courts will place the burden on Internet service providers to remove not only links or content that has been specifically-mentioned in notices of infringement from persons and entities claiming copyright in such content, but also links or content that the providers "should have known" contained infringing content. This interpretation could subject Sogou to significant administrative burdens and might expose it to civil liability and penalties. Further, Sogou relies on content provided by professional researchers and writers, either developed by the outlets themselves or adapted from content of parties separate from such outlets, and it is difficult for Sogou to fully monitor such content, which could make Sogou more vulnerable to potential infringement claims.

Sogou may be subject to legal liability associated with online activities on its platforms.

Sogou hosts and provides a wide variety of products and services that enable advertisers to advertise products and services, and users to exchange information and engage in various online activities. Sogou may be subject to claims, investigations, or negative publicity relating to such activities. PRC laws and regulations relating to the liability of providers of online products and services for activities of their users are not fully developed, and their current and future reach is unclear. Also see "-Sogou may be subject to regulatory investigations and sanctions for inappropriate or illegal content that is accessed through its search results." Sogou also places advertisements on third-party Internet properties, and Sogou offers products and services developed or created by third parties. Sogou may be subject to claims concerning these products and services based on its involvement in providing access to them, even if Sogou does not offer the products and services directly. Sogou could be required to spend considerable financial and managerial resources defending any such claims, and they could result in Sogou's having to pay monetary damages or penalties or ceasing certain aspects of its business, which could have an adverse effect on its business and results of operations.

Privacy concerns or security breaches relating to Sogou's platforms could damage its reputation, deter current and potential users and advertisers from using its products and services, and expose Sogou to legal penalties and liability.

Sogou collects, processes, and stores on its servers significant amounts of data concerning its users. While Sogou has taken steps to protect its user data, its security measures could be compromised, because techniques used to sabotage or obtain unauthorized access to systems change frequently and generally are not recognized until they are launched against a target, and Sogou may be unable to anticipate these techniques or to implement adequate preventative measures. In addition, Sogou is subject to various regulatory requirements relating to the security and privacy of such data, including restrictions on the collection and use of personal information of users and steps Sogou must take to prevent personal data from being divulged, stolen, or tampered with. Regulatory requirements regarding the protection of such data are constantly evolving and can be subject to significant change, making the extent of Sogou's responsibility in that regard uncertain. For example, the PRC Cybersecurity Law became effective in June 2017, but it is unclear as to the circumstances and standard under which the law would apply and violations would be found, and there are great uncertainties as to the interpretation and application of the law. It is possible that Sogou's data protection practice is or will be inconsistent with regulatory requirements. See "Government Regulation and Legal Uncertainties—Miscellaneous—Laws and Regulations Related to Consumer Protection and Privacy Protection—Privacy Protection." and "Government Regulation and Legal Uncertainties—Miscellaneous—Laws and Regulations Related to Security and Censorship." In addition, the PRC government may promulgate new laws or regulations regarding the protection of personal data. For example, on May 28, 2019, the CAOC issued for public comment draft *Administrative Measures for Data Security* and on August 16, 2020, the Standing Committee of the National People's Congress issued for public comment a draft *Data Security Law* (such draft administrative measures and draft law together, the "Draft Data Security Laws"), which purport to regulate the collection, storage, transmission, processing, and usage of data and other related data activities within China, but it is unclear whether and/or when the Draft Data Security Laws will be enacted. On October 21, 2020, the Standing Committee of the National People's Congress issued for public comment a draft *Personal Information Protection Law* (the "Draft Personal Information Protection Law"), which purports to regulate the collection, transmission, processing, and usage of personal information, the processing of sensitive personal information, and the cross-border provision of personal information and includes other relevant rules and regulations, but it is unclear whether and/or when the Draft Personal Information Protection Law will be enacted. If current or future laws and regulations are interpreted and applied in a manner that limits or prohibits any of Sogou's current practices, or if additional or different requirements are imposed by these laws and regulations, complying with such interpretations, applications, and requirements could cause Sogou to incur substantial expense or require Sogou to alter its practices in a manner that could harm its business. We cannot assure you that Sogou's existing user information protection systems and technical measures will be considered sufficient under current and future applicable laws and regulations. Any systems failure or compromise of Sogou's security, including through employee error, that results in the release of its user data could seriously harm its reputation and brand, impair its ability to retain and attract users and advertisers, expose it to liability to users whose data is released, and subject it to sanctions and penalties from governmental authorities. Sogou also could be liable for any security breaches of its advertisers' confidential information. Any security breaches exposing such information could damage Sogou's reputation and deter current and potential users and advertisers from using its services.

Table of Contents

Sogou's network operations may be vulnerable to hacking and viruses, which may reduce the use of its products and services and expose it to liability.

Sogou's user traffic may decline if any well-publicized compromise of security occurs. "Hacking" involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions or loss or corruption of data, software, hardware, or other computer equipment. Techniques used by hackers to obtain unauthorized access or sabotage systems change frequently and often are not recognized until launched against a target, which means that Sogou may be unable to anticipate new hacking methods or implement adequate security measures. Hackers, if successful, could misappropriate proprietary information or cause disruptions in Sogou's service. Sogou may be required to expend capital and other resources to protect its Internet platforms against hackers, and measures Sogou may take may not be effective. In addition, the inadvertent transmission of computer viruses could expose Sogou to a risk of loss or litigation and possible liability, as well as damage its reputation and decrease its user traffic.

Sogou's business may be adversely affected by third-party software applications or practices that interfere with its receipt of information from, or provision of information to, its users, which may impair its users' experience.

Sogou's business may be adversely affected by third-party software applications, which may be unintentional or malicious, that make changes to its users' PCs or mobile devices and interfere with its products and services. These software applications may change Sogou's users' experience by hijacking queries, altering or replacing its search results, or otherwise interfering with its ability to connect with its users. Such interference can occur without disclosure to or consent from users, and users may associate any resulting negative experience with Sogou's products and services. Such software applications are often designed to be difficult to remove, block, or disable. Further, software loaded on or added to mobile devices on which Sogou's search or other applications, such as Sogou Input Method, are pre-installed may be incompatible with or interfere with or prevent the operation of such applications, which might deter the owners of such devices from using Sogou's services.

In addition, third-party website owners, content providers, and developers may implement applications and systems that interfere with Sogou's ability to crawl and index their webpages and content, which is critical to the operation of its search services. If Sogou is unable to successfully prevent or limit any such applications or systems that interfere with its products and services, or if a significant number of third-party website owners, content providers, and developers prevent Sogou from indexing and including their webpages and content in its search results, Sogou's ability to deliver high-quality search results and a satisfactory user experience will be impeded.

Adoption of Internet advertisement blocking technologies may have an adverse impact on Sogou's business and results of operations.

The development of software that blocks Internet advertisements before they appear on a user's screen may hinder the growth of online advertising. Since Sogou's advertising revenues are generally based on user click-throughs, the expansion of advertisement-blocking on the Internet may decrease its advertising revenues, because when advertisements are blocked they are not downloaded from the server, which means such advertisements will not be tracked as a delivered advertisement. In addition, advertisers may choose not to advertise on the Internet or on or through Sogou's sites because of the use by third parties of Internet advertisement blocking measures. In addition, increasing numbers of browsers include technical barriers designed to prevent Internet information service providers such as Sogou to track the browsing history of their Internet users, which is also likely to adversely affect the growth of online advertising and hence Sogou's business and growth prospects.

If Sogou fails to detect click-through fraud, it could lose the confidence of its advertisers and its revenues could decline.

Sogou's business is exposed to the risk of click-through fraud on its paid search results. Click-through fraud occurs when a person clicks paid search results for a reason other than to view the underlying content of search results. If Sogou fails to detect significant fraudulent clicks or otherwise is unable to prevent significant fraudulent activity, the affected search advertisers may experience a reduced return on their investment in its pay-for-click services and lose confidence in the integrity of its pay-for-click service systems, and Sogou may have to issue refunds to its advertisers and may lose their future business. If this happens, Sogou may be unable to retain existing advertisers and attract new advertisers for its pay-for-click services, and its search revenues could decline. In addition, affected advertisers may also file legal actions against it claiming that Sogou has over-charged or failed to refund them. Any such claims or similar claims, regardless of their merit, could be time-consuming and costly for Sogou to defend against and could also adversely affect its brand and its search advertisers' confidence in the integrity of its pay-for-click services and systems.

[Table of Contents](#)

Web spam and content farms, as well as Sogou's attempts to block them, could decrease the quality of its search results, and could deter its current and potential users from using its products and services.

The proliferation of search engine spam websites, commonly referred to as Web spam, which attempt to manipulate search indexing to cause them to appear higher in search results ranking hierarchies than they would without such manipulation, can have the effect of weakening the integrity of Sogou's search results and causing users to lose confidence in its search products and services. "Content farm" websites, which commission very large amounts of content, often of low quality, for the purpose, similar to that of Web spam, of causing such content farms' links to obtain relatively high ranking in Internet providers' search results, can have similar adverse effects.

While Sogou uses, and continually improves, technology designed to detect and block Web spam, the algorithms Sogou applies may nevertheless result in excessive filtering that blocks desirable websites from its search results. Therefore, both the existence of Web spam and content farms, and Sogou's attempts to block them, could deter its current and potential users from using its products and services. In addition, as some of Sogou's third-party Internet-property collaborators could include Web spam or content farm websites, its advertising revenues could be reduced by its efforts to filter such websites. If Sogou's efforts to combat these and other types of index spamming are unsuccessful, its reputation for delivering relevant information could be diminished. This could result in a decline in user traffic, which would damage Sogou's business.

The successful operation of Sogou's business depends upon the performance and reliability of the Internet infrastructure in China.

Sogou's growth will depend in part on the PRC government and state-owned telecommunications services providers maintaining and expanding Internet and telecommunications infrastructure, standards, protocols, and complementary products and services to facilitate Sogou's reaching a broader base of Internet users in China.

Almost all access to the Internet in China is maintained through China Mobile, China Unicom and China Telecom under the administrative control and regulatory supervision of the MIIT. Sogou relies on this infrastructure and China Mobile, China Unicom, and China Telecom to provide data communications capacity primarily through local telecommunications lines. Although the government has announced aggressive plans to develop the national information infrastructure, this infrastructure may not be developed and the Internet infrastructure in China may not be able to support the continued growth of Internet usage. In addition, Sogou will be unlikely to have access to alternative networks and services on a timely basis, if at all, in the event of any infrastructure disruption or failure.

Interruption or failure of Sogou's information technology and communications systems may result in reduced user traffic and harm to its reputation and business.

Interruption or failure of any of Sogou's information technology and communications systems or those of the operators of third-party Internet properties with which it collaborates could impede or prevent its ability to provide its search and search-related services. In addition, Sogou's operations are vulnerable to natural disasters and other events. Sogou's disaster recovery plan for its servers cannot fully ensure safety in the event of damage from fire, floods, typhoons, earthquakes, power loss, telecommunications failures, hacking, and similar events. If any of the foregoing occurs, Sogou may experience a partial or complete system shutdown. Furthermore, Sogou's servers, which are hosted at third-party Internet data centers, are also vulnerable to break-ins, sabotage and vandalism. Some of Sogou's systems are not fully redundant, and its disaster recovery planning does not account for all possible scenarios. The occurrence of a natural disaster or a closure of an Internet data center by a third-party provider without adequate notice could result in lengthy service interruptions.

Any system failure or inadequacy that causes interruptions in the availability of Sogou's services, or increases the response time of its services, could have an adverse impact on its users' experience and reduce its users' satisfaction, its attractiveness to users and advertisers, and future user traffic and advertising on its platform.

Furthermore, Sogou does not carry any business interruption insurance. To improve the performance and to prevent disruption of its services, Sogou may have to make substantial investments to deploy additional servers or one or more copies of its Internet platforms to mirror its online resources.

Sogou Risks Related to China’s Regulatory and Economic Environment

PRC regulations relating to sponsored search have had, and may continue to have, an adverse effect on Sogou’s results of operations.

On April 13, 2016, the State Administration of Market Regulation (“SAMR”) and sixteen other PRC government agencies jointly issued a *Notice of Campaign to Crack Down on Illegal Internet Finance Advertisements and Other Financial Activities in the Name of Investment Management*, or the Campaign Notice, pursuant to which a campaign was conducted between April 2016 and January 2017 targeting, among other things, online advertisements for Internet finance and other financial activities posted on online search portals such as Sogou’s. The

CAOC, issued the *Measures for the Administration of Online Information Search Services*, which became effective on August 1, 2016 and require that providers of online search services verify the credentials of pay-for-click advertisers, specify a maximum percentage that pay-for-click search results may represent of results on a search page, and require that providers of search services conspicuously identify pay-for-click search results as such. The SAMR issued the *Interim Measures for the Administration of Online Advertising* (the “SAMR Interim Measures”), which became effective on September 1, 2016 and treat pay-for-click search results as advertisements subject to PRC laws governing advertisements, require that pay-for-click search results be conspicuously identified on search result pages as advertisements and subject revenues from such advertisements to a 3% PRC tax that is applied to advertising revenues. In order to comply with these regulations, Sogou has established more stringent standards for selecting advertisers for its pay-for-click services and has turned down certain existing advertisers, and has lowered the percentage that pay-for-click search results represent of results on its search pages, which had an adverse impact on Sogou’s search and search-related revenues and overall results of operations for 2016 and, along with the tax on advertising, are likely to continue to have such an impact. We cannot assure you that PRC governmental authorities will not issue new laws or regulations specifically regulating sponsored search services, which could further impact Sogou’s revenues.

Sogou may not have conducted its online lending and microcredit business in accordance with PRC laws, rules, regulations, and governmental policies.

PRC laws, rules, regulations, and governmental policies governing the online lending industry and microcredit businesses are at a relatively early stage, and can be expected to continue to evolve.

Although Sogou has not made new loans to borrowers since September 30, 2020, and while Sogou was making loans it implemented measures intended to comply with applicable PRC laws and regulations regarding the online lending industry and microcredit businesses, due to the lack of clear interpretation and rules regarding the implementation of such laws and regulations, the measures it took may not have been sufficient to ensure such compliance. Failure to comply with such laws and regulations could result in its being subject to, among other things, regulatory warnings, fines, or criminal penalties. See “Government Regulation and Legal Uncertainties—Specific Statutes and Regulations—Regulation of Other Services—Regulation of Online Lending and Microcredit Services.”

The Notice on Regulating and Rectifying the “Cash Loan” Business (“Circular 141”), issued jointly by the Head Office for Special Rectification against Internet Finance Risks and the Head Office for Special Rectification against Peer-to-Peer Online Lending Risks on December 1, 2017, stipulates that a banking financial institution that offers cash loans through loan facilitation is prohibited from (i) accepting credit enhancement or other similar services from third parties that lack requisite licenses to provide guarantees; (ii) outsourcing credit assessment, risk control, and other key functions to a loan facilitation operator; and (iii) allowing the loan facilitation operator to charge any interest or fees from the borrower. On October 9, 2019, the China Banking and Insurance Regulatory Commission (the “CBIRC”), together with other eight governmental authorities, promulgated the *Notice of the Promulgation of Supplementary Provisions for the Supervision and Administration of Financing Guarantee Companies* (“CBIRC Circular 37”), which states that institutions that provide services such as customer recommendations and evaluation of credit to lending institutions may not provide financial guarantee services without approval of regulatory authorities. Based on its understanding of industry practice, Sogou does not believe that its operation of online lending and microcredit loan facilitation business consisted of the operation of a financial guarantee business. However, due to a lack of sufficient interpretation of Circular 141 and CBIRC Circular 37, the exact definition and scope of operating a financial guarantee business remain unclear. If Sogou was deemed to have been operating a financial guarantee business in violation of Circular 141 and CBIRC Circular 37, it could be subject to penalties, sanctions, and other liabilities.

In addition, the *Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases* (the “Private Lending Judicial Interpretations”), which were issued by the Supreme People’s Court effective September 1, 2015, (i) prohibit loans with interest rates exceeding 36% per annum, and provide that any excess paid must be returned to the borrower and (ii) provide that loans with interest rates between 24% and 36% per annum are generally permissible as long as they do not damage the interests of the state, the community, or any third parties other than the borrower. For loans Sogou extended or facilitated prior to September 30, 2020, if PRC governmental authorities or courts were to determine that any of such loans had an interest rate exceeding 24% per annum, Sogou may not be able to collect the portion of the interest deemed to exceed 24%. Further, on August 19, 2020, the Supreme People’s Court promulgated the *Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases* (Revised in 2020), which were revised on December 29, 2020 (as amended, the “Revised Private Lending Judicial Interpretations”). The Revised Private Lending Judicial Interpretations provide that, beginning August 20, 2020, PRC courts will not enforce the collection of interest on one-year loans to the extent that the interest exceeds four times the prime rate for one-year loans published by the National Interbank Funding Center. In addition, *the Reply of the Supreme People’s Court to the Application of Law to the Provisions Applicable to Private Lending Cases* promulgated by the Supreme People’s Court on December 29, 2020 stipulates that microcredit companies are financial institutions established with the approval of the financial regulatory authorities and that the Revised Private Lending Judicial Interpretations are not directly applicable to the loan business of microcredit companies. However, it remains uncertain whether PRC courts will use the Revised Private Lending Judicial Interpretations for reference in the future. As a result, if the one-year loans that Sogou extended or facilitated on or after August 20, 2020 carry interest that exceeds the specified limit and the courts determine that Sogou’s loan business is subject to the Revised Private Lending Judicial Interpretations, Sogou may not be able to recover the amount of the excess.

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

In August 1996, Sohu.com Inc., our predecessor, was incorporated in Delaware as Internet Technologies China Incorporated, and in January 1997 we launched our original Website, itc.com.cn. In February 1998, we re-launched our Website under the domain name Sohu.com and, in September 1999, we renamed our company Sohu.com Inc. On July 17, 2000, we completed our IPO on NASDAQ trading under the symbol “SOHU.” In 2003, Sohu.com Limited was incorporated in the Cayman Islands as a direct wholly-owned subsidiary of Sohu.com Inc. On May 31, 2018, pursuant to a proposal (the “Liquidation Proposal”) for the dissolution of Sohu.com Inc. and adoption of a plan of complete liquidation and dissolution of Sohu.com Inc. that was approved by the stockholders of Sohu.com Inc. at a special meeting of stockholders held on May 29, 2018, Sohu.com Inc. was dissolved, all outstanding shares of the common stock of Sohu.com Inc. were delisted and cancelled, and ADSs representing all outstanding ordinary shares of Sohu.com Limited were distributed on a share-for-share basis to the stockholders of Sohu.com Inc. On June 1, 2018 our ADSs began trading on the NASDAQ Global Select Market under the same “SOHU” symbol in place of the common stock of Sohu.com Inc. Sohu.com Limited replaced Sohu.com Inc. as the top-tier, publicly-traded holding company of the Sohu Group. The Liquidation Proposal is described in detail in Sohu.com Inc.’s and our joint proxy statement/prospectus filed with the SEC on April 23, 2018.

In 2006, we undertook a reorganization of our search and search-related businesses. As part of the reorganization, we transferred most of our search and search-related businesses to Sogou Inc., a Cayman Islands company that was incorporated in 2005 by us. In 2010, we undertook another reorganization in preparation for Sogou’s issuance of Sogou Pre-IPO Series A Preferred Shares in a financing transaction, and transferred other businesses and employees related to the search and search-related businesses to Sogou. On November 13, 2017, Sogou completed its IPO on NYSE, trading under the symbol “SOGO.”

In 2007, we reorganized our online games business. As part of the reorganization, Changyou.com Limited was incorporated in the Cayman Islands on August 6, 2007 as our indirect wholly-owned subsidiary to hold the PC games business of the Group. We transferred to Changyou, effective December 1, 2007, all of the assets and operations relating to the PC games business, and Changyou assumed all the liabilities associated with our games business. On April 2, 2009, Changyou completed its IPO on NASDAQ, trading under the symbol “CYOU.”

On April 17, 2020, we completed the acquisition of all outstanding shares of Changyou that we did not already beneficially own, through the Changyou Merger, in which our newly-formed indirectly wholly-owned subsidiary Changyou Merger Co. merged with and into Changyou.com Limited, with Changyou.com Limited being the surviving company. Pursuant to the plan of merger for the Changyou Merger, each Class A ordinary share of Changyou (each, a “Changyou Class A Ordinary Share”) issued and outstanding immediately prior to the effectiveness of the Changyou Merger, other than the Class A ordinary shares held by us, was cancelled in exchange for the right to receive \$5.40 in cash without interest, and each outstanding American depositary share of Changyou (each a “Changyou ADS,” representing two Changyou Class A Ordinary Shares) was cancelled in exchange for the right to receive \$10.80 in cash without interest. Because Changyou Merger Co. owned over 90% of the voting power represented by all issued and outstanding shares of Changyou prior to the effectiveness of the Changyou Merger, the Changyou Merger was in the form of a short-form merger in accordance with section 233(7) of the Companies Act of the Cayman Islands, and the Changyou Merger was not subject to a vote of the shareholders of Changyou. As a result of the Changyou Merger, Changyou has become a privately-owned company wholly owned directly and indirectly by us and Changyou ADSs are no longer listed on the NASDAQ Global Select Market.

On September 29, 2020, Sogou entered into the Sogou Merger Agreement with Tencent’s indirect wholly-owned subsidiaries THL, Tencent Merger Sub, and TML, pursuant to which Tencent will acquire all of outstanding Sogou shares that Tencent does not already beneficially own in an all-cash transaction. Pursuant to the terms of the Sogou Merger Agreement, at the effective time of the Sogou Merger (the “Sogou Merger Effective Time”) each Sogou Class A Ordinary Share, including Sogou Class A Ordinary Shares represented by Sogou ADSs, issued and outstanding immediately prior to the Sogou Merger Effective Time, other than the Sogou Class A Ordinary Shares owned or beneficially owned by Tencent, will be cancelled and cease to exist, in exchange for the right to receive \$9.00 in cash per share or ADS, without interest. On or about the same time the Sogou Merger Agreement was signed, we, Sohu Search, and Tencent Merger Sub entered into the Tencent/Sohu Sogou Share Purchase Agreement, pursuant to which Sohu Search agreed to sell all of the Sogou Class A Ordinary Shares and Sogou Class B Ordinary Shares owned by us to Tencent Merger Sub at the same purchase price of \$9.00 per share. The Tencent/Sohu Sogou Share Purchase is expected to be completed shortly prior to the completion of the Sogou Merger. If the Tencent/Sohu Sogou Share Purchase and the Sogou Merger are completed, we will no longer have any beneficial ownership interest in Sogou, and Sogou will become a privately-owned company wholly owned indirectly by Tencent and Sogou ADSs will no longer be listed on the NYSE. As of the date of this annual report, the Tencent/Sohu Sogou Share Purchase and the Sogou Merger have not been completed, and are subject to the satisfaction or waiver of the closing conditions set forth in the Tencent/Sohu Sogou Share Purchase Agreement and the Sogou Merger Agreement, including anti-trust clearance of the Tencent/Sohu Sogou Share Purchase under PRC law.

Our principal executive offices are located at Sohu.com Media Plaza, No. 2, Kexueyuan South Road, Haidian District, Beijing, 100190, People’s Republic of China. Our telephone number at this address is +86 10-6272-6666. Our registered office in the Cayman Islands is located at the offices of Maples Corporate Services Limited, P.O. Box 309, Uglad House, Grand Cayman, KY1-1104, Cayman Islands.

[Table of Contents](#)

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file with or furnish to the SEC reports and other information. Copies of such reports and other information, when so filed or furnished, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

BUSINESS OVERVIEW

We are a leading Chinese online media, game and search service group providing comprehensive online products and services on PCs and mobile devices in China. Our businesses are conducted by the Sohu Group, which consists of Sohu, Changyou and Sogou. Sohu is a leading Chinese language online media content and services provider, Changyou is a leading online game developer and operator in China that engages primarily in the development, operation, and licensing of online games for PCs and mobile devices, and Sogou is an innovator in search and a leader in China's Internet industry. Most of our operations are conducted through our China-based subsidiaries and VIEs.

Because of our entry into the Tencent/Sohu Sogou Share Purchase Agreement, the results of operations for Sogou are excluded from continuing operations in our consolidated financial statements and are presented in separate line items as discontinued operations. Retrospective adjustments to our historical financial statements have been made in order to provide a consistent basis of comparison. See "Item 4. Information on the Company-History and Development of the Company" for a more detailed description of the transactions contemplated by the Tencent/Sohu Sogou Share Purchase Agreement and the Sogou Merger Agreement.

Through the operation of Sohu and Changyou, we generate brand advertising revenues, online games revenues and other revenues. Brand advertising and online games are our core businesses. For the year ended December 31, 2020, total revenues generated by Sohu and Changyou were approximately \$749.9 million, including total brand advertising revenues of \$146.5 million, total online game revenues of \$536.7 million, and total other revenues of \$66.7 million.

Sohu: total revenues generated by Sohu were \$201.5 million.

- \$134.9 million in brand advertising revenues, of which \$86.3 million was from Sohu Media Portal, \$25.3 million was from Sohu Video, and \$23.3 million was from Focus; and
- \$66.6 million in other revenues, mainly attributable to revenues from paid subscription services, interactive broadcasting services, and sub-licensing of purchased video content to third parties.

Changyou: total revenues generated by Changyou were \$548.3 million (excluding revenues generated from Changyou's discontinued cinema advertising business).

- \$536.7 million in online game revenues, of which \$353.7 million was from PC games, and \$183.0 million was from mobile games; and
- \$11.6 million in brand advertising revenues, mainly attributable to Changyou's 17173.com Website.

Sohu's Business

Brand Advertising Business

Sohu's main business is the brand advertising business, which offers to users, over our matrices of Chinese language online media, various content, products and services across multiple Internet-enabled devices, such as mobile phones, tablets and PCs. The majority of our products and services are provided in China through Sohu Media Portal, Sohu Video and Focus.

- **Sohu Media Portal.** Sohu Media Portal is a leading online news and information provider in China. It provides users with access to comprehensive content through the mobile phone application Sohu News APP, the mobile portal m.sohu.com and www.sohu.com for PCs;
- **Sohu Video.** Sohu Video is an online video content and service provider in China through the mobile phone application Sohu Video APP, tv.sohu.com, and the PC video application ifox for PCs; and
- **Focus.** Focus (www.focus.cn) is an online real estate information and services provider in China.

Revenues generated by the brand advertising business are classified as brand advertising revenues in our consolidated statements of comprehensive income.

[Table of Contents](#)

Other Sohu Business

Sohu also engages in the other business, which consists primarily of paid subscription services, interactive broadcasting services, and sub-licensing of purchased video content to third parties. Revenues generated by Sohu from the other business are classified as other revenues in our consolidated statements of comprehensive income.

Changyou's Business

Changyou's business lines consist of the online game business and the platform channel business, which consists primarily of online advertising and mobile game distribution services. Before ceasing its operations in August 2019, Changyou also operated a cinema advertising business, which consisted primarily of the acquisition from operators of movie theaters, and the sale to advertisers, of pre-film advertising slots.

Online Game Business

Changyou's online game business offers PC games and mobile games to game players. All of Changyou's games are operated under the item-based revenue model, meaning that game players can play the games for free, but may choose to pay for virtual items, which are non-physical items that game players can purchase and use within a game, such as gems, pets, fashion items, magic medicine, riding animals, hierograms, skill books and fireworks. Revenues derived from the operation of online games are classified as online game revenues in our consolidated statements of comprehensive income.

PC Games

PC games are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used. Changyou's dominant game is TLBB, a PC based client-end game. For the year ended December 31, 2020, revenues from TLBB were \$309.7 million, accounting for approximately 58% of Changyou's online game revenues, approximately 56% of Changyou's total revenues, and approximately 41% of the Sohu Group's total revenues.

Mobile Games

Mobile games are played on mobile devices and require an Internet connection. In the second quarter of 2017, Changyou launched a mobile game, Legacy TLBB Mobile, which is operated by Tencent under license from Changyou. For the year ended December 31, 2020, revenues from Legacy TLBB Mobile were \$88.3 million, accounting for approximately 16% of Changyou's online game revenues, approximately 16% of Changyou's total revenues, and approximately 12% of the Sohu Group's total revenues.

Platform Channel Business

Changyou's platform channel business consists primarily of the operation of the 17173.com Website. Prior to RaidCall's ceasing operations in March 2019 and the sale of MoboTap in March 2018, Changyou's platform channel business also included RaidCall and MoboTap.

17173.com Website

The 17173.com Website provides news, electronic forums, online videos, and other online game information services to game players, as well as mobile game distribution services. Changyou generates online advertising revenues from providing advertising services to third-party advertisers on the 17173.com Website and online game revenues from mobile game distribution services.

RaidCall

Prior to ceasing operations in March 2019, RaidCall provided online music and entertainment services, primarily in Taiwan. IVAS revenues that were generated by RaidCall are classified as other revenues in our consolidated statements of comprehensive income.

Cinema Advertising Business (Discontinued)

Prior to ceasing its operations in August 2019, Changyou also operated a cinema advertising business, which consisted primarily of the acquisition from operators of movie theaters, and the sale to advertisers, of pre-film advertising slots. Revenues that were generated by Changyou's cinema advertising business are reflected as discontinued operations in our consolidated statements of comprehensive income.

Changyou's Share Structure

As a result of the completion of the Changyou Merger on April 17, 2020, we held, and continue to hold, 100% of the combined total of Changyou's outstanding ordinary shares and 100% of the total voting power in Changyou. We consolidate Changyou in our consolidated financial statements and, prior to the completion of the Changyou Merger on April 17, 2020, also provided for noncontrolling interests reflecting ordinary shares in Changyou held by shareholders other than us ("Changyou noncontrolling shareholders").

Sogou's Business (Discontinued)

On September 29, 2020, Sohu, Sohu Search, and Tencent Merger Sub entered into the Tencent/Sohu Sogou Share Purchase Agreement. Upon the signing of the Tencent/Sohu Sogou Share Purchase Agreement, Sogou met the criteria for discontinued operations. Accordingly, the results of operations for Sogou's search and search-related business and other business have been excluded from our results from continuing operations. Revenues that were generated by Sogou's search and search-related business and other business are reflected as discontinued operations in our consolidated statements of comprehensive income.

Search and Search-related Business

The search and search-related business consists primarily of search and search-related advertising services offered by Sogou. Search and search-related advertising services enable advertisers' promotional links to be displayed on Sogou's search results pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. Sogou's advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. Our search and search-related business benefits from Sogou's collaboration with Tencent, which provides Sogou access to traffic and content generated from products and services provided by Tencent.

Other Sogou Business

Sogou also offers IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, and offers other products and services, including smart hardware products and online lending and microcredit services.

Initial Public Offering of Sogou

On November 13, 2017, Sogou completed its IPO on the NYSE, trading under the symbol "SOGO." Proceeds to Sogou from the IPO were approximately \$622.1 million, after deducting underwriting discounts and commissions and offering expenses. Following the completion of Sogou's IPO, pursuant to the Voting Agreement among Sohu, Tencent, and Sogou (the "Voting Agreement") that took effect upon the completion of Sogou's IPO, we have the right to appoint a majority of Sogou's Board of Directors, and we continue to consolidate Sogou in our financial statements and provide for noncontrolling interests reflecting ordinary shares in Sogou held by shareholders other than us. In the fourth quarter of 2017, we recognized a one-time credit to additional paid-in capital of \$278.4 million in shareholders' equity in our consolidated balance sheets to reflect the increase in the value of our equity in Sogou that resulted from the completion of Sogou's IPO.

Sogou's Share Structure

Sogou's Ordinary Shares are divided into Sogou Class A Ordinary Shares and Sogou Class B Ordinary Shares. Holders of Sogou Class A Ordinary Shares and holders of Sogou Class B Ordinary Shares have identical rights with the exception of voting and conversion rights. Each Sogou Class A Ordinary Share is entitled to one vote per share and is not convertible. Each Sogou Class B Ordinary Share is entitled to ten votes per share and is convertible into one Sogou Class A Ordinary Share at any time.

As of December 31, 2020, Sogou had a combined total of 387,590,916 Sogou Class A and Class B Ordinary Shares issued and outstanding, consisting of:

- (i) Sohu.com Limited: 127,200,000 Sogou Class B Ordinary Shares held by Sohu for its own account, and 3,717,250 Sogou Class A Ordinary Shares held by Sohu for the purpose of issuance upon the exercise of outstanding share-based awards and future share-based awards;
- (ii) Tencent: 151,557,875 Sogou Class B Ordinary Shares;
- (iii) Photon, an investment vehicle of the Sohu Group's Chairman and Chief Executive Officer Charles Zhang: 24,686,863 Sogou Class A Ordinary Shares; and
- (iv) Shareholders other than Sohu, Tencent, and Photon: 80,428,928 Sogou Class A Ordinary Shares, including Sogou Class A Ordinary Shares represented by Sogou ADSs.

The total number of Sogou outstanding shares listed above include 1,899,000 Sogou Class A Ordinary Shares that are outstanding for legal purposes, but have been determined to be Sogou treasury stock for accounting purposes. See Note 18 to our audited consolidated financial statements, which begin on page F-1 of this annual report.

Voting Agreement between Sohu, Tencent and Sogou

Pursuant to the Voting Agreement, Sohu and Tencent agreed that, subject to certain exceptions, (1) within three years following the completion of Sogou's IPO, Sohu will vote all Sogou Class B Ordinary Shares and any Sogou Class A Ordinary Shares held by it and Tencent will vote 45,578,896 of its Sogou Class B Ordinary Shares to elect a Board of Directors consisting of seven directors, four of whom will be appointed by Sohu, two of whom will be appointed by Tencent, and the seventh of whom will be Sogou's then chief executive officer, and (2) after three years following the completion of Sogou's IPO, Sohu will be entitled to choose to change the size and composition of Sogou's Board of Directors, subject to Tencent's right to appoint at least one director. The effect of these provisions is to give Sohu the power to appoint a majority of Sogou's Board of Directors, and to give Tencent the power to appoint two directors within three years following the completion of Sogou's IPO and at least one director after three years after the completion of Sogou's IPO. The Voting Agreement also provides that, subject to certain conditions, for so long as Sohu and Tencent together hold more than 50% of the total voting power of the Sogou Class A Ordinary Shares and the Sogou Class B Ordinary Shares, Sohu or Tencent may remove and replace any director appointed by it. These provisions of the Voting Agreement are also reflected in Sogou's Third Amended and Restated Memorandum of Association ("Sogou's Amended and Restated Memorandum of Association") and Seventh Amended and Restated Articles of Association ("Sogou's Amended and Restated Articles of Association").

Due to the additional voting power of the Sogou Class B Ordinary Shares held by Sohu and Tencent, as of the date of this report Sohu holds approximately 34% of the total of Sogou's outstanding Class A and Class B Ordinary Shares and controls approximately 44% of the total voting power of the combined total of Sogou's outstanding Class A and Class B Ordinary Shares; Tencent has an indirect shareholding of approximately 39% of the total of Sogou's outstanding Class A and Class B Ordinary Shares and controls approximately 52% of the total voting power of the combined total of Sogou's outstanding Class A and Class B Ordinary Shares; and Sohu and Tencent together have the power to decide all matters that may be brought to a vote of Sogou's shareholders.

The Voting Agreement and Sogou's Amended and Restated Articles of Association also specify that for so long as Sohu or Tencent holds not less than 15% of Sogou's issued shares (calculated on a fully diluted basis), consent from the holder of 15% or more (either or both of Sohu or Tencent, as the case may be) will be required (1) to amend Sogou's Amended and Restated Memorandum of Association or Amended and Restated Articles of Association, (2) to make material changes in Sogou's principal lines of business, (3) to issue any additional Sogou Class B Ordinary Shares, (4) to create any new class or series of shares that is *pari passu* with or senior to the Sogou Class A Ordinary Shares, (5) for Sogou to approve a liquidation, dissolution or winding up of Sogou, or a merger or consolidation resulting in a change in control, or any disposition of all or substantially all of Sogou's assets, or (6) for Sogou to enter into any transactions with affiliates of Sohu, other than in the ordinary course of business. Of these corporate actions that are subject to consent of Sohu or Tencent (as applicable), shareholder approval is required under the Companies Act of the Cayman Islands for any amendment of Sogou's Amended and Restated Memorandum of Association or Amended and Restated Articles of Association, any winding-up of Sogou Inc., or any merger or consolidation with a third-party entity. The Voting Agreement and Sogou's Amended and Restated Articles of Association further provide that if Sogou's shareholders have voted in favor of any of these actions requiring the approval of Sogou's shareholders but consent from Sohu or Tencent (as applicable) has not been obtained, then the holders of all classes of Sogou's shares who have voted against such action will be deemed to have such number of votes as are equal to the aggregate number of votes cast in favor of such actions plus one additional vote. Under these provisions of the Voting Agreement and Sogou's Amended and Restated Articles of Association, if an action is proposed for which the consent of either Tencent or Sohu is required, the failure to obtain the consent of Tencent or Sohu will have the effect of the proposed action's not being approved, even if Sogou's other shareholders approve it.

The Voting Agreement and Sogou's Amended and Restated Articles of Association also specify that if at any time Sohu alone holds more than 50% of the total voting power of the Sogou Class A Ordinary Shares and Class B Ordinary Shares, the voting arrangements with respect to the size and composition of Sogou's Board of Directors will be automatically suspended until such time within five years after the completion of Sogou's IPO as Sohu's voting power again drops to 50% or less, in which case the original voting arrangements will be reinstated, provided that Tencent will only be required to vote the lower of 45,578,896 Sogou Class B Ordinary Shares held by it or such number as would give Sohu combined voting power of 50.1%. If such a suspension continues after the fifth anniversary of the completion of Sogou's IPO, the voting arrangements with respect to the size and composition of Sogou's Board of Directors will terminate.

All of the Sogou Class B Ordinary Shares held by Sohu will be converted into Sogou Class A Ordinary Shares if there is a transaction resulting in change of control of Sohu that was not approved by Sohu's Board of Directors, if specified competitors of Tencent control Sohu, or if a majority of Sohu's Board of Directors consist of nominees of specified competitors of Tencent. The provisions with respect to the size and composition of Sogou's Board of Directors set out in the Voting Agreement and Sogou's Amended and Restated Articles of Association will terminate upon occurrence of any such event. Such arrangements will also terminate (1) if Dr. Charles Zhang, the chairman of the Board of Directors and chief executive officer of Sohu, both ceases being the chairman of the Board of Directors of Sohu and ceases being the single largest beneficial owner of Sohu's outstanding shares; (2) if Sohu transfers 30% or more of the Sogou Class B Ordinary Shares that Sohu held upon the completion of Sogou's IPO; (3) if Sogou fails to provide irrevocable instructions to the person maintaining Sogou's register of members to accept instructions from Tencent, under certain circumstances, with respect to the conversion of Sogou Class B Ordinary Shares held by Sohu; (4) or Sogou changes, without Tencent's consent, the person that maintains Sogou's register of members; (5) or if Tencent ceases to own any Sogou Class B Ordinary Shares.

[Table of Contents](#)

Under the Voting Agreement, Sohu and Tencent are subject to certain restrictions on transfer of their Sogou Class A and Class B Ordinary Shares. In particular, a transfer of Sogou Class B Ordinary Shares by either Sohu or Tencent, respectively, to any person or entity that is not a direct or indirect wholly-owned subsidiary of Sohu or Tencent, respectively, will cause such Sogou Class B Ordinary Shares to be converted into Sogou Class A Ordinary Shares.

Voting Agreement between Sohu, Photon and Sogou Management

Sohu may be deemed to have beneficial ownership attributable to shared voting power of Sogou Class A Ordinary Shares beneficially owned by Photon Group Limited (“Photon”), an investment vehicle of our Chairman and Chief Executive Officer Charles Zhang, Sogou’s chief executive officer Xiaochuan Wang, and certain other members of the Sogou management as a result of a voting agreement by and among Sohu, Photon, Mr. Wang, and the other members of Sogou management, pursuant to which Photon, Mr. Wang, and the other members of Sogou Management have agreed to vote their Sogou Class A Ordinary Shares (not including shares acquired by Mr. Wang in the public market following Sogou’s IPO) to elect Sohu’s designees to Sogou’s Board of Directors.

PRODUCTS AND SERVICES

Sohu’s Business

Brand Advertising Business

Sohu’s main business is the brand advertising business, which offers to users, over our matrices of Chinese language online media, various content, products and services across multiple Internet-enabled devices, such as mobile phones, tablets and PCs. The majority of our products and services are provided in China through Sohu Media Portal, Sohu Video and Focus.

Sources

Sohu Media Portal

Sohu Media Portal is a leading online news and information provider in China. We provide users comprehensive content by aggregating content from other media organizations and partnering with independent contributors, and also use content generated by our in-house editorial teams. We use algorithms to recommend to users personalized content that may interest them. We provide content through the mobile phone application Sohu News APP, the mobile portal m.sohu.com and www.sohu.com for PCs.

Sohu Video

Sohu Video is an online video content and service provider in China. We deliver self-developed video content, purchased video content, UGC, and value livestreaming in various verticals. We provide users free access to the majority of our extensive and comprehensive video content library, which includes popular domestic and overseas television dramas the licenses to which we purchase from third parties, self-developed video content, variety shows, movies, animations, documentaries, UGC, and interactive broadcasting. We also offer selected fee-based content, which includes self-developed video content, overseas television dramas and movies the licenses to which we purchase from third parties. Users can access our video content via mobile devices by visiting our mobile video site or installing Sohu Video APP, our mobile video application, or via PCs through tv.sohu.com or ifox, our PC video application.

Focus

Focus (www.focus.cn) is an online real estate information and services provider in China. Focus provides diversified online content consisting of new homes for sale, properties for re-sale and home furnishing services, and other comprehensive services and solutions for real estate developers, house seekers and homeowners. Focus has also developed a transaction platform to offer online and offline services that facilitate the purchase of new homes by buyers.

Business Model

In the brand advertising business, we enjoy a strong competitive position as one of the leading Internet companies in China. Through the platforms described above, we have built a sizeable user base through good user experiences provided by our products and services. This user base is appealing to advertisers. Through mobile devices and PCs, we provide advertisement placements to our advertisers on different Internet platforms and in different formats, which include banners, links, logos, buttons, full screen, pre-roll, mid-roll, post-roll video screens, pause video screens, loading page ads, news feed ads and in-feed video infomercial ads, and other formats. We rely on both direct sales by our internal sales force and sales by advertising agents for advertising on our Internet platforms. Our advertisers include multinational companies and Chinese domestic medium-sized and small companies.

Currently we have three main types of pricing models, consisting of the Fixed Price model, the Cost Per Impression (“CPM”) model, and the Cost Per Click (“CPC”) model.

[Table of Contents](#)

Fixed Price model

Under the Fixed Price model, a contract is signed to establish a fixed price for the advertising services to be provided. Given that advertisers benefit from displayed advertisements evenly over the period the advertisements are displayed, we recognize revenue on a straight-line basis over the period of display, provided all revenue recognition criteria have been met.

CPM model

Under the CPM model, the unit price for each qualifying display is fixed and stated in the contract with the advertiser. A qualifying display is defined as the appearance of an advertisement, where the advertisement meets criteria specified in the contract. Given that the fees are priced consistently throughout the contract and the unit prices are fixed in accordance with our pricing practices for similar advertisers, we recognize revenue based on the fixed unit prices and the number of qualifying displays upon their occurrence, provided all revenue recognition criteria have been met.

CPC model

Under the CPC model, there is no fixed price for advertising services stated in the contract with the advertiser and the unit price for each click is auction-based. We charge advertisers on a per-click basis, when the users click on the advertisements. Given that the fees are priced consistently throughout the contract and the unit prices are fixed in accordance with our pricing practices for similar advertisers, we recognize revenue based on qualifying clicks and the unit price upon the occurrence of the clicks, provided all revenue recognition criteria have been met.

Other Sohu Business

Sohu also engages in the other business, which consists primarily of paid subscription services, interactive broadcasting services, and sub-licensing of purchased video content to third parties. Revenues generated by Sohu from the other business are classified as other revenues in our consolidated statements of comprehensive income.

Changyou's Business

Online Game Business

Business Model

Changyou's game players typically access Changyou's games through personal computers and mobile devices, such as mobile phones and tablets, connected to the Internet. In order to access Changyou's PC games, game access software must be installed in the computer being used. Game players using PCs can typically download Changyou's game access software, interim updates and expansion packs directly from its main game Website. Game players access Changyou's mobile games by downloading its mobile game applications, primarily from third-party mobile application stores or, to a lesser extent, from Changyou's game Website. Prior to the sale of Shenzhen 7Road in August 2015, Changyou's online games also included Web games, which became a relatively insignificant part of its online games business following the sale.

Changyou's online games consist primarily of MMORPGs. Changyou is also developing, and plans to expand its game portfolio with, additional types of casual games, strategy games and collectible card games ("CCGs"). MMORPGs are massive multiplayer online role -playing games that allow a large number of players to take on the role of a character and interact with one another within a virtual world. Casual games include Match 3 games, which are puzzle games where players place a given number of tiles, often three, of the same type so that they can connect to each other and disappear; and strategy games, which are simulation games that allow players to control, manage and use game characters and items and to design and implement their own strategies to win the games. CCGs are collectible card games in which players collect cards and compete to win by using card sets with different functions.

Changyou's games are operated under the item-based revenue model, meaning game players can play Changyou's games for free, but may choose to pay for virtual items, which are non-physical items that game players can purchase and use within a game, such as gems, pets, fashion items, magic medicine, riding animals, hierograms, skill books and fireworks. Through virtual items, players are able to enhance or personalize their game environments or game characters, accelerate their progress in Changyou's games and share and trade with friends.

For players who choose to purchase virtual goods, Changyou delivers enhanced gameplay experiences and benefits, such as:

Accelerated Progress. Many of Changyou's games offer players the option to purchase items that can accelerate their progress in the game and increase their capabilities, so that they level up more quickly and compete more effectively against others in the game. While Changyou sells many items that accelerate progress in its games, Changyou monitors and carefully balances the disparity in capabilities between paying and non-paying game players to avoid discouraging non-paying game players and to keep the game challenging and interesting for paying game players.

Table of Contents

Enhanced Social Interaction. Changyou uses a variety of virtual items to promote interaction and to facilitate relationship-building among game players in its games.

Personalized and Customized Appearance. Many of Changyou's games offer players the option to purchase decorative and functional items to customize the appearance of their characters, pets, vehicles, houses and other in-game possessions to express their individuality.

Gifts. Many of Changyou's games offer players the option to purchase gift items to send to their friends. Examples of gift items include decorative items and time-limited items for special holiday events and festivals, such as Valentine's Day, Spring Festival (Chinese New Year) and Christmas.

Changyou's online game business includes games that it self-operates and games that it licenses out to third-party operators.

Self-Operated Games

For self-operated games, Changyou determines the price of virtual items based on the demand or expected demand for such virtual items. Changyou may change the pricing of certain virtual items based on its consumption patterns. Changyou hosts the games on its own servers and is responsible for sales and marketing of the games as well as customer service. Changyou's self-operated games include PC games and mobile games developed in house as well as PC games and mobile games that Changyou licenses from or jointly develops with third party developers.

Licensed-Out Games

Changyou also authorizes third parties to operate its online games. In 2016, Changyou entered into an agreement with Tencent pursuant to which Changyou granted an exclusive license to Tencent to distribute and operate within China its mobile game Legacy TLBB Mobile, which was launched in May 2017. In addition, Changyou licenses its PC game TLBB and mobile games Legacy TLBB Mobile, and TLBB 3D to third-party operators in selected overseas markets outside of China, including Hong Kong, Taiwan, Vietnam, Singapore, and Malaysia.

The licensed-out games include PC games and mobile games developed in house as well as mobile games licensed from and jointly developed with third-party developers. Under Changyou's licensing arrangements with third-party operators, the operators pay Changyou upfront license fees and Changyou has revenue sharing rights over the terms of the licenses. The licenses are typically for a term of one to three years. Changyou provides updates and expansion packs for the licensed games, typically after it launches the updates and expansion packs in China.

For licensed-out games, the third-party operators are responsible for all operations and costs, including marketing and customer service, as well as the leasing and maintenance of servers.

Platform Channel Business

Changyou's platform channel business consists primarily of the operation of the 17173.com Website. Prior to RaidCall's ceasing operations in March 2019 and the sale of MoboTap in March 2018, Changyou's platform channel business also included RaidCall and MoboTap.

17173.com Website

The 17173.com Website provides news, electronic forums, online videos, and other online game information services to game players, as well as mobile game distribution services. Changyou generates online advertising revenues from providing advertising services to third-party advertisers on the 17173.com Website and online game revenues from mobile game distribution services.

RaidCall

Prior to ceasing operations in March 2019, RaidCall provided online music and entertainment services, primarily in Taiwan. IVAS revenues that were generated by RaidCall are classified as other revenues in our consolidated statements of comprehensive income.

Cinema Advertising Business (Discontinued)

Prior to ceasing its operations in August 2019, Changyou also operated a cinema advertising business, which consisted primarily of the acquisition from operators of movie theaters, and the sale to advertisers, of pre-film advertising slots. Revenues that were generated by Changyou's cinema advertising business are reflected as discontinued operations in our consolidated statements of comprehensive income.

[Table of Contents](#)

Sogou's Business (Discontinued)

Search and Search-related Business

Products and Services for Users

Sogou's suite of products and services for users focuses on search and search related services that cover a wide variety of use cases, from online search to input methods.

Sogou Search

Sogou Search makes information easily accessible for Chinese Internet users. Through Sogou Search, Sogou enables its users to conveniently find relevant, high-quality, and comprehensive information anytime, anywhere. Sogou Search offers users general and vertical search services through its website *sogou.com* and its mobile search application. In addition, Sogou Search is the default general search engine for popular Internet portals such as *qq.com* and *sohu.com*, and popular browsers such as the Mobile QQ Browser and the Sogou Browser. Sogou Search was the second largest search engine in China by mobile queries in December 2020, according to iResearch.

Sogou Search strives to offer differentiated content in its search products and services in order to improve its search results and provide an enhanced search experience for its users. Through collaborations with industry-leading content providers, it offers a variety of vertical search services. For example, Sogou Weixin Search is the sole general search engine with access to search all content published on Weixin Official Accounts. Sogou Healthcare Search provides reliable and trustworthy healthcare information through collaboration with national healthcare authorities and third-party healthcare information platforms. Sogou English is the cross-language search service that enables Chinese users to discover English content on the Internet by querying in Chinese and reading content that Sogou has translated into Chinese. Through a collaboration with Zhihu, the leading online knowledge-sharing platform in China according to iResearch, Sogou provides users with up-to-date knowledge, experience, and insights shared within the Zhihu Community.

Sogou Input Method

Sogou Input Method, the first cloud-based Chinese language input software, was launched in 2006 and has become an indispensable Chinese language input software tool for PC and mobile users. It was the most widely used PC software in China by DAU and the number one Chinese language input software for PC users in terms of MAU in December 2020, according to iResearch. Sogou Mobile Keyboard, the mobile application of Sogou Input Method was the third most widely used mobile application in China by DAU and the number one Chinese language input application for mobile users in terms of MAU in December 2020, according to iResearch. Sogou are also committed to evolving Sogou Mobile Keyboard into an AI communication assistant. In 2020, Sogou enriched its AI smart input function and extended its vertical use cases. For AI smart input, Sogou refined its "Smart Wangzai", an AI-enabled communication function within Sogou Mobile Keyboard, to allow users to easily input their conversations on Weixin/WeChat, QQ and other e-commerce platforms. Sogou also expanded vertical use cases of Sogou Mobile Keyboard from handwriting, multi-language, to barrier-free inputs, with the latter focusing on helping visually-impaired users improve input efficiency. In addition, Sogou rolled out more AI input services ranging from voice, optical character recognition ("OCR"), to translation, which helped reinforce Mobile Keyboard's position as the largest voice recognition app in China. As of the end of December 2020, it had processed up to 941 million voice requests and handled millions of translation requests per day. Sogou Mobile Keyboard possesses a large library of language data, with over 120 billion Chinese character inputs per day that Sogou's users have generated across a wide variety of Internet use cases, such as social media, news, entertainment, shopping, travel, and financial services.

Other Products

Sogou Browser

Sogou Browser is designed to make Web navigation fast and easy. Sogou continually upgrades the browser to expand functionality from a browsing tool to a content distribution platform for an enriched user experience. In addition to a range of vertical services, Sogou also provides personalized newsfeeds leveraging Sogou's big data capabilities based on users browsing habits and history.

Sogou Web Directory

Sogou Web Directory, a content aggregation and distribution platform, is a one-stop shop for navigation of the Chinese Web.

Sogou Translation

Sogou Translation is a multi-language translation solution that incorporates neural machine translation technology and a massive linguistic database to deliver language translation. It is web-based and also available as a mobile application. In addition to written text translation, the Sogou Translation mobile application supports speech, document, OCR, and augmented reality translation. Also, with Exam Dictionaries, which Sogou developed in-house, Sogou Translation provides high quality content that users may access to prepare for their academic examinations.

[Table of Contents](#)

Monetization

Sogou generates revenue primarily from its search and search-related advertising services. Search and search-related advertising services enable advertisers' promotional links to be displayed on Sogou's search result pages and other properties and third parties' Internet properties where the links are relevant to search queries and such properties. Sogou's large user base and big data capabilities allow Sogou to enhance the effectiveness of its targeted advertising services, thereby strengthening its monetization capabilities.

Search and search related advertising services consist primarily of auction-based pay-for-click services, for which Sogou charges advertisers on a per click basis when users click on the advertisers' promotional links displayed on Sogou's and third parties' Internet properties. Other monetization models from Sogou mainly consist of operating third-party games on Sogou Game Center and Sogou Mobile Assistant, sales of Sogou's various smart devices and online lending and microcredit services through mobile applications.

Other Sogou Business

Sogou also offers IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, and offers other products and services including smart hardware products and online lending and microcredit services.

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

We regard our patents, copyrights, service marks, trademarks, trade secrets and other intellectual property as critical to our success. We rely on patent, trademark and copyright law, trade secret protection, non-competition and confidentiality and/or license agreements with our employees, customers, partners and others to protect our intellectual property rights. Before we launch any new products or services, we generally apply for registration of related patents, trademarks, and software copyrights. Despite our precautions, it may be possible for third parties to obtain and use our intellectual property without authorization. Furthermore, the validity, enforceability and scope of protection of intellectual property rights in Internet-related industries are uncertain and still evolving. The laws of the PRC and certain other countries do not protect intellectual property to the same extent as do the laws of the United States.

We have been issued 1,555 patents in China and 82 patents in countries and regions outside of China covering inventions, utility models, and designs; we have 1,586 patent applications currently pending in China and 56 patent applications currently pending in countries and regions outside of China; we have submitted 89 international patent applications through the procedures under the Patent Cooperation Treaty, or PCT; and we intend to apply for more patents to protect our core technologies and intellectual property.

We have registered three service marks with the U.S. Patent and Trademark Office of the CNIPA, consisting of Sohu.com, registered on August 1, 2000; Sohu.com (stylized), registered on August 1, 2000; and Sohu, registered on June 13, 2000. We have registered 4,509 trademarks with the Trademark Office of the CNIPA, including the marks "SOHU.com," "ChangYou.com," "cyou.com" and "Sogou" and marks relating to our products such as Sohu.com logos, Sohu Fox logos, GoodFeel logos, Go2Map, Sohu Focus, Blade Online, 17173, Sogou logos, Sogou Input Method, Sogou Map, and Teemo, and the corresponding Chinese versions of the marks; and we are in the process of applying for the registration of 487 other trademarks. We are the registered owner of 581 registered trademarks and have also applied for 198 trademarks in countries and regions outside of China. In addition, we are in the process of applying for recognition of certain of our marks as famous Beijing trademarks and well-known Chinese trademarks. We also filed registration of trademarks relating to our subsidiary companies' names and Changyou's online games and other businesses in various countries and regions, such as the United States, European Union, Turkey, Japan, South Korea, Malaysia, Indonesia, Vietnam, Thailand, Brazil, Taiwan and Hong Kong. Our rights to these marks could be affected adversely if any of our applications are rejected. It is possible that our competitors will adopt product or service names similar to ours, thereby impeding our ability to distinguish our brand and possibly leading to customer confusion. In addition, Changyou has the license rights to use the trademarks, such as TLBB, TLBB logos and TLBB 3D, for its mobile games TLBB 3D and Legacy TLBB Mobile and for its PC game TLBB under its existing license agreements with the holder of the intellectual property rights with respect to the popular Chinese martial arts novel Tian Long Ba Bu written by Louis Cha. After the expiration of their terms Changyou may not be able to renew these license agreements with commercial terms that are favorable to Changyou, if at all, and Changyou's inability to renew these license agreements could cause Changyou to lose the right to use the trademarks related to those games to the extent that they relate to Tian Long Ba Bu. See "Risk Factors-Risks Related to Changyou.com Limited-Risks Related to Changyou's Business-Overall Risks-Changyou may need to incur significant expenses to enforce its proprietary rights, and if it is unable to protect such rights, its competitive position and financial performance could be harmed" and "-Changyou may not have exclusive rights to trademarks, designs and technologies that are crucial to its business" in Item 3.

We are the registered owner of 991 software copyrights and 658 copyrights for works in China, each of which we have registered with the State Copyright Bureau of China and its local branches. In addition to the above, we have also registered the copyrights for 20 works in countries and regions outside of China.

We own the rights to 480 domain names that we use in connection with the operation of our business, including the Sohu, Changyou, and Sogou websites.

[Table of Contents](#)

Many parties are actively developing chat, search, AI technologies, Web directory and related Web technologies. We expect these parties to continue to take steps to protect these technologies, including seeking patent protection. There may be patents issued or pending that are held by others and cover significant parts of our technology, business methods or services. For example, we are aware that a number of patents have been issued in the areas of e-commerce, Web-based information indexing and retrieval and online direct marketing. Disputes over rights to these technologies may arise in the future. We cannot be certain that our products do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We may be subject to legal proceedings and claims, from time to time, relating to the intellectual property of others in the ordinary course of our business. See “Item 8. Financial Information—Legal Proceedings”.

We also intend to continue licensing technology from third parties. The market is evolving and we may need to license additional technologies to remain competitive. We may not be able to license these technologies on commercially reasonable terms or at all. In addition, we may fail to successfully integrate any licensed technology into our services. Our inability to obtain any of these licenses could delay product and service development until alternative technologies can be identified, licensed and integrated.

TECHNOLOGY INFRASTRUCTURE

The Sohu Group has built what we believe is a reliable and secure network infrastructure, that will fully support our operations. We have professional technical support teams to maintain our current technology infrastructure and online operating platform, as well as develop new software features to further enhance the functionality of our management and security systems. We monitor the operation of our server network 24 hours a day, seven days a week. Our remote control system allows us to track our concurrent online users in real time, and discover and fix hardware or software problems on our server network in a timely fashion.

Sohu

As of December 31, 2020, Sohu maintained approximately 11,900 servers in China. To fully support the operation of Sohu’s content and services, Sohu established these data centers primarily through China Mobile, China United Network Communication Group Company Limited (“China Unicom”), and China Telecom Corporation (“China Telecom”), which are the three largest Internet connection service providers in China, to support most of Sohu’s core services. In addition, Sohu has established branch nodes in different provinces throughout China through different telecommunication operators in order to establish national coverage and provide fast and stable access to Sohu’s Internet platforms properties to users across China. In addition, Sohu has developed cooperation with several smaller private Internet service providers.

Sohu has developed close working relationships with China Mobile, China Unicom, China Telecom and smaller-size telecommunication operators. Sohu’s operations depend on the ability of China Mobile, China Unicom, and China Telecom to protect Sohu’s systems against damage from fire, power loss, telecommunications failure, break-ins and other events. These telecommunication operators provide Sohu with support services twenty-four hours per day, seven days per week. They also provide connectivity for Sohu’s servers through multiple high-speed connections. All facilities are protected by Uninterruptible Power Supplies.

For reliability, availability, and serviceability, Sohu has created an environment in which each server can function independently. Key components of Sohu’s server architecture are served by multiple redundant machines. Sohu also uses in-house and third-party monitoring software. Sohu’s reporting and tracking systems generate daily traffic, demographic and advertising reports. Sohu deploys load balance equipment and cloud computing to avoid single point failure.

Sohu’s operations must accommodate a high volume of traffic and deliver frequently updated information. Components or features of Sohu’s products and services have in the past suffered outages or experienced slower response times because of equipment or software down time. These events have not had a material adverse effect on Sohu’s business to date, but such events could have a material adverse effect in the future.

Changyou

Changyou supports its operations with a network of reliable and secure physical and cloud-based servers that have fully supported its operations for many years. As of December 31, 2020, Changyou maintained for its online game business approximately 2,000 physical servers in mainland China, and 2,800 cloud-based servers that are spread across mainland China, Hong Kong, other Asia-pacific regions, Europe and North America. In order to enhance Changyou’s game players’ experience and to improve connectivity, Changyou has located its physical game servers in a number of regions throughout China. This allows its players to connect to the nearest servers that are located in their region without exchanging data across the national backbone network. Furthermore, to ensure high quality services for its game players, Changyou works with leading domestic cloud technology firms to provide efficient and stable game services using cloud-based resources.

Sogou

As of December 31, 2020, Sogou owned approximately 30,809 servers located in six Internet data centers in China. Sogou has also obtained what it believes is a sufficient amount of connectivity bandwidth to meet the current and anticipated needs of its operations, and has established a large-scale Graphics Processing Unit (“GPU”) service cluster to provide computing power for its AI technologies.

MARKETING

Sohu

As Sohu is a leading Chinese online media company, our brand effectively provides us with built-in word-of-mouth marketing and we have significantly benefited from this recognition of our brand in China. We also host high-quality events, both online and offline, with the goal of strengthening our influence across certain verticals by consolidating our position as a mainstream media source, and enhancing our core competitiveness and credibility by leveraging high-quality content across our platform and our advanced livestreaming technologies, thereby attracting both users and advertisers. Further, we continually promote our self-produced video programs across diversified online social media platforms to attract more users to our platform. For offline marketing channels, we work closely with mobile application stores as well as performance-based online advertising platforms. Moreover, to strengthen our precision marketing, we reach out and seek cooperation with market-dominant mobile phone manufacturers to pre-install our mobile APPs into certain models of their mobile phones.

Changyou

For self-operated games, Changyou employs a variety of innovative online and offline marketing methods, including online and offline advertising, social media, and in-game marketing. Changyou uses different methods to target different demographic groups of game players.

For online marketing, Changyou is able to leverage its game information portal, the 17173.com Website, as well as other game Websites to promote its games. Changyou is able to leverage its affiliation with Sohu, and target Sohu's large user base as potential players of its games, by advertising on Sohu's various Websites, which typically provide a direct link to its games. For games that Changyou believes are likely to be successful, Changyou may seek celebrity endorsements and work with Internet celebrities on live broadcasting platforms to create additional publicity for the games. Changyou accesses online social media by advertising in online videos and marketing its games through various social networking Websites, mobile applications and online forums to create a vital effect among game players.

For offline marketing, Changyou organizes a variety of offline activities, such as player meetups, offline competitions and carnival events, to connect with players, increase the popularity of its games, and establish its brand image. In addition, Changyou launches in-game promotional events. Changyou also creates in-game events to attract existing and new game players through event-related features, such as offering special holiday-edition virtual items to enhance game player participation at holiday time.

For mobile games in particular, Changyou works closely with Apple store and Android mobile application stores to market its games. Changyou designs and implements different marketing strategies for different game genres to attract the genres' target players. Changyou works with performance-based online advertising platforms such as Guang Dian Tong, Fen Si Tong, and Ocean Engine where Changyou can target different user groups by gender, region, age group and other categories. For games with a specific user group, Changyou advertises on mobile applications, websites and other media outlets that cater to the same user group.

Changyou also promotes its games in overseas markets with a targeted marketing approach, leveraging its data collection and analysis system. Changyou's overseas marketing strategies also include using social media platforms and search engine management to promote its games.

Sogou

Sogou focuses on delivering superior user experience through better products and services, which Sogou believes can expand its user base and enhance its brand. Since inception, its user base has grown primarily through word-of-mouth referrals; thus, Sogou has built its brand with modest marketing costs.

While Sogou has benefitted significantly from word-of-mouth marketing, it has also launched marketing campaigns designed to further promote its brand, products, and technologies. In 2020, Sogou focused on marketing its technology through industry-specific applications. This was designed to demonstrate Sogou's technological advantages and enhance Sogou's brand image as a leading AI-based solution provider. For example, Sogou has expanded the application of its AI Vocational Avatar technology in various sectors, including AI News Anchors in news broadcasting, AI Virtual Judge in legal services, and AI Customer Service Avatar in financial services. Sogou's proprietary AI Vocational Avatar served as a hostess at various industry summits and its AI-powered Simultaneous Interpretation solutions supported a number of international conferences in such areas as technology, finance, and healthcare.

COMPETITION

The Internet and Internet-related markets in China are rapidly evolving. We believe the increase in China's online population will draw more attention to the PRC Internet market from both domestic and multinational competitors. Our existing competitors may in the future achieve greater market acceptance and gain additional market share. It is also possible that new competitors may emerge and acquire significant market share. In addition, our competitors may leverage their existing Internet platforms to cross-sell newly launched products and services. It is also possible that, as a result of deficiencies in legal protections afforded intellectual property in the Internet industry in China, or inadequate enforcement of existing PRC laws protecting such intellectual property, we may not be able to prevent existing or new competitors from accessing and using our in-house developed Web content or technologies.

Competition for Sohu's Business

In the PRC Internet space, competition for brand advertising business is intense and is expected to increase significantly in the future. We compete with our peers and competitors in China primarily on the following basis:

- access to financial resources;
- gateway to host of Internet users' activities;
- technological advancements;
- attractiveness of products;
- brand recognition;
- volume of traffic and users;
- quality of Internet platforms and content;
- quality and quantity of purchased video content, self-developed video content, and user-generated content;
- strategic relationships;
- quality of services;
- effectiveness of sales and marketing efforts;
- talent of staff; and
- pricing.

Over time, our competitors may gradually build certain competitive advantages over us in terms of:

- greater brand recognition among Internet users and clients;
- better products and services;
- larger user and advertiser bases;
- more extensive and well-developed marketing and sales networks; and
- substantially greater financial and technical resources.

There are a number of existing or new PRC Internet companies, which include companies controlled or sponsored by private entities and by PRC government entities. As an Internet portal, we compete with various portals, including Baidu, NetEase, Phoenix, Qutoutiao, Sina, Tencent, and TouTiao, and with vertical sites such as 58.com, Autohome, BitAuto, Bilibili, Douyin, Douyu, Fang, Huya, iQIYI, Kuaishou, Leju, Mango TV, Youku, and YY.

We also compete with traditional forms of media, such as newspapers, magazines, radio and television, for advertisers, advertising revenues and content. Some of these traditional media, such as CCTV, Xinhua News Agency and People's Daily, have extended their businesses into the Internet market. As a result, we expect to face more intense competition with traditional media companies in both their traditional media and in the Internet-related markets.

Competition for Changyou's Business

Online Game Business

In the online game industry, Changyou competes principally with the following three groups of competitors in China:

- online game developers and/or operators in China that are publicly traded in the United States and in Hong Kong, including IGG Inc., Kingsoft Corporation Limited, NetEase, Inc., and Tencent;
- other companies in China devoted to game development and/or operation that are publicly traded in China, such as Beijing Kunlun Tech Co., Ltd., Giant Network Group Co., Ltd., Perfect World Co., Ltd., Wuhu 37 Interactive Entertainment Network Technology Group Co., Ltd., YOOZOO Games Co., Ltd., and Zhejiang Century Huatong Group Co., Ltd. (formerly known as Shanda Games Limited); and
- international competitors.

Platform Channel Business

In the platform channel business, Changyou's game information portal operated through the 17173.com Website currently competes in China with, among others, the following game information portals:

- Duowan.com, operated by JOYY Inc.; and

[Table of Contents](#)

- Game.sina.com.cn, operated by Sina Corporation.

The existing and potential competitors in the online games industry compete with Changyou for talent, game player spending, time spent on game playing, marketing activities, quality of games, and distribution network. The existing and potential competitors in the online advertising industry compete with Changyou for talent, advertiser spending, number of unique visitors, number of page views, visitors' time spent on Websites, and quality of service.

Competition for Sogou's Business

Sogou's business consists primarily of search and search-related services. Sogou faces intense competition in these areas for both users and advertisers, primarily from Baidu, TouTiao, and ShenMa of Alibaba. Sogou also faces competition from vertical search service providers, including travel services and information platforms such as Ctrip and Qunar; group-buy platforms such as Meituan Dianping; online classified advertisement platforms such as 58.com; and short video platforms such as Douyin and Kuaishou. Sogou competes for advertisers not only with Internet companies, but also with other types of advertising media such as newspapers and magazines, billboards, bus advertisements, television, and radio.

Sogou's existing and potential competitors compete with Sogou for users and advertisers on the basis of the quality and quantity of search results; the features, availability, and ease of use of products and services; and the number and quality of advertising distribution channels. They also compete with Sogou for talent with technological expertise, which is critical to the sustained development of Sogou's products and services.

FACILITIES

Sohu

In February 2007, we purchased an office building of approximately 18,265 square meters in Beijing, for consideration of approximately \$35.3 million, of which approximately 18,228 square meters have been leased to Sogou since November 2013.

In November 2009, we entered into a contract for the purchase and development of an office building of approximately 41,283 square meters in Beijing to serve as our headquarters, for consideration of approximately \$162 million. The office building was placed in service in May 2013.

As of December 31, 2020, we leased office space of approximately 9,298 square meters in the PRC.

Changyou

In August 2009, Changyou purchased an office building of approximately 14,950 square meters in Beijing, for consideration of approximately \$33.4 million. Since January 1, 2016, Changyou has leased out this building to third-party business tenants.

In August 2010, Changyou entered into a contract for the purchase and development of an office building of approximately 56,549 square meters in Beijing to serve as its headquarters, for consideration of approximately \$171 million. The office building was placed in service in December 2013.

As of December 31, 2020, Changyou leased office space in Beijing of approximately 531 square meters. Changyou also leased office space of approximately 4,799 square meters in other cities in the PRC and in other countries.

Sogou

As of December 31, 2020, Sogou leased approximately 7,081 square meters of office space in Beijing, in addition to office space that Sogou leased from Sohu. Sogou also leased office space of approximately 13,365 square meters in other cities in the PRC.

GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES

The following description of PRC laws and regulations is based upon the opinion of Haiwen & Partners, or Haiwen, our PRC legal counsel. The laws and regulations affecting China's Internet industry and other aspects of our business are at an early stage of development and are evolving. There are substantial uncertainties regarding the interpretation and enforcement of PRC laws and regulations. We cannot assure you that the PRC regulatory authorities would find that our corporate structure and business operations strictly comply with PRC laws and regulations. If we are found to be in violation of PRC laws and regulations by the PRC government, we may be required to pay fines, obtain additional or different licenses or permits, and/or change, suspend or discontinue our business operations until we are found to comply with applicable laws. For a description of legal risks relating to our ownership structure and business, see "Item 3. Key Information-Risk Factors."

Overview

The Chinese government has enacted an extensive regulatory scheme governing Internet-related areas, such as telecommunications, Internet information services, international connections to computer information networks, online game services, information security and censorship.

Various aspects of the PRC Internet industry are regulated by various PRC governmental authorities, including:

- the Ministry of Industry and Information Technology (the “MIIT”), which resulted from the merger of the former Ministry of Information Industry and other governmental departments;
- the Ministry of Culture and Tourism of the People’s Republic of China (the “MCT”), which was established in March 2018 and resulted from the merger of the former Ministry of Culture (the “MOC”), and the former China National Tourism Administration (the “CNTA”). The “MCT” as used in this report refers to the governmental authority that resulted from the merger, as well as to the MOC and the CNTA separately for periods prior to the merger;
- the Ministry of Public Security (“MPS”);
- the Ministry of Commerce (“MOFCOM”);
- the State Administration of Market Regulation (the “SAMR”), which resulted from the merger of, and assumed the responsibilities previously held by, the State Administration for Industry and Commerce (the “SAIC”), the General Administration of Quality Supervision, Inspection and Quarantine (the “AQSIQ”) the Certification and Accreditation Administration, the Standardization Administration of China (the “SAC”), and the State Food and Drug Administration (the “SFDA”). The “SAMR” as used in this report refers to the governmental authority that resulted from the merger, as well as to the SAIC, the AQSIQ, the SAC, and the SFDA separately for periods prior to the merger;
- the State Administration of Press, Publication, Radio, Film and Television (the “SAPPRFT”) was reorganized into three separate governmental authorities, the National Radio and Television Administration (“NRTA”), the National Film Administration (the “NFA”), and the State Press Publication Administration (the “SPPA”), in March 2018. The SAPPRFT had resulted from the merger of the former General Administration of Press and Publication (the “GAPP”) with the former State Administration of Radio, Film and Television (the “SARFT”) in March 2013. The “NRTA,” the “NFA” and the “SPPA” as used in this report refer to the respective governmental authorities after the reorganization; the “SAPPRFT” as used in this report refers to the governmental authority that resulted from the merger for the period after the merger and prior to the reorganization, as well as to the GAPP and the SARFT separately for periods prior to the merger;
- the PRC State Council Information Office (the “SCIO”);
- the Cyberspace Administration of China (the “CAOC”);
- the State Administration of Foreign Exchange (the “SAFE”); and
- the China Banking and Insurance Regulatory Commission (the “CBIRC”), which resulted from the merger of, and assumed the responsibilities previously held by, the China Banking Regulatory Commission (the “CBRC”) and the China Insurance Regulatory Commission (the “CIRC”). The “CBIRC” as used in this report refers to the governmental authority that resulted from the merger, as well as to the CBRC and the CIRC separately for periods prior to the merger.

Specific Statutes and Regulations

Requirements for Establishment of WFOEs

Under the Law of the People's Republic of China on Foreign Investment Enterprises (the "Foreign Investment Enterprises Law"), promulgated on April 12, 1986 and amended on October 31, 2000, the establishment of a WFOE was required to be approved by MOFCOM or one of its local branches. On September 3, 2016, the Foreign Investment Enterprises Law was further amended by the Decision of the Standing Committee of the National People's Congress on Amending Four Laws including the Law of the People's Republic of China on Wholly Foreign-Owned Enterprises, issued by the Standing Committee of the National People's Congress, and on October 8, 2016 MOFCOM issued the Interim Measures for the Administration of Filing for Establishment and Change of the Foreign Investment Enterprises (the "Interim Filing Measures"), which were further amended on July 30, 2017 and June 29, 2018, respectively. The Foreign Investment Enterprises Law and the Interim Filing Measures provide that, with certain exceptions, the establishment of foreign-invested enterprises is only subject to certain filing requirements with, and no longer requires prior approval by, MOFCOM or its local branches. On March 15, 2019, the Standing Committee of the National People's Congress issued the *Law of the People's Republic of China on Foreign Investment* (the "Foreign Investment Law"), which took effect on January 1, 2020 and replaced the Foreign Investment Enterprises Law and other laws relating to foreign investment. The stated purpose of the Foreign Investment Law is to expand China's opening up to the outside world, promoting and regulating foreign investment, and protecting the rights and interests of foreign investors. The Foreign Investment Law provides, for example, that treatment of foreign investors and their investments during the investment access stage may not be inferior to treatment afforded to PRC domestic investors and their investments, except where a foreign investment is in a category of restricted investments. The Foreign Investment Law also provides that the PRC government will establish an information reporting system, and that foreign investors and foreign-invested enterprises will be required to submit investment information through an enterprise registration system and an enterprise credit information publicity system. On December 30, 2019 the MOFCOM issued the *Measures for the Reporting of Foreign Investment Information* (the "Reporting Measures"), which took effect on January 1, 2020, the same date as the effective date of the Foreign Investment Law to implement the information reporting system and replace the Interim Filing Measures. The Reporting Measures require that foreign investors establishing foreign investment enterprises in China submit an initial report through the enterprise registration system; there is no longer any filing requirement with MOFCOM or its local branches under the Reporting Measures. On December 12, 2019, the State Council also issued the *Implementing Regulations of the Foreign Investment Law* and, on December 26, 2019, the Supreme People's Court issued the *Interpretation of the Supreme People's Court on Several Issues Concerning the Application of the Foreign Investment Law of the People's Republic of China*, both of which became effective on January 1, 2020. As the Foreign Investment Law and the related implementing regulations are newly-issued, their impact upon the existing procedures required for the establishment of a foreign-invested enterprise remains unclear, pending further clarification and guidance from the MOFCOM and other relevant governmental authorities. On December 19, 2020, the National Development and Reform Commission (the "NDRC") and the MOFCOM promulgated the Security Review Measures, which became effective on January 18, 2021. The Security Review Measures stipulate that investment by foreign investors in specified industries within the PRC that affects or may affect national security will be subject to security review by relevant governmental authorities.

Each of our WFOEs established before September 3, 2016 was established with proper approval, and the two WFOEs that were established by Changyou on April 13, 2020 and November 12, 2020 have fulfilled their reporting obligations under the Reporting Measures.

Requirements for Obtaining Business Licenses

All China-based companies may commence operations only upon the issuance of a business license by the relevant local branch of the SAMR. All of our China-based subsidiaries and VIEs have been issued business licenses by the relevant local branches of the SAMR.

In the opinion of Haiwen, our principal China-based subsidiaries and principal VIEs have satisfied the requirements for business licenses.

Regulation of Value-added Telecommunications Services

The *Telecommunications Regulations of the People's Republic of China* ("Telecom Regulations"), implemented on September 25, 2000 and amended on July 29, 2014 and February 2, 2016, are the primary PRC law governing telecommunication services, and set out the general framework for the provision of telecommunication services by domestic PRC companies. The Telecom Regulations require that telecommunications service providers procure operating licenses prior to commencing operations. The Telecom Regulations draw a distinction between "basic telecommunications services," which we generally do not provide, and "value-added telecommunications services." The Telecom Regulations define value-added telecommunications services as telecommunications and information services provided through public networks. The *Catalogue of Telecommunications Business* ("Catalogue"), which was issued as an attachment to the Telecom Regulations and updated in February 2003, December 2015 and June 2019, identifies Internet data centers, content delivery networks, domestic Internet virtual private networks, Internet access, online data and transaction processing, on-demand voice and image communications, message storage and forwarding (including voice mailbox, e-mail and online fax services), call centers, and online information and data search as value-added telecommunications services. We engage in various types of business activities that are value-added telecommunications services as defined and described by the Telecom Regulations and the Catalogue.

On July 3, 2017, the MIIT issued the *Administration Measures for Telecommunications Business Operating Permits* (the "Telecom License Measures"), which became effective on September 1, 2017, to supplement the Telecom Regulations and replace the previous *Measures on the Administration of Telecommunications Business Operating Permits* promulgated in 2009. The Telecom License Measures provide requirements and procedures for obtaining licenses for value-added telecommunications services, and stipulate that the competent governmental authorities will mandate improved credit management mechanisms for telecommunication business operators, and will establish an online platform in connection with telecommunication business operating permits. The Telecom License Measures also confirm that there are two types of telecom operating licenses for operators in China, one for basic telecommunications services and one for value-added telecommunications services. A distinction is also made as to whether a license is granted for "intra-provincial" or "trans-regional" (inter-provincial) activities. An appendix to each license granted will detail the permitted activities of the enterprise to which it was granted. An approved telecommunication services operator must conduct its business (whether basic or value-added) in accordance with the specifications recorded in its Telecommunications Services Operating License.

[Table of Contents](#)

The business activities of Sohu Internet and Sogou Information include providing content to mobile phone users through the platforms of China's main three telecommunications operators. The business activities of Sogou Information also include providing search services to mobile phone users through the platforms of China's main three telecommunications operators. On April 25, 2004, the MIIT issued a notice stating that China mobile network operators may only provide mobile network access to those mobile Internet service providers which have obtained licenses from the relevant local arm of the MIIT before conducting operations. On the basis of the notice, China Mobile Communication Corporation ("China Mobile") has required each of its mobile Internet service providers to first obtain a license for trans-regional value-added telecommunications services in order to gain full access to its mobile network, which is a nationwide policy in line with a similar notice issued by the Beijing branch of China Mobile on April 12, 2004.

On August 8, 2014, the MIIT issued to Sohu Internet a Value-Added Telecommunication Services Operating License, which were renewed on July 23, 2019, that authorize the provision of Internet data center services, Internet content distribution services, and Internet access services, all of which are classified as value-added telecommunication services. On January 30, 2015, the MIIT issued to Guangzhou Qianjun a Value-Added Telecommunications Services Operating License, which was renewed on November 23, 2019, that authorizes the provision of Internet information services, which are also classified as value-added telecommunication services. On June 2, 2016, the MIIT issued to Sogou Information a Value-Added Telecommunications Services Operating License, which was renewed on January 13, 2020, that authorizes the provision of Internet data center services and Internet access services.

Regulation of Foreign Direct Investment in Value-Added Telecommunications Companies

Various PRC regulations currently restrict foreign-invested entities from engaging in value-added telecommunication services, including providing Internet information services and operating online games. Foreign direct investment in telecommunications companies in China is regulated by the *Regulations for the Administration of Foreign-Invested Telecommunications Enterprises ("FITE Regulations")*, which were issued by the PRC State Council, or State Council, on December 11, 2001, became effective on January 1, 2002 and were amended on September 10, 2008 and February 6, 2016. The FITE Regulations stipulate that foreign invested telecommunications enterprises in the PRC ("FITEs") must be established as Sino-foreign equity joint ventures. Under the FITE Regulations and in accordance with WTO-related agreements, the foreign party to a FITE engaging in value-added telecommunications services may hold up to 50% of the equity of the FITE, with no geographic restrictions on the FITE's operations. On June 30, 2016, the MIIT issued an *Announcement of the Ministry of Industry and Information Technology on Issues concerning the Provision of Telecommunication Services in the Mainland by Service Providers from Hong Kong and Macao* (the "MIIT Announcement"), which provides that investors from Hong Kong and Macau may hold more than 50% of the equity in FITEs engaging in certain specified categories of value-added telecommunications services.

For a FITE to acquire any equity interest in a value-added telecommunications business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating a track record and experience in operating a value-added telecommunications business overseas. FITEs that meet these requirements must obtain approvals from the MIIT and the MOFCOM or their authorized local counterparts, which retain considerable discretion in granting approvals.

On July 13, 2006, the *Notice of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services (the "MIIT Notice")*, which reiterates certain provisions of the FITE Regulations, was issued. Under the MIIT Notice, if a FITE intends to invest in a PRC value-added telecommunications business, the FITE must be established and must apply for a telecommunications business license applicable to the business. Under the MIIT Notice, a domestic company that holds a license for the provision of Internet content services, or an ICP license, is considered to be a type of value-added telecommunications business in China, and is prohibited from leasing, transferring or selling the license to foreign investors in any form, and from providing any assistance, including providing resources, sites or facilities, to foreign investors to conduct value-added telecommunications businesses illegally in China. Trademarks and domain names that are used in the provision of Internet content services must be owned by the ICP license holder or its shareholders. The MIIT Notice requires each ICP license holder to have appropriate facilities for its approved business operations and to maintain such facilities in the regions covered by its license. In addition, all value-added telecommunications service providers are required to maintain network and information security in accordance with standards set forth in relevant PRC regulations. Our VIEs, rather than our subsidiaries, hold ICP licenses, own our domain names, and hold or have applied for registration in the PRC of trademarks related to our business and own and maintain facilities that we believe are appropriate for our business operations.

On November 27, 2017, the MIIT promulgated the *Notice Regulating the Use of Domain Names in the Provision of Internet-based Information Services*, or the Domain Names Notice, which became effective on January 1, 2018. Under the Domain Names Notice, a domain name used by a provider of Internet-based information services must be registered and owned by the provider or, if the provider is an entity, by a shareholder or senior management of the provider.

In view of these restrictions on foreign direct investment in the value-added telecommunications sector, we established or acquired several domestic VIEs to engage in value-added telecommunications services. For a detailed discussion of our VIEs, please refer to "Our Corporate Structure" above. Due to a lack of interpretative materials from the relevant PRC authorities, there are uncertainties regarding whether PRC authorities would consider our corporate structure and contractual arrangements to constitute foreign ownership of a value-added telecommunications business. See "Risks Related to Our Corporate Structure." In order to comply with PRC regulatory requirements, we operate our main business through companies with which we have contractual relationships but in which we do not have an actual ownership interest. If our current ownership structure is found to be in violation of current or future PRC laws, rules or regulations regarding the legality of foreign investment in the PRC Internet sector, we could be subject to severe penalties.

[Table of Contents](#)

In the opinion of Haiwen, subject to the uncertainties and risks disclosed elsewhere in this report under the heading “Risk Factors” and “Government Regulation and Legal Uncertainties,” the ownership structures of our principal PRC Subsidiaries and our principal VIEs comply with all existing laws, rules and regulations of the PRC and each of such companies has the full legal right, power and authority, and has been duly approved, to carry on and engage in the business described in its business license.

Regulation of the Provision of Internet Content

Internet Information Services

On September 25, 2000, the State Council issued the *Measures for the Administration of Internet Information Services (“ICP Measures”)*, which were amended on January 8, 2011. Under the ICP Measures, entities that provide commercial information services to online users on the Internet (“ICPs”) are obliged to obtain an operating license from the MIIT or its local branch at the provincial or municipal level in accordance with the Telecom Regulations described above.

The ICP Measures further stipulate that entities providing online information services regarding news, publishing, education, medicine, health, pharmaceuticals and medical equipment must procure the consent of the national authorities responsible for such areas prior to applying for an operating license from the MIIT or its local branch at the provincial or municipal level. Moreover, ICPs must display their operating license numbers in conspicuous locations on their home pages. ICPs are required to police their Internet platforms and remove certain prohibited content. Many of these requirements mirror Internet content restrictions that have been announced previously by PRC ministries, such as the MIIT, the MCT, and the SAPPRFT, that derive their authority from the State Council.

Sohu Internet, Guangzhou Qianjun, Shanghai ICE, Guanyou Gamespace, Gamease, and Sogou Information hold Telecommunications and Information Services Operating Licenses (each an “ICP license”), each of which is subject to the filing of an annual report. The ICP license held by Sohu Internet includes a permit for operating Internet information services at “focus.cn.”

In 2000, the MIIT promulgated the *Internet Electronic Bulletin Service Administrative Measures (“BBS Measures”)*. The BBS Measures required ICPs to obtain specific approvals before they provided BBS services, which included electronic bulletin boards, electronic forums, message boards and chat rooms. On September 23, 2014, the MIIT abolished the BBS Measures in a *Decision on Abolishment and Amendment Certain Regulations and Rules*. However, in practice certain local authorities still require operating companies to obtain approvals or make filings for the operation of BBS services. The ICP licenses held by Sohu Internet, Gamease, and Guanyou Gamespace include such specific approval of the BBS services that they provide.

On December 29, 2011, the MIIT issued *Several Provisions for Standardizing the Market Order of Internet Information Services* (the “Several Provisions”) which took effect on March 15, 2012. With the aim of promoting the healthy development of the Internet information services market in China, the Several Provisions strengthen the regulation of the operations of Internet information service providers, including prohibiting Internet information service providers from infringing the rights and interests of other Internet information service providers, regulating evaluations provided by Internet information service providers regarding the services and products of other Internet information service providers, and regulating the installation and running of software by Internet information service providers. The Several Provisions also provide various rules to protect the interests of Internet information users, such as requesting Internet information service providers to take measures to protect the privacy information of their users and prohibiting Internet information service providers from cheating and misleading their users.

On August 25, 2017, the CAOC issued the *Administration Measures for Internet Forum Community Service*, effective on October 1, 2017, to regulate the provision of online interactive social network services for information dissemination. On August 25, 2017, the CAOC issued the *Administration Measures for Internet Comment Thread Services*, effective on October 1, 2017, regulating the provision of services by websites, applications, interactive broadcasting platforms, and other communication platforms with news and media characteristics that allow users to release text, photos, audio, and video. On February 20, 2018, the CAOC issued the *Administrative Provisions on Micro-blogging and Blogging Information Services*, effective on March 20, 2018, further regulating the provision of platform services for publishing and distributing information through micro-blogs and blogs. On September 7, 2017, the CAOC issued the *Administration Measures for Internet Chat Group Services*, effective on October 8, 2017, to regulate the provision of platform services for that allow Internet user groups to exchange information online. On September 7, the CAOC issued the *Administration Measures for Internet Users’ Social Account Information Services*, which were effective on October 8, 2017 and amended on January 22, 2021. These measures provide, among other things, that Internet platform operators providing the covered services will be responsible for the security of information and content published over their platforms, and provide enhanced requirements for user registration, information review, emergency response, security, personal information protection, and intellectual property protection.

On November 15, 2018, the CAOC promulgated the *Provisions on the Security Assessment of Internet-based Information Services with Attribute of Public Opinions or Capable of Social Mobilization*, which require that Internet information service providers that provide Internet services with the potential to influence public opinion or provoke social movement, including BBS, blog, and micro-blog services, must conduct a security self-assessment and file with the local office of the CAOC a self-assessment report regarding their such Internet services and supporting technologies, their user base characteristics, and any significant changes in user opinions and potential risks concerning public security issues.

Online News Dissemination and Online News Search Services

In May 2017, the *Administrative Regulations for Internet News Information Services and Implementation Rules on the Administration of Internet News Information Services Permits* (collectively the “News Regulations”) were promulgated by the CAOC to replace the *Administrative Rules for Internet News Information Services* promulgated by the SCIO in 2005 (the “Old News Rules”). The News Regulations stipulate that Internet news information services include production, publishing, and republishing services and platforms providing for the dissemination of news over the Internet, and specify that platforms providing for the dissemination of news over the Internet will be required to obtain an Internet news information services permit.

Requirements of News Regulations include, among other things, the following:

- Internet news information service providers must be entities duly incorporated within the territory of the PRC;
- Managers and chief editors of Internet news information service providers must be Chinese citizens;
- Internet news information service providers must have personnel who have appropriate qualification and professional training;
- Internet news information service providers must have sound Internet news information service management systems;
- Internet news information service providers must have rigorous information security management systems;
- Internet news information service providers must have facilities that are suitable for their proposed services, and must be adequately funded; and
- Internet news information service providers may only republish news published by governmental news agencies and must ensure the original sources are traceable.

On July 3, 2016, the CAOC issued a Notice on Further Strengthening the Management and Prevention of Fake News (the “Fake News Notice”). The Fake News Notice requires all providers of online news services, including news applications, Weibo, and WeChat, to establish and maintain rigorous internal supervision and management systems and to not provide any news without identifying the sources of the news, invent news, report news based on hearsay, or distort facts.

On May 11, 2004, Sohu Internet obtained from the Information Office of the Beijing Municipal Government (the local arm of the SCIO) an Internet news information services permit, which was updated by the SCIO on June 6, 2006 and April 4, 2018, respectively. There is uncertainty as to whether the provision of news search services and aggregation of news links fit within the definition of news dissemination services. Sogou Information is currently in the process of applying for an online news services license.

Internet Publishing

On February 4, 2016, the SAPPRFT and MIIT jointly issued the Rules for the Administration for Internet Publishing Services (the “Internet Publishing Rules”), which took effect on March 10, 2016, to replace the Provisional Rules for the Administration for Internet Publishing that had been jointly issued by the SAPPRFT and the MIIT on June 27, 2002. The Internet Publishing Rules define “Internet publications” as digital works that are edited, produced or processed to be published and provided to the public through the Internet, including (a) original digital works, such as pictures, maps, games, and comics; (b) digital works with content that is consistent with the type of content that, prior to the Internet age, typically was published in media such as books, newspapers, periodicals, audio-visual products, and electronic publications; (c) digital works in the form of online databases compiled by selecting, arranging and compiling other types of digital works; and (d) other types of digital works identified by the SAPPRFT. Under the Internet Publishing Rules, Internet operators distributing such Internet publications via information networks, including Web portals such as ours, are required to apply to and register with the SAPPRFT before distributing Internet publications.

On June 5, 2020, the National Press and Publication Administration issued the *Notice on Further Strengthening the Administration of Online Literature Publishing*. This notice provides that a platform publishing online literature works must (a) require writers to provide real identity information; (b) review the works before they are published on the platform; and (c) take appropriate and timely measures to prevent dissemination through the platform of false or misleading information.

On December 22, 2010, Sohu Internet obtained an Internet publishing license issued by the SAPPRFT, which was renewed on October 1, 2019. For the details of the Internet publishing licenses held by Changyou’s VIEs, see “Specific Statutes and Regulations—Regulation of Online Game Services—Online Games and Cultural Products.” Sogou Information plans to apply for an Internet publishing license.

Online Audiovisual Transmission Through the Public Internet

On December 20, 2007, the SAPPRFT and the MIIT jointly issued *Rules for the Administration of Internet Audiovisual Program Services* (“Document 56”), which came into effect as of January 31, 2008 and was amended on August 28, 2015. Document 56 requires all online audio and video service providers to be either state-owned or state-controlled and to obtain a permit for the Network Transmission of Audiovisual Programs. However, at a press conference held on February 3, 2008 the SAPPRFT and the MIIT clarified that online audio-visual service providers that were already lawfully operating prior to the issuance of Document 56 may re-register and continue to operate without becoming state-owned or controlled, provided that such providers do not engage in any unlawful activities. This exemption will not be granted to service providers set up after Document 56 was issued. As we were already engaged in online audiovisual transmission prior to the issuance of Document 56, we are presumably exempted from the requirement of being state-owned or state-controlled. Sohu Internet and Guangzhou Qianjun currently hold permits, both for PC and for Mobile Apps, for the Network Transmission of Audiovisual Programs.

On March 30, 2009, the SAPPRFT released a *Notice on Strengthening the Administration of Online Audiovisual Content* (the “March 2009 SAPPRFT notice”). March 2009 SAPPRFT notice requires the operators of audiovisual Websites to enhance their processes for protecting copyrights, and to take appropriate measures to protect the rights and interests of copyright holders. Operators of such sites must hold, or have a license to, the copyright to all content that they transmit. In addition, the March 2009 SAPPRFT notice stipulates that only those films or TV programs that have already obtained from the SAPPRFT a Film Public Screening Permit, TV Drama Distribution Permit, TV Animation Distribution Permit, or TV Documentary Film Screening Permit are allowed to be transmitted via audiovisual Websites. These permits are mandatory for all films and programs shown on TV and in cinemas in China and must be obtained before such film or TV or program is allowed to be released. The approval applications for the Film Public Screening Permit, Television Drama Distribution Permit, Television Animation Distribution Permit or Television Documentary Film Screening Permit are extremely difficult and time-consuming, and the SAPPRFT previously did not enforce very strictly the requirements regarding these permits. However, on September 2, 2014, the SAPPRFT issued a *Notice on Further Strengthening the Administration of Online Foreign Audiovisual Content* (“September 2014 SAPPRFT Notice”), which requires that operators of audiovisual Websites to obtain from the SAPPRFT a Film Public Screening Permit, TV Drama Distribution Permit, or TV Animation Distribution Permit for all foreign films and TV dramas before they are transmitted via the Internet in China. The September 2014 SAPPRFT Notice further stipulates that before any foreign films or TV dramas for transmission exclusively via the Internet are purchased after the promulgation of the September 2014 SAPPRFT Notice, operators of audiovisual Websites must declare their annual purchasing plans with the SAPPRFT before the end of the year preceding the year of the intended broadcast and obtain the SAPPRFT’s approval. The September 2014 SAPPRFT Notice also states that the number of foreign films and TV dramas to be purchased by an operator and transmitted via its Website in a single year may not exceed 30% of the total amount of the Chinese films and TV dramas purchased and transmitted by the same Website in the previous year.

On March 17, 2010, SAPPRFT issued a *Catalogue of Classification of Internet Audio-Video Program Services (Trial)* (the “Internet Audio-Video Program Catalogue”), which was amended on March 10, 2017. The Internet Audio-Video Program Catalogue classifies Internet audio-video program services (excluding IPTV, Internet TV and mobile TV services) provided to computer and mobile phone users the Internet into four categories, consisting of (i) Internet audio-video programs sponsored and broadcast through Internet radio and television stations, including political news, political talk shows, self-produced news programs and live programs of vital political, military, economic, social and sports activities; (ii) reprints of political news, Internet hosting, interviews, report and commentary services in entertainment, technology, financial, sports and educational audio-video programs, production and broadcasting of Internet dramas, compilation and broadcasting of entertainment, technology, financial, sports and education audio-video programs, and live broadcasting of cultural and sports activities; (iii) the aggregation of Internet audio-video programs, which means editing and arranging Internet audio-visual programs on the same website, providing search and viewing services to public users, and broadcasting user-uploaded audio-video programs; and (iv) retransmission of Internet audio-video programs. A permit for the Network Transmission of Audiovisual Programs specifies the scope of the services under one or more of these categories that the holder of the permit is allowed to provide. Our permit for the Network Transmission of Audiovisual Programs allows us to provide services mostly under the categories described in clauses (ii), (iii), and (iv) above. Sogou information is currently in the process of negotiating with an entity that holds a permit for the Network Transmission of Audiovisual Programs in order to acquire all of the equity interests in such entity, which is a common market practice for companies, such as Sogou, that are not wholly state-owned or state-controlled entities.

On July 6, 2012, the SAPPRFT and the CAOC jointly issued a *Notice on Further Strengthening the Administration of Internet Dramas, Micro Movies and Other Internet Audiovisual programs* (the “2012 SAPPRFT Notice 53”), which reiterates that online audio-visual service providers must obtain a Permit for the Network Transmission of Audiovisual Programs from the SAPPRFT. The 2012 SAPPRFT Notice 53 further stipulates that online audio-visual service providers must review the content of Internet audiovisual programs prior to their transmission and must file certain information, such as the names of the Internet audiovisual programs, summaries of their content, and names of the persons conducting the reviews, with the appropriate provincial office of the SAPPRFT. On January 9, 2019, the China Netcasting Services Association, an industry self-regulatory association, issued *Management Standards for Internet Short Video Platforms* and *Detailed Standard Rules for Reviewing the Content of Internet Short Videos*, for the stated purpose of strengthening the responsibility of online platforms to examine the content of short videos before their transmission. On February 21, 2020, the China Netcasting Services Association issued the *Detailed Standard Rules for Reviewing the Content of Internet Variety Shows*, which provide guidelines regarding such content matters as the choice of crew and cast and their behavior, and wardrobe and props, in variety shows, and provide detailed instructions for the examination of Internet variety shows.

[Table of Contents](#)

On January 2, 2014, the SAPPRFT issued a *Supplemental Notice on 2012 SAPPRFT Notice 53*, which stipulates that producers of Internet dramas, micro movies and other Internet audiovisual programs must obtain a Permit for Radio and Television Program Production and Operation. Online audiovisual service providers may only retransmit dramas and micro movies produced and uploaded by individuals whose identities have been verified and the content of which complies with relevant regulations. Online audio-visual service providers must file with the provincial SAPPRFT the content of Internet audiovisual programs proposed for transmission prior to transmitting the programs.

On November 4, 2016, the SAPPRFT issued a *Notice on Further Strengthening the Planning, Development and Administration of Original Internet Audiovisual Programs* (“Document 198”). Document 198 stipulates that if online service providers plan to produce and disseminate audiovisual programs that are considered to be key audiovisual programs under Document 198, the service providers must, during the early planning and development stage, file a summary of the programs and their titles, producer names, themes, and duration with the SAPPRFT and, for audiovisual programs with sensitive themes such as politics, military, diplomacy, national security, national sovereignty, religion, the PRC justice system and public security, consult with designated PRC governmental authorities before production of the programs. On June 26, 2017, SAPPRFT and other several governmental authorities issued a *Notice on Several Policies Concerning the Prosperity and Development of Television Dramas* that confirms filing procedures with respect to key Internet dramas. In accordance with the *Notice on Upgrading the Filing System of the Online Audiovisual Programs* issued by the NRTA, effective December 27, 2018, producers of key audiovisual programs must make filings prior to the commencement of the production that include a summary of specified details concerning the programs and, following the completion of the production, submit the completed programs to the NRTA or its competent provincial counterpart and make filings with additional information concerning the programs.

On March 16, 2018, the SAPPRFT issued a *Notice on Further Regulating the Distribution Order of Internet Audiovisual Programs*, which prohibits operators of audiovisual Websites from editing or adapting audiovisual programs of third-party content providers, broadcasting illegally edited and/or adapted audiovisual programs on their audiovisual Websites, and/or entering into business collaboration arrangements for online audiovisual services with providers without a Permit of Network Transmission of Audiovisual Programs.

On November 18, 2019, the CAOC, the SAPPRFT, and the MCT jointly issued the *Provisions on the Administration of Internet Audio-video Information Services* (the “2019 Notice 3”), pursuant to which Internet audiovisual information services providers are required to identify and conspicuously mark for users of their platforms non-reality-based audiovisual information created using deep learning, virtual reality, and other new technologies and applications. In addition, the 2019 Notice 3 stipulates that Internet audiovisual information service providers are obliged to establish and implement an anti-rumor mechanism to detect and prevent disseminating rumors generated using such technologies and applications, and report such information and rumors to the CAOC, the SAPPRFT, and the MCT.

Protection of Minors

On March 29, 2019, the SAPPRFT issued the *Administrative Regulations Regarding Programs for Minors* (the “Programs for Minors Regulations”), which took effect on April 30, 2019. Under the Programs for Minors Regulations, programs for minors refer to Internet audiovisual programs and radio and television programs with minors as the main participants or the target audience. Under the Programs for Minors Regulations, providers of online audiovisual program services are required to adopt a number of measures to protect the physical and psychological well-being of minors, including establishing separate zones on their online platforms for audiovisual programs suitable for minors; prohibiting the advertising in such separate zones of pharmaceuticals, medical equipment, cosmetics, alcohol, cosmetic surgery, and other specified categories not considered suitable for minors; displaying break reminders in a prominent position during programs for minors; and deleting, blocking, and disconnecting links and adopting other necessary measures. Online audiovisual program services providers are also required to conduct pre-broadcasting reviews of programs for minors and advertisements to be directed to minors, and to form committees consisting of minor protection experts and representatives of parent and teacher groups to periodically evaluate programs for minors and such advertisements.

On October 17, 2020, the Standing Committee of the National People’s Congress amended the Minors Protection Law of the PRC (as amended, the “Minors Protection Law”) effective as of June 1, 2021. The Minors Protection Law promotes Internet literacy among minors, protects personal information of minors, and strengthens the protection of minors from cyber bullying and from addictive behaviors related to Internet services and products.

On May 15, 2020, the Supreme People’s Court issued several guiding opinions on civil cases. The opinions stipulate that if minors pay reward money on live online performance platforms without the consent of their guardians and the money is spent in a way that is not appropriate for their age or intelligence, their guardians may require the Internet service providers to refund the money.

[Table of Contents](#)

Private Network and Targeted Communication Audiovisual Program Services

On April 25, 2016, the SAPPRFT issued *the Provisions on the Administration of Private Network and Targeted Communication Audiovisual Program Services* (the “Private Network Audiovisual Programs Administration Provisions”), effective on June 1, 2016, to replace the *Measures for the Administration of the Transmission of Audiovisual Programs over Internet and other Information Networks* that had been issued by the SAPPRFT on July 6, 2004. The Private Network Audiovisual Programs Administration Provisions stipulate that private network and targeted communication audiovisual program services include the provision, integrated control, transmission and distribution of audiovisual content through IPTV, targeted mobile television, television network and other targeted channels. The Private Network Audiovisual Programs Administration Provisions provide that operators engaging in private network and targeted communication audiovisual program services must obtain a permit for the Network Transmission of Audiovisual Programs from the SAPPRFT. The Private Network Audiovisual Programs Administration Provisions provide that only PRC state-owned or state-controlled entities may engage in private network and targeted communication audiovisual program services. We provide a small amount of audiovisual program services through private network and/or targeted communication channels, such as IPTVs and television networks. In order to comply with the Private Network Audiovisual Programs Administration Provisions, we partner with PRC state-owned entities for the provision of such services through private network and targeted communication channels. According to a press conference of SAPPRFT regarding the Private Network Audiovisual Programs Administration Provisions, Internet audiovisual program services provided through the public Internet, which include our main online video services, other than private network and targeted communication channels should comply with Document 56. See “Government Regulation and Legal Uncertainties—Specific Statutes and Regulations—Regulation of the Provision of Internet Content—Online Audiovisual Transmission through the Public Internet” for a description of regulations affecting Internet Audio-video program services provided through the public Internet.

Online Cultural Products

On May 10, 2003, the MCT issued the *Provisional Regulations for the Administration of Online Culture* (“Online Culture Regulations”), which took effect on July 1, 2003 and were amended on July 1, 2004. On February 17, 2011, the MCT issued the new *Provisional Regulations for the Administration of Online Culture* (“New Online Culture Regulations”), which took effect on April 1, 2011 and were amended on December 15, 2017, to replace the previous regulations. The New Online Culture Regulations apply to entities engaging in activities related to “Internet cultural products,” which include those cultural products that are produced specially for Internet use, such as online music and entertainment, online games, online plays, online performances, online works of art and Web animations, and those cultural products that, through technical means, produce or reproduce music, entertainment, games, plays and other art works for Internet dissemination. Pursuant to the New Online Culture Regulations, commercial entities are required to apply to the relevant local branch of the MCT for an Online Culture Operating Permit if they engage in any of the following types of activities:

- the production, duplication, importation, release or broadcasting of Internet cultural products;
- the dissemination of online cultural products on the Internet or transmission thereof via Internet or mobile phone networks to users’ terminals such as computers, fixed-line or mobile phones, television sets, gaming consoles and Internet surfing service sites such as Internet cafés for the purpose of browsing, using or downloading such products; or
- the exhibition or holding of contests related to Internet cultural products.

On June 19, 2018, the MCT issued the *Measures for the Administration of a National Cultural Market Blacklist* (the “Blacklist Measures”) to replace the *Measures for the Administration of a Cultural Market Blacklist* issued on January 6, 2016. The Blacklist measures stipulate that a provider or operator of cultural products and services that engages in illegal activities specified in the Blacklist Measures will be listed in a “cultural market blacklist” published by the MCT. Any future application made to the MCT or its local branches by a provider or operator whose name is listed in the cultural market blacklist will be subject to heightened scrutiny.

On July 1, 2016, the MCT issued a *Notice on Strengthening the Administration of Online Performance* (the “Online Performance Notice”) and on December 2, 2016, issued the *Measures of Administration of Online Performance Operating Activities* (the “Online Performance Measures”), which became effective on January 1, 2017. The Online Performance Notice and the Online Performance Measures both stipulate that online performance service providers must obtain an Online Culture Operating Permit and that online performances must not contain any content that is horrific, cruel, violent, vulgar or humiliating in nature, mocks persons with disabilities, includes photographs or video clips that infringe third parties’ privacy or other rights, features animal abuse, or presents characters and other features of online games that have not been registered and approved for publication by applicable PRC governmental authorities.

Sohu Internet, Guangzhou Qianjun, Gamease, Guanyou Gamespace, Shanghai ICE, and Sogou Information currently hold Online Culture Operating Permits. The Online Culture Operating Permit obtained by Sohu Internet includes a permit for operating Internet information services at “focus.cn.”

Table of Contents

On September 2, 2016, the SAPPRFT issued the *Notice on Strengthening the Management of Live Online Social Video Services* (the “Live Online Notice”), which requires interactive broadcasting service providers to procure a permit for the Network Transmission of Audiovisual Programs. Sohu Internet and Guangzhou Qianjun currently hold permits for the Network Transmission of Audiovisual Programs. The Live Online Notice also stipulates that a service provider must make a filing with the local SAPPRFT branch at least five days before making any live broadcast of any significant political, military, economic, social, cultural or sports activities and at least 48 hours before making any live broadcast of other cultural or sports activities. On November 4, 2016, the CAOC issued the Provisions on the Administration of Online Live Social Video Services (the “Live Social Video Provisions”) effective December 1, 2016. The Live Social Video Provisions provide that business entities such as us that offer interactive broadcasting services on their Internet platforms have the primary responsibility for monitoring content disseminated by interactive broadcasting hosts and viewers through such services, and must allocate sufficient staff in line with the scale of such services and establish and maintain adequate internal policies and procedures for, among other things, content review, information security management, emergency management and technical support. The Live Social Video Provisions also require that Internet providers verify the real-name identity of interactive broadcasting hosts and viewers before allowing them to establish user accounts with the Internet providers and take appropriate remedial actions, such as issuing warnings, removing posted content, or terminating the user’s account, with respect to interactive broadcasting content or activity that is prohibited by the Live Social Video Provisions. Internet providers are subject to administrative penalties and other sanctions for noncompliance with the Live Social Video Provisions. On August 1, 2018, the MIIT and several other governmental authorities issued a *Notice on Strengthening the Administration of Live Online Social Video Services*, which stipulates that providers of Internet access services and APP stores must not provide Internet access and APP distribution services for online interactive broadcasting service providers that do not hold requisite permits from or complete the requisite filing procedure with the applicable governmental agencies. On November 12, 2020, the NRTA promulgated the *Notice on Strengthening the Management of Live Broadcast of Online Shows and E-commerce Live Broadcast*, which requires live show online broadcasting platforms and e-commerce live online broadcasting platforms to enter information concerning their operating entities and business operations in a nationwide online system. Under the notice, live online broadcasting platforms are also required to classify their broadcast programs into, and label them according to, specified categories such as “music,” “dance,” and “travelling.” The notice and the *Guidance on Strengthening Supervision of E-commerce Live Online Broadcasting Activities* issued by the SAMR in November 2020 also provide that e-commerce live online broadcasting platforms should verify the qualifications and real-name identities of the entities and individuals selling goods and services on such platforms, and ensure such sales to comply with the New Advertising Law and the E-commerce Law. On February 9, 2021, the CAOC and six other governmental authorities issued the *Guiding Opinions on Strengthening the Ratification and Administration of Live Online Broadcasting* (the “Guiding Opinions”). The Guiding Opinions stipulate that live online broadcasting platforms must (a) classify and rank accounts for live online broadcasting based on factors such as the nature of the account holders, the content of performances, the number of followers and the popularity of the broadcast programs, (b) set reasonable limits on the duration of, the amount of money to be received in, and commodities to be sold in each broadcast program based on the accounts’ categories and rankings, and (c) set reasonable limits on the maximum amount of money paid by the Internet users for a single virtual commodity or reward in connection with a live online broadcast.

On March 15, 2021, the SAMR issued the *Measures for the Supervision and Administration for Online Transactions*, which will take effect on May 1, 2021. The measures aim at creating a fairer competitive environment for online transaction operators and a safer consumption environment for users in online transactions, and specify the responsibilities of platform operators in the course of providing online shows and e-commerce live broadcast services.

On April 19, 2019, the China Alliance of Radio, Film, and Television issued the *Notice on Strictly Implementing the Proportional Allocation of Production Costs for Television and Internet Dramas* (the “Production Costs Notice”), which specifies that the aggregate compensation paid to cast members of a television or Internet drama may not exceed 40% of the total production costs of the drama and that the aggregate compensation paid to key members of the cast may not exceed 70% of the aggregate compensation paid to all of the cast members. Payment of amounts above the specified limits without reasonable grounds may result in the suspension or cancellation of the broadcast of the drama and/or the production permits of the producer.

Mobile Internet Applications Information Services

On June 28, 2016, the CAOC issued the *Provisions on the Administration of Mobile Internet Applications Information Services* (the “APP Provisions”), which became effective on August 1, 2016. Under the APP Provisions, mobile application providers and application store service providers are prohibited from engaging in any activity that may endanger national security, disturb the social order, or infringe the legal rights of third parties, and may not produce, copy, issue or disseminate through mobile applications any content prohibited by laws and regulations. The APP Provisions also require application providers to procure relevant approval to provide services through such applications and require application store service providers to register with local branch offices of the CAOC within 30 days after they start providing application store services. We have procured the required approvals for services that we provide through our mobile applications. If we, as a provider of information services through Apps, violate these regulations, mobile application stores through which we distribute our Apps may issue warnings to us, suspend the release, or terminate the sale, of our Apps, and/or report our violations to governmental authorities. Sogou Information has filed an application for registration with the applicable local branch of the CAOC with respect to its provision of application store services.

Internet Map Services

Under the *Opinions on Strengthening the Supervision of Internet Map and Geographic Information Services* and the *Notices on Further Strengthening the Management of Internet Map Services Permit* issued on February 25, 2008 and December 23, 2011, respectively, by the State Administration of Surveying, Mapping and Geo-information (the “SASMG,” formerly known as the State Bureau of Surveying and Mapping), and six other governmental authorities and the *Administrative Regulations on Maps* issued by the State Council on November 26, 2015, effective on January 1, 2016, any provider of Internet map services that is not a professional surveying and mapping enterprise must obtain the approval of the SASMG or its local branches and a Surveying and Mapping Qualification Certificate in order to provide such services. In addition, providers of Internet map services must use maps obtained through government-approved channels and display the SASMG approval number, the Surveying and Mapping Qualification Certificate number and the Telecommunications Services Operating License number in conspicuous locations on their Websites.

[Table of Contents](#)

On July 1, 2014, the SASMG issued the *Administrative Regulations on Surveying and Mapping Qualification Certificate and Classification Standard on Surveying and Mapping Qualification Certificate* (the “SASMG Regulations and Standards”) effective on August 1, 2014, to replace previous regulations and standards issued on April 16, 2004 and March 12, 2009. Under the SASMG Regulations and Standards, there are two types of Surveying and Mapping Qualification certificates that may be issued to providers of Internet map services. A Class A certificate allows a holder to provide (i) map-location services, (ii) geo-information uploading and dimension services, and (iii) geo-information database development services, while a holder of a Class B certificate may only provide the first two types of services.

On July 26, 2016, the SASMG and the Office of the Central Leading Group for Cyberspace Affairs (the “OCLGCA”) jointly issued a *Notice on Standardizing the Usage of Maps by Internet Services Providers* (the “Maps Usage Notice”), which stipulates that all the Internet service providers must review and use maps in accordance with the PRC *Surveying and Mapping Law* and *Administrative Regulations on Maps*. The Maps Usage Notice requires that maps displayed by Internet service providers be obtained through government-approved channels and identify their sources and censor numbers. Internet service providers are prohibited from using maps obtained from unaccredited sources, including foreign Websites. All maps, other than scenic maps, block maps, subway maps and other simple maps, must be reviewed by PRC governmental authorities before they are published, and must not contain any information or content specified as prohibited in the Maps Usage Notice.

On January 1, 2015, Sogou Information obtained a renewed Class A Certificate of Surveying and Mapping Qualification from the SASMG.

Internet Medical, Health and Pharmaceuticals Information Dissemination

Under the *Measures for the Administration of Internet Pharmaceuticals Information Services* (the “Pharmaceuticals Information Services Measures”) issued by the SAMR on July 8, 2004, which were amended on November 17, 2017, formal approval from the SAMR or one of its local branches is required before a Website may disseminate information concerning pharmaceuticals.

Under the Pharmaceuticals Information Services Measures, medical, health and pharmaceutical information (including information with respect to medical equipment) provided by Websites must be scientific and accurate and must indicate the sources of such information. Websites that have received approval to disseminate such information must also publish or reprint health policies, information on epidemics and major health-related incidents, and other health-related information in accordance with law. Furthermore, medical and pharmaceutical advertisements (including advertisements for medical equipment) published by such Websites must not exaggerate the efficacy or promote the medical uses of such products.

Sohu Internet, Guangzhou Qianjun, and Sogou Information received renewed approval from the SAMR, on June 13, 2019, November 23, 2018, and September 18, 2020, respectively, to disseminate pharmaceuticals information over the Internet.

Regulation of Brand Advertising Services

On April 24, 2015, the Standing Committee of the National People’s Congress enacted the *Advertising Law of the People’s Republic of China* (the “New Advertising Law”), which became effective on September 1, 2015 and was amended on October 26, 2018. The New Advertising Law, which was a major overhaul of an advertising law enacted in 1994, increases the potential legal liability of providers of advertising services, and includes provisions intended to strengthen identification of false advertising and the power of regulatory authorities. On July 4, 2016, the SAMR issued the *Interim Measures of the Administration of Online Advertising* (the “SAMR Interim Measures”), effective on September 1, 2016. The New Advertising Law and the SAMR Interim Measures both provide that advertisements posted or published through the Internet may not affect users’ normal usage of a network, and advertisements published in the form of pop-up windows on the Internet must display a “close” sign prominently and ensure one-key closing of the pop-up windows. The SAMR Interim Measures provide that all online advertisements must be marked “Advertisement” so that viewers can easily identify them as such. Moreover, the SAMR Interim Measures treat pay-for-click search results as advertisements that are subject to PRC advertisement laws, require that pay-for-click search results be conspicuously identified on search result pages as advertisements and subject revenues from such advertisements to a 3% PRC tax that is applied to advertising revenues. The New Advertising Law and SAMR Interim Measures will require us to conduct more stringent examination and monitoring of our advertisers and the content of their advertisements. In order to comply with these regulations, Sogou has established more stringent standards for selecting advertisers for pay-for-click services, has turned down certain existing advertisers, and has lowered the percentage that pay-for-click search results represent of results on Sogou search pages.

On April 13, 2016, the SAMR and sixteen other PRC government agencies jointly issued a *Notice of Campaign to Crack Down on Illegal Internet Finance Advertisements and Other Financial Activities in the Name of Investment Management* (the “Campaign Notice”), pursuant to which a campaign was conducted between April 2016 and January 2017 targeting, among other things, online advertisements for Internet finance and other financial activities posted on Internet search portals and other portal, financial, real estate, P2P and investment product sales services Websites. On March 22, 2019, the SAMR issued the *Notice of a Campaign to Deepen the Rectification of Online Advertisements*, which targets false advertising related to the physical health or the protection of property of the public in areas such as pharmaceuticals, health food, and real estate and financial investments by Internet portals, search engines, and e-commerce platforms with significant social influence and wide coverage, as well as by Internet media such as mobile client applications and new media accounts. The *Notice of Key Areas of Work in 2020 of the Inter-Ministerial Joint Meeting on Rectification of False and Illegal Advertisements*, jointly issued by SAMR and ten other PRC government agencies on March 9, 2020, further emphasizes the responsibility of Internet service providers to verify and examine the content and supporting documents of online advertisements and prevent the dissemination of false and illegal online advertisements.

On August 31, 2018, the Standing Committee of the National People's Congress enacted the *E-commerce Law of the People's Republic of China* (the "E-commerce Law"), which took effect on January 1, 2019 and which stipulates, among other things, that although an e-commerce business operator may provide an Internet consumer with search results for goods or services based on such consumer's preferences or consumption habits, the operator must also provide such consumer with options that are not based on such consumer's preferences or habits, in order to respect and protect the rights and interests of such consumer, and reiterates that e-commerce business operators that distribute online advertisements to consumers must comply with the New Advertising Law.

Regulation of Online Game Services

Online Games and Cultural Products

In September 2009, the SAPPRFT, together with the National Copyright Administration and the National Office of Combating Pornography and Illegal Publications, jointly issued a *Notice on Further Strengthening the Administration of Pre-examination and Approval of Online Games and the Examination and Approval of Imported Online Games*, or the SAPPRFT Online Game Notice. The SAPPRFT Online Game Notice states that foreign investors are not permitted to invest in online game operating businesses in China via wholly foreign-owned entities, China-foreign equity joint ventures or cooperative joint ventures or to exercise control over or participate in the operation of domestic online game businesses through indirect means, such as other joint venture companies or contractual or technical arrangements. If the VIE structures of Changyou and Sogou were deemed under the SAPPRFT Online Game Notice to be an "indirect means" for foreign investors to exercise control over or participate in the operation of a domestic online game business, the VIE structures of Changyou and Sogou might be challenged by the SPPA, a successor agency to the SAPPRFT. We are not aware of any online game companies which use the same or similar VIE contractual arrangements as those Changyou and Sogou use having been challenged by the SAPPRFT or the SPPA as using those VIE arrangements as an "indirect means" for foreign investors to exercise control over or participate in the operation of a domestic online game business or having been penalized or ordered to terminate operations since the SAPPRFT Online Game Notice first became effective. However, it is unclear whether and how the SAPPRFT Online Game Notice might be interpreted or implemented in the future.

On February 21, 2008, the SAPPRFT issued the *Rules for the Administration of Electronic Publications*, or the Electronic Publication Rules, which were amended on August 28, 2015. The Electronic Publication Rules regulate the production, publishing and importation of electronic publications in the PRC and outline a licensing system for business operations involving electronic publishing. Under the Electronic Publication Rules and other related regulations issued by the SAPPRFT, online games are classified as a type of electronic publication or Internet publication that may only be provided by a licensed electronic publishing entity with a standard publication code, and the establishment of an electronic publishing entity must be approved by the SAPPRFT. Electronic publishing entities are responsible for assuring that the content of electronic publications comply with relevant PRC law and regulations, and must obtain the approval of the SPPA, a successor agency to the SAPPRFT, before publishing foreign electronic publications. The New Internet Publication Measures, which became effective on March 10, 2016 and replaced the *Temporary Measures for Internet Publication Administration* that had become effective in 2002, require that entities in the Internet publishing business apply for an online publishing services license instead of an Internet publishing license, that entities holding an Internet publishing license apply for an online publishing service license within a specified period of time to replace their Internet publishing license, and that all such entities obtain approval from the SAPPRFT or the SPPA prior to the publication of new online games. In addition, under the New Internet Publication Measures, Sino-foreign joint ventures and foreign-invested entities are not permitted to engage in Internet publication services, and the legal representative of an entity providing Internet publication services may not be a foreigner.

Gamease, which is the operator of TLBB, BO, BH2 and certain other licensed PC games, and Guanyou Gamespace, which provides online game services, obtained Internet publishing licenses on December 10, 2010 and October 13, 2011, respectively, and Gamease and Guanyou Gamespace have obtained online publishing services licenses under the New Internet Publication Measures to replace the Internet publishing licenses previously held by them. TLBB, BO, BH2 and some of Changyou's other games were historically published through third parties that were licensed electronic publishing entities, because Gamease had not obtained an Internet publishing license at the time those online games were made publicly available. TLBB, BO and BH2 and certain of Changyou's other existing games are currently published under an Internet publishing license held by Gamease. Current PRC regulations are not clear as to the consequences of obtaining authorization codes through third-party electronic publishing entities. While we believe that arrangements like Changyou's are acknowledged by the SAPPRFT or SPPA, in view of the lack of formal interpretation regarding this issue, the SPPA might challenge Changyou's current and past practices and could subject Changyou to various penalties, including fines, confiscation of publishing equipment and the revenues generated from the publishing activities, the revocation of Changyou's business license, or the forced discontinuation of or restrictions on its operations.

On May 24, 2016, the SAPPRFT issued the Mobile Game Notice, which became effective on July 1, 2016 and sets forth requirements for the publication and operation of mobile games online, including requiring that mobile game publishers and operators, including joint operators, review the content of the games that they publish and operate, and apply for publication and authorization codes at least 20 business days before first publishing and operating domestic recreational and educational mobile games through open beta testing. The Mobile Game Notice, as updated by a subsequent notice, specifies that game publishers and game operators were required to review the content of mobile games that were published and operated online before July 1, 2016, and to complete approval procedures for those games before December 31, 2016, or to cease operating the games. Changyou completed prior to December 31, 2016 all of the approval procedures required by the SAPPRFT for its mobile games that were in operation before July 1, 2016.

[Table of Contents](#)

The MCT issued the *New Provisional Regulations for the Administration of Online Culture*, or the Online Culture Regulations, which took effect on April 1, 2011 and was amended on December 15, 2017 and replaced the *Provisional Regulations for the Administration of Online Culture*. The Online Culture Regulations apply to entities engaging in activities related to “Internet cultural products,” which include cultural products that are produced specifically for Internet use, such as online music and entertainment, online games, online plays, online performances, online works of art and Web animation, and other online cultural products that through technical means, produce or reproduce music, entertainment, games, plays and other art works for Internet dissemination. Under the New Online Culture Regulations, commercial entities are required to apply to the relevant local branch of the MCT for an Online Culture Operating Permit if they engage in the production, duplication, importation, release or broadcasting of Internet cultural products; the dissemination of online cultural products on the Internet or the transmission of such products via Internet or mobile phone networks to user terminals, such as computers, phones, television sets and gaming consoles, or Internet surfing service sites such as Internet cafés; or the holding or exhibition of contests related to Internet cultural products. On May 14, 2019, the MCT issued the MCT Approval Scope Notice, pursuant to which the MCT is no longer responsible for regulating the online-game industry and its local branches are no longer responsible for granting new Online Culture Operating Permits for online games, or renewing existing permits after their expiration. It is not clear whether another PRC governmental agency will be designated to supervise the online game industry and whether a new permit or license that is similar to Online Cultural Operating Permit will be required for the operation of online games. On December 9, 2019, the Comprehensive Market Enforcement Supervision Bureau of MCT issued the *Notice on Law Enforcement in the Online Game Market*, which stipulates that the investigation and processing of online game cases will be under the *Measures of Internet Publication Service Administration*, and that the *Interim Measures for Online Games Administration*, which became effective on August 1, 2010 and were repealed on July 10, 2019, will no longer apply to such cases. In January 2008 Gamease obtained an Online Culture Operating Permit, which was re-certified in October 2015 and December 2017; and in December 2010 Shanghai ICE obtained an Online Culture Operating Permit, which was re-certified in January 2014.

The *Notice on Strengthening the Approval and Administration of Imported Online Games*, or the Imported Online Game Notice, which was issued by the SAPPRT and took effect in July 2009, states that the SAPPRT was, and the SPPA as a successor to the SAPPRT is, the only governmental department authorized by the State Council to approve the importation of online games from Offshore copyright owners, and that any enterprise which engages in online game publication and operation services within China must have the game examined and approved by the SAPPRT or the SPPA and receive from the SAPPRT or the SPPA an Internet publishing license (or after the New Internet Publication Measures became effective on March 10, 2016, an online publishing services license). Changyou’s VIEs Gamease and Guanyou Gamespace obtained Internet publishing licenses from the SAPPRT and they have obtained online publishing services licenses under the New Internet Publication Measures to replace the Internet publishing licenses previously held by them. In addition, the Imported Online Game Notice states that activities which involve the showing, exhibition, trading and promotion of Offshore online games in China must be examined and approved by the SAPPRT or the SPPA.

The *Administrative Measures for Content Self-review by Internet Culture Business Entities*, or the Content Self-review Administrative Measure, which took effect in December 2013, require Internet culture business entities to review the content of products and services to be provided prior to providing such content and services to the public. The content management system of an Internet culture business entity is required to specify the responsibilities, standards and processes for content review as well as accountability measures, and is required be filed with the local provincial branch of the MCT.

In January 2014, the SAIC promulgated the *Administrative Measures for Online Trading*, or the Online Trading Measures, which took effect on March 15, 2014, and replaced the Interim Measures for the *Administration of Online Commodities Trading and Relevant Services*, issued by the SAIC, which had taken effect on July 1, 2010. The Online Trading Measures regulate online commodity trading and related activities. The Online Trading Measures require that online transactions in commodities or services comply with the provisions of all applicable laws, regulations and rules. When selling commodities or providing services to consumers, online operators must comply with all applicable laws with respect to the protection of consumer rights and interests, the protection of intellectual property rights of others and the prevention of unfair competition. Information provided with respect to commodities and services provided by online commodity operators or related service operators must be authentic and accurate. If Changyou fails to comply with all requirements of the Online Trading Measures, the local branch of the SAIC or SAMR or another governmental authority with jurisdiction might impose penalties on it, such as fines.

Registration of Software Copyrights

The *Measures Concerning Registration of Computer Software Copyright*, or the Software Copyright Measures, issued by the National Copyright Administration, which became effective in February 2002, encourage the registration of software and afford greater protection to registered software than that afforded to unregistered software. Changyou has registered software copyrights covering all of its significant copyrightable products and enhancements.

Regulation of Internet Content

The PRC government has promulgated measures relating to Internet content through a number of government authorities, including the MIIT, the MCT, the SPPA, the NRTA and the MPS. These measures prohibit certain Internet activities, including the operation of online games that result in the publication of any content which is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise State security or secrets. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its Websites.

[Table of Contents](#)

On May 2, 2017, the CAOC, issued the *Administrative Enforcement Procedures for the Administration of Internet-based Information Content*, or the Enforcement Procedures, effective June 1, 2017. Pursuant to the Enforcement Procedures, the CAOC and its local branch offices have the authority to enforce, and impose administrative sanctions on activities prohibited by, applicable administrative laws and regulations concerning Internet-based information content.

Protection of Minors

On October 17, 2020, the Standing Committee of the National People's Congress issued the Minor Protection Law, which will take effect on June 1, 2021 and which will strengthen requirements for the protection of minors from addictive online-game playing behaviors. Also see "Government Regulation and Legal Uncertainties - Regulation of the Provision of Internet Content—Protection of Minors."

On May 15, 2020, the Supreme People's Court issued several guiding opinions on civil cases. The opinions stipulate that if minors participate in online games that are not free to play without the consent of their guardians and spend the money in a way that is not suitable for their age or intelligence, the guardians may request the online game or live game platform operators to refund the money.

On April 15, 2007, the SAPPRFT and several other governmental authorities issued a circular requiring the implementation of an "anti-fatigue system" and a real-name registration system by all PRC online game operators, in an effort to curb addictive online game play behaviors of minors. Under the anti-fatigue system, three hours or less of continuous play by minors is considered to be "healthy," three to five hours to be "fatiguing," and five hours or more to be "unhealthy." Game operators are required to reduce the value of in-game benefits to a game player by half if the game player has reached "fatiguing" level, and to zero in the case of "unhealthy" level.

To identify whether a game player is a minor and thus subject to the anti-fatigue system, there was adopted a real-name registration system, which requires online game players to register their real identity information before they play online games and requires online game operators such as Changyou and Sogou to submit the identity information of game players to the public security authorities for verification. On July 1, 2011, the SAPPRFT, the MIIT, the Ministry of Education and five other governmental authorities issued a *Notice on Initializing the verification of Real-name Registration for Anti-Fatigue System on Internet Games*, or the Real-name Registration Notice"), which took effect on October 1, 2011, to strengthen the implementation of the anti-fatigue system and real-name registration. The Real-name Registration Notice's main focus is to prevent minors from using an adult's ID to play Internet games and, accordingly, the notice imposes stringent punishments on online game operators that do not implement the required anti-fatigue and real-name registration measures properly and effectively. The most severe punishment contemplated by the Real-name Registration Notice is to require termination of the operation of the online game if it is found to be in violation of the Anti-Fatigue Notice, the Monitor System Circular or the Real-name Registration Notice. Changyou and Sogou developed anti-fatigue and real-name registration systems for their games, and implemented them beginning in 2007. Under the systems of Changyou and Sogou, game players must use real identification in order to create accounts, and in this way Changyou and Sogou generally are able to tell which of their game players are minors and thus subject to these regulations. For game players who do not register, Changyou and Sogou assume that they are minors. As required by the anti-fatigue rules, Changyou reduces the value of in-game benefits of game players under 18 years based on the amount of their continuous play. In order to comply with the anti-fatigue rules, game players under 18 years of age only receive half of the experience time they actually earn after three hours of play. And, after five hours of play, minors receive no experience points. Sogou uses this system to disincentivize minors from playing in excess of five hours at a time.

On January 15, 2011, the MCT, the MIIT and six other central government authorities jointly issued a circular entitled *Implementation of Online Game Monitor System of the Guardians of Minors*, or the Monitor System Circular, aiming to provide protection measures to monitor the online game activities of minors and curb addictive online game playing behaviors of minors. Under the Monitor System Circular, online game operators are required to adopt various measures to maintain a system to communicate with the parents or other guardians of minors playing online games and online game operators are required to monitor the online game activities of minors, and must suspend the account of a minor if so requested by the minor's parents or guardians. The monitor system was formally implemented commencing March 1, 2011.

In February 2013, 15 PRC government authorities, including the SAPPRFT, the Ministry of Education, the MCT and the MIIT, jointly issued the Work Plan implementing integrated measures by different authorities to prevent minors from being addicted to online games. Under the Work Plan, the current relevant regulations regarding online games will be further clarified and additional implementation rules will be issued; and as a result, online game operators will be required to implement measures to protect minors.

On July 25, 2014, the SAPPRFT promulgated a *Notice on Further Carrying out the Verification of Real-name Registration for Anti-Fatigue System on Internet Games*, or the Verification of Real-name Registration Notice, which took effect on October 1, 2014. The Verification of Real-name Registration Notice requires local press and publication administrative departments to strengthen their administration over enterprises engaged in online game publication and operations, and requires such enterprises to abide by anti-fatigue and real-name registration requirements when developing and promoting online games, excluding, at present, mobile games.

The Indulgence Prevention Notice requires online game operators to implement measures to not give minors access to online game services during specified periods of the day, imposes daily limits on minors' length of use and spending for paid online game services, and prohibits online game operators from providing paid game services to minors under the age of eight. The Indulgence Prevention Notice also stipulates that online game operators must require real name registration by their users and must not provide game services to users who have not completed their real-name registrations.

Information Security and Censorship

Internet content in China is also regulated and restricted from a State security standpoint. The Standing Committee of the National People's Congress enacted the *Decision on Internet Security Protection* in 2000, and amended it in August, 2009. The decision makes it unlawful to: (i) gain improper entry into a computer or system of strategic importance; (ii) disseminate politically disruptive information; (iii) leak State secrets; (iv) spread false commercial information; or (v) infringe intellectual property rights. The MPS has promulgated measures that prohibit the use of the Internet in ways which, among other things, result in a leakage of State secrets or distribution of socially destabilizing content. The MPS has supervision and inspection rights in this regard, and Changyou may be subject to the jurisdiction of local security bureaus. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its Websites. On November 7, 2016, the Standing Committee of the National People's Congress issued the Internet Security Law, which took effect on June 1, 2017. The Internet Security Law requires providers of services over Internet networks to keep user information that they have collected in strict confidence and to establish improved systems for the protection of user information. Such service providers must provide notice of the purpose, methods and scope of their collection and use of user information, and obtain the consent of each person whose personal information will be collected. Service providers may not collect any personal information that is not related to the services they provide, or disclose or tamper with personal information that they have collected, unless such information is encoded to prevent identification of individuals whose information is so disclosed or tampered with. Service providers who do not comply with the Internet Security Law may be subject to fines, suspension of their businesses, shutdown of their websites, and revocation of their business licenses.

In 2005, the MCT and the MIIT promulgated the *Opinions on the Development and Administration of Online Games* emphasizing the PRC government's intent to foster and control the development of the online game industry in China and providing that the MCT will censor online games that "threaten state security," "disturb the social order," or contain "obscenity" or "violence." Although the MCT Approval Scope Notice provides that the MCT is no longer responsible for regulating the online game industry, it is not clear whether the MIIT or another PRC governmental agency will be designated to censor online games under the *Opinions on the Development and Administration of Online Games*.

In November 2018, the MPS issued the *Regulations for Internet Security Supervision and Inspection by Public Security Authority*, which specifies the standards for the inspection of network operators and the legal responsibilities of network operators that provide internet content.

Virtual Currency

On February 15, 2007, the MCT, the People's Bank of China, or the PBOC, and other relevant government authorities jointly issued the *Notice on the Reinforcement of the Administration of Internet Cafés and Online Games*, or the Internet Cafés Notice. Under the Internet Cafés Notice, the PBOC is directed to strengthen the administration of virtual currency in online games to avoid any adverse impact on the economy and financial system. The Internet Cafés Notice limits the total amount of virtual currency that may be issued by online game operators and the amount that may be purchased by individual game players, and includes a clear division between virtual transactions and real transactions carried out by way of electronic commerce. The Internet Cafés Notice also provides that virtual currency may only be used to purchase virtual items.

On June 4, 2009, the MCT and the MOFCOM jointly issued the Virtual Currency Notice, to regulate the trading of online game virtual currencies. The Virtual Currency Notice defines the meaning of virtual currency and places a set of restrictions on the trading and issuance of virtual currency. The Virtual Currency Notice also states that online game operators are not allowed to give out virtual items or virtual currency through lottery-based activities, such as lucky draws, betting or random computer sampling, in exchange for user's cash or virtual money. The Virtual Currency Notice is mainly targeted at lottery-based activities relating to the "treasure boxes" found in some online games.

On July 20, 2009, the MCT promulgated the *Filing Guidelines for Online Game Virtual Currency Issuing Enterprises and Online Game Virtual Currency Trading Enterprises* (the "Virtual Currency Guidelines"), which define the terms "issuing enterprise" and "trading enterprise" and stipulate that the same enterprise may not be both an issuing enterprise and a trading enterprise.

Import and Export of Software Technology

China imposes controls on the import and export of technology and software products. Under the *Regulations on Administration of Import and Export of Technologies* promulgated by the State Council, which were amended on March 2, 2019, the term "technology import and export" is defined to include, among other things, the transfer or licensing of patents and know-how, and the provision of services related to technology. Depending on the nature of the relevant technology, the import and export of technology require either approval by or registration with the relevant PRC governmental authorities. Under the *Software Export Management and Statistics Measures* promulgated in October 2001, if a company is classified as a software enterprise and has a minimum of RMB1.0 million (or approximately \$144,904) in registered capital, it may engage in an export business after being registered with the relevant PRC governmental authorities. All contracts which relate to the export of software products, transfer of technology or provision of related services must be filed with the relevant PRC governmental authorities. The *Measures for the Administration of Registration of Technology Import and Export Contracts*, issued by the MOFCOM in February 2009, specify registration requirements related to the import and export of technology.

Changyou has entered into license agreements with third parties outside of China to license its games, which may be deemed to constitute the export of technology under the regulations. As a result, such licenses are required to be registered with applicable PRC governmental authorities. Although there are no explicit penalties set forth in these regulations for lack of such registration, failure to register an agreement where such registration is required may result in restrictions concerning foreign exchange, banking and taxation matters relating to such agreements. Changyou has not registered all of the game license agreements under which it authorizes overseas third-party online game operators to operate its online games, and so far Changyou has not encountered any problems with respect to foreign exchange, banking or taxation matters relating to its license agreements, nor has Changyou received any notice from any governmental authority requiring it to complete the registration of its game license agreements.

Regulation of Search and search-related Services

On October 23, 2015, the MCT issued a *Notice on Further Strengthening and Improving the Administration of Content of Online Music* (the “MCT Further Notice”) which became effective on January 1, 2016. The MCT Further Notice provides that providing direct links to online music will constitute engaging in the online music business, and that therefore an Online Culture Operating Permit is required for providing such search services. Sogou Information held an Online Culture Operating Permit pursuant to regulations that were in effect before the MCT Further Notice became effective. The permit was renewed on August 20, 2020 pursuant to the MCT Further Notice.

On June 25, 2016, the CAOC issued *Measures for the Administration of Online Information Search Services* (the “CAOC Measures”), which came into effect on August 1, 2016. The CAOC Measures, like the SAMR Interim Measures, require that providers of online search services verify the credentials of pay-for-click advertisers, specify a maximum percentage that pay-for-click search results may represent of results on a search page, and require that providers of search services conspicuously identify pay-for-click search results as such.

Regulation of Other Services

Real Estate Services

On June 23, 2020, the NDRC and the MOFCOM issued the *Special Administrative Measures for Admittance of Foreign Investment (Restricted List) (2020 Edition)* (the “2020 Restricted List”), which became effective on July 23, 2020. The 2020 Restricted List removed from the category of industries where foreign investment is restricted real estate agency and brokerage services, which had been included in the restricted category in the previous Foreign Investment Industrial Guidance Catalogue issued in 2011. The 2020 Restricted List loosened existing restrictions on foreign ownership of real estate agency and brokerage services in China, and as a result we may conduct real estate agency and brokerage services directly.

On April 4, 2001, the Ministry of Housing and Urban-Rural Development (the “MHURD,” formerly the Ministry of Construction) promulgated the *Regulatory Measures on the Sale of Commercial Houses*, pursuant to which a real estate developer may engage a real estate services organization as a broker to pre-sell or sell primary residential housing. The regulatory measures provide that a real estate broker must not make any false statements regarding a property to clients and must present clients with relevant title certificates or sale permits for the properties and a related letter of authorization.

On December 29, 2006, the MHURD and the PBOC jointly issued the *Circular Concerning Strengthening the Management of Real Estate Services and Regulating the Trade Settlement Capital Account*, which provides a number of directives regulating the real estate services industry. Under the circular, a real estate services company is not permitted to receive cash purchase payments on behalf of clients in secondary real estate transactions and is required to establish separate security deposit accounts for clients.

On January 20, 2011, MHURD, the NDRC, and the Ministry of Human Resources and Social Security jointly issued the *Measures for Administration on Real Estate Brokerage* (the “Brokerage Measures”), which became effective on April 1, 2011 and were amended on April 1, 2016, and govern the activities of real estate brokerages and real estate brokerage personnel in providing intermediary, agency and related services and charging commissions. Furthermore, pursuant to the Brokerage Measures, a real estate brokerage company and its branches must have a sufficient number of licensed real estate brokers. The Brokerage Measures also require real estate brokerage companies to file with real estate regulatory authorities at the county level or above within 30 days after their business registration with the relevant local counterparts of the SAMR. Focus Interactive has made the required filings.

On July 29, 2016, the MHURD and six other governmental authorities jointly issued the *Opinions on Strengthening the Administration of Sound Development of Real Estate Brokerage* (the “MHURD Opinions”), to further regulate real estate brokerage services. The MHURD Opinions stipulate that real estate brokers are obligated to censor specified real estate-related information, including ownership, price, area, and location, and may not provide, directly or through agencies, loans for down payments and other similar financial services.

[Table of Contents](#)

On September 30, 2016, Beijing MHURD and five other governmental authorities jointly issued the *Measures for the Promotion of Stable and Healthy Development of the Local Real Estate Market* (the “Beijing Measures”), with the goal of tempering rampant increases in housing prices by balancing land supply in favor of residential use and owner-occupied apartments, providing guidance for real estate developers and brokers as to the setting of prices and the conduct of advertising, selling and financing activities, and providing for enhanced enforcement measures with respect to false and misleading advertisements and pricing information and other illegal selling and financing activities in the local real estate market. Certain other cities, including Tianjin, Suzhou, Zhengzhou, Chengdu, Hefei, and Wuhan, adopted similar measures. One effect of these regulations has been to make real estate developers more cautious with respect to advertising housing on Internet platforms and cooperating on real estate-related e-commerce programs with Internet service providers.

On May 19, 2018, the MHURD issued a *Notice on Further Improving Relevant Issues Concerning the Regulation and Control of the Real Estate Market*, to prohibit certain behaviors by real estate developers and brokers, such as hoarding property for speculation. On June 25, 2018, the MHURD and six other government agencies jointly issued a *Notice on Launching Special Actions to Combat the Infringement of the Interests of the Masses and Regulating the Real Estate Market in Some Cities*, to prohibit certain additional behaviors of real estate developers and brokers, such as price manipulation and false advertising, in specified cities including Beijing, Shanghai, Guangzhou, and Tianjin.

Online Payment Services

On June 14, 2010, the PBOC issued the *Measures for the Administration of Payment Services Provided by Non-financial Institutions* (the “Payment Services Measures”), which took effect on September 1, 2010 and were amended on February 3, 2016 and April 29, 2020. On December 1, 2010, the PBOC promulgated the *Implementing Rules for the Payment Services Measures*. The Payment Services Measures and their implementing rules require any non-financial institution engaging in payment services, such as online payments, issuance and acceptance of prepaid cards, and bill collection via bank cards, to obtain a Payment Service License. Applications for Payment Service Licenses are examined by the local branches of the PBOC and then submitted to the PBOC for approval. To further regulate the operation of online payment services, the PBOC issued the *Administration of Online Payment Services Provided by Non-Bank Payment Institutions* (the “Online Payment Services Measures”), which took effect on July 1, 2016, and was amended on June 2, 2020 and November 12, 2020, respectively. The Online Payment Services Measures classify personal payment accounts at entities that already hold a Payment Service License into three categories based on the extent to which the holders of the accounts have completed identity verification procedures, and provide that those account holders who have completed more of the identity verification process are entitled to a broader range of payment options through their accounts. The Online Payment Services Measures prohibit non-bank payment institutions from engaging in securities, insurance, financing, trusts and other unauthorized financial business. Non-bank payment institutions are also required to develop risk control systems, including a risk rating system for users, a dispute resolution system, and a risk reserve.

In addition, on April 29, 2019, the SAFE issued the *Administrative Measures for Foreign Exchange Services of Payment Institutions*, replacing the *Notice of the State Administration of Foreign Exchange on the Pilot Scheme of Cross-border Foreign Exchange Payment Services Provided by Payment Institutions* issued by the SAFE on January 20, 2015, pursuant to which a payment institution is required to obtain approval from the local branches of SAFE and to be registered in the Enterprise Directory for Foreign Exchange Receipts and Payments in Trade in order to provide foreign exchange payment services for cross-border e-commerce transactions. Any institution applying for such registration and approval must first obtain a Payment Services License that authorizes it to engage in the online payments business.

Lottery Sales

On May 4, 2009, the State Council issued the *Regulation on Administration of Lottery* stating that “lottery issuance agencies” and “lottery sales agencies” may authorize other entities to conduct lottery sales. On September 26, 2010, the Ministry of Finance (the “MOF”) issued the *Interim Measures on the Administration of Internet Lottery Sale* (the “Lottery Measures”), which set forth detailed requirements for the administration of online lottery sales as well as requirements for qualified online lottery service providers. Pursuant to the Lottery Measures, the MOF is the supervisory and regulatory department for online lottery sales. Lottery issuance agencies may collaborate with other entities or authorize lottery sales agencies to conduct online lottery sales, or appoint qualified entities as their online lottery sales agents. The Lottery Measures require qualified online lottery service providers to meet certain criteria, including having obtained an Internet content provider license. Lottery issuance agencies are required to apply to the MOF for approval of online lottery service providers that the lottery service agencies propose to engage to conduct an online lottery business.

On January 18, 2012, the MOF, the Ministry of Civil Affairs and the General Administration of Sports jointly issued the *Implementing Rules of the Regulation on Administration of Lottery* (the “Lottery Implementing Rules”), which became effective on March 1, 2012 and were amended on August 16, 2018. The Lottery Implementing Rules stipulate that lotteries sold through the Internet or sold without the MOF’s approval and a lottery issuing agency’s or a lottery sales agency’s authorization may be categorized as illegal lotteries.

On February 28, 2012, the General Administration of Sports issued the *Urgent Notice on the Strengthening Execution of the Lottery Implementing Rules*, reiterating that lotteries sold via the Internet without the approval of the MOF will be deemed to be illegal lotteries.

[Table of Contents](#)

On March 27, 2014, the MOF issued the *Interim Measures on the Administration of the Sale of Lotteries via Telephone* (the “Telephone Lottery Measures”) to replace the MOF’s former version promulgated on September 26, 2010. Under the Telephone Lottery Measures, “sale of lotteries via telephone” refers to the use of fixed-line telephones and mobile telephones to sell lotteries through short messages, voice calls and applications. Properly qualified lottery sales agencies may authorize other entities (“Telephone Sales Agents”) to carry out the business of sale of lotteries via telephone. The lottery sales agencies and the Telephone Sales Agent must enter into a commission agreement. A qualified Telephone Sales Agent is required to meet certain criteria, including having obtained a Value-Added Telecommunications Services Operating License. The Telephone Lottery Measures further provide that a Telephone Sales Agent must conduct business in accordance with parameters approved by the MOF and pursuant to a commission agreement.

On January 15, 2015, the MOF, the Ministry of Civil Affairs and the General Administration of Sports jointly promulgated the Notice related to Self-inspection and Self-Remedy of Unauthorized Online Lottery Sales (the “Self-inspection Notice”), which requires provincial and municipal government branches, including financial, civil affairs and sports bureaus, to conduct inspections and take remedial measures for unauthorized online lottery sales within their respective jurisdictions. The scope of inspection includes, among other things, commission contracts, online lottery products, exchange of lottery sales data, online lottery sales channels, and sales commission fees in connection with unauthorized engagements of online sales agents by lottery sales agencies. The Notice further requires that a formal report on the result of the inspections and the remedial measures be submitted by each provincial or municipal government to the MOF, the Ministry of Civil Affairs and the General Administration of Sports by March 1, 2015.

On April 3, 2015, eight governmental authorities consisting of the MOF, the MPS, the SAMR, the MIIT, the Ministry of Civil Affairs, the PBOC, the General Administration of Sports and the CBIRC jointly released a public announcement with regard to unauthorized online lottery sales (the “Public Announcement”). The Public Announcement provides, among other things, that (i) all lottery institutions, internet companies, and other institutions or individuals provide unauthorized online lottery sales services, either directly or through agents, must immediately cease such services; (ii) the local governmental authorities for finance, civil affairs and sports must investigate and sanction unauthorized online lottery sales in their respective jurisdictions in accordance with applicable laws and regulations; (iii) the local governmental authorities for public security and industry and commerce must investigate any issuances or sales of illegal lotteries within their respective jurisdictions, with necessary assistance from local governmental authorities for finance, communication, banking regulation, civil affairs and sports, and local branches of the PBOC, and report any criminal activities to judicial authorities for prosecution; (iv) the lottery issuance authorities that plan to sell lottery products online must obtain approval from the Ministry of Civil Affairs or the General Administration of Sports by submitting an application to the MOF for written approval, and (v) no entity may provide online lottery sales services without the approval of the MOF. On April 28, 2016, the MOF, the MPS, the Ministry of Civil Affairs, the General Administration of Sports, and the SAMR, and on May 5, 2015 the SAMR, issued notices regarding unauthorized online lottery sales and further emphasized the requirements specified in the Public Announcement. Online lottery sales are an insignificant business for us.

On August 8, 2018, the MOF and several other government agencies jointly issued an *Announcement on Further Regulating the Order of the Lottery Market and Comprehensively Managing the Sale of Lotteries through the Internet*, which further emphasizes that business entities and individuals may not sell lottery tickets or conduct any other form of lottery business over the Internet without the approval of the MOF.

Production of Radio and Telecommunications Equipment

On September 11, 1993, the State Council and Central Military Commission jointly issued the *Regulations on the Management of Radio Operations*, which were amended on November 11, 2016, under which the working frequencies, bands, and related technical indices of radio transmission equipment must conform to relevant regulations regarding radio and are required to be submitted to the state radio administration authority or its local branches for approval, and failure to submit such information for approval will result in the imposition of a fine.

On October 7, 1997, the State Radio Regulatory Bureau (formerly the State Radio Regulatory Commission), together with the SAMR (formerly the AQSIQ), promulgated *Regulations on the Production of Radio Transmitting Equipment* (the “Radio Transmitting Equipment Regulations”), which took effect on January 1, 1999. Pursuant to the Radio Transmitting Equipment Regulations, each type of radio transmission equipment is subject to approval from State Radio Regulatory Bureau (“SRRC Certificate”) prior to production.

On May 10, 2001, MIIT promulgated the *Administration Measures of the Network Entry of Telecommunication Equipment* (the “Telecommunication Equipment Measures”), which was amended on September 23, 2014. Pursuant to the Telecommunication Equipment Measures, the State requires all telecommunications terminal equipment to be connected to a public telecommunications network to obtain network connection permits. A Permit of Network Connection, or China Type Approval Certificate (“CTA Certificate”), issued by the MIIT must be obtained for such telecommunications equipment. When a producer of such telecommunications terminal equipment applies for a CTA Certificate, it must submit a test report or product quality certificate (namely SRRC Certificate). If a CTA Certificate has not been obtained for such equipment, it may not be connected to a public telecommunications network and may not be used or sold domestically.

Regulation of Online Lending and Microcredit Services

Online Lending and Microcredit Services

On July 18, 2015, the Guidelines on Promoting the Healthy Development of the Online Finance Industry (the “Fin-Tech Guidelines”) were jointly promulgated by ten PRC governmental authorities, including the PBOC, the MIIT, and the CBRC. The Fin-Tech Guidelines actively encourage innovation in internet financial platforms, products, and services for the purpose of increasing market vitality. The Fin-Tech Guidelines also require companies providing Internet finance services to, among other requirements, engage eligible banking institutions to act as fund depositories for client funds; have adequate procedures for the protection of the personal information of clients; and to not improperly buy, sell, or disclose such personal information.

Circular 141, which was jointly issued by the Head Office for Special Rectification against Internet Finance Risks and the Head Office for Special Rectification against Peer-to-Peer Online Lending Risks on December 1, 2017, stipulates general requirements for “cash loan” businesses conducted by online microcredit companies, banking institutions, and online lending information intermediaries, and specifies general requirements and guidelines with respect to cash loan businesses, such as governmental pre-approval requirements, limits on interest rates and overall costs to borrowers, “know-your-customer” requirements, borrower eligibility assessment requirements, a prohibition on collection of loans using violence, and protection of customers’ personal information. The aggregate borrowing costs charged to borrowers by cash loan business in the form of interest and various fees must comply with guidelines on interest rates applicable to private lending issued from time to time by the Supreme People’s Court, such as those set forth in the Private Lending Judicial Interpretations. In addition, Circular 141 prohibits online microcredit companies from facilitating loans to students, making loans that are not made with the use of proceeds specified or that are to be used for down payments or speculative trading, and funding loans using illegal sources of funds.

Circular 141 also stipulates that a banking institution that offers cash loans through loan facilitation is prohibited from (i) accepting credit enhancement or other similar services from third parties that lack requisite licenses to provide guarantees; (ii) outsourcing credit assessment, risk control, and other key functions to a loan facilitation operator; and (iii) allowing the loan facilitation operator to charge any interest or fees from the borrower. In addition, CBIRC Circular 37 states that institutions that provide services such as customer recommendations and evaluation of credit to lending institutions may not provide financial guarantee services without approval of regulatory authorities. Although Sogou believes that its operation of its online lending and microcredit loan facilitation business should not be deemed to be operation of a financial guarantee business, relevant PRC regulatory authorities might not share the same view as theirs, as the exact definition and scope of operating a financial guarantee business remain unclear. If Sogou was deemed to be operating a financial guarantee business, it would be subject to PRC laws and regulations, such as Circular 141 and CBIRC Circular 37, concerning the financial guarantee business.

The *Guidance on the Pilot Establishment of Microcredit Companies* jointly promulgated by the CBRC and the PBOC on May 4, 2008 (the “Pilot Guidance”) provides guidance on capital source and utilization requirements and restrictions and on the management and operation of microcredit companies. The Pilot Guidance also provides that the establishment of a microcredit company is subject to approval of the competent governmental authority at the provincial level. The People’s Government of Guangdong Province promulgated the *Guidance on the Implementation of Pilot Microcredit Companies*, on January 14, 2009, and the *Interim Administrative Measures on Microcredit Companies of Guangdong Province*, on January 23, 2009, which specify the principles, scope, and timeline of a pilot program and pilot joint meeting system; the role of certain governmental authorities; requirements for the establishment, organization and management of microcredit companies; and supervision and risk prevention rules with respect to microcredit companies in Guangdong province. On March 6, 2017, the Financial Work Bureau of the People’s Government of Shantou, which is a city in Guangdong Province, promulgated the *Regulatory Guidance on Online Microcredit Companies Established in Shantou (for Trial Implementation)*, which sets forth regulatory requirements for the establishment, business requirements, submission of information, and management of risks of online microcredit companies established in Shantou.

Sogou’s subsidiary Sogou (Shantou) Internet Microcredit Co., Ltd. (“Sogou Microcredit”) has obtained the key governmental approvals and licenses required under current PRC laws and regulations for the conduct of a microcredit business. However, as the regulatory regime and practices with respect to online microcredit companies are evolving, there is uncertainty as to how the various requirements discussed above will be interpreted and implemented and whether there will be new rules issued which would establish further requirements and restrictions on microcredit companies.

Loans and Interest Rates

The Civil Code recognizes the validity of loan agreements between natural persons, provides that a loan agreement becomes effective when an individual lender provides a loan under the agreement to an individual borrower, and requires interest rates charged under a loan agreement to comply with applicable PRC laws and regulations. The Private Lending Judicial Interpretations issued by the Supreme People’s Court in August 2015 and effective in September 2015 specify that loan agreements for loans with annual interest rates below 24% are valid and enforceable. With respect to a loan with an annual interest rate between 24% and 36%, if the interest on the loan has already been paid to the lender and such payment has not caused damage to the interests of the state, the community, or any third parties, the Private Lending Judicial Interpretations indicate that courts will be likely to dismiss a borrower’s demand for return of the interest payments. If the annual interest rate of a private loan is higher than 36%, the portion of the interest exceeding the maximum interest rate is invalid. The Revised Private Lending Judicial Interpretations provide that, beginning August 20, 2020, PRC courts will not enforce the collection of interest on one-year loans to the extent that the interest exceeds four times the prime rate for one-year loans published by the National Interbank Funding Center. The *Reply of the Supreme People’s Court to the Application of Law to the Provisions Applicable to Private Lending Cases* promulgated by the Supreme People’s Court on December 29, 2020 stipulates that microcredit companies are financial institutions established with the approval of the financial regulatory authorities and that the Revised Private Lending Judicial Interpretations are not directly applicable to the loan business of microcredit companies.

Miscellaneous

Laws and Regulations Related to International Connections for Computer Information Networks

The State Council and the MIIT have promulgated regulations governing international connections for PRC computer networks, including:

- *Provisional Regulations of the People's Republic of China for the Administration of International Connections to Computer Information Networks* (1997) and related Implementing Measures (1998); and
- *Administrative Measures for International Communications Gateways* (2002).

Under the above regulations, any entity wishing to access international connections for their computer information networks in the PRC must comply with the following requirements:

- be a PRC legal person;
- have the appropriate equipment, facilities and technical and administrative personnel;
- have implemented and registered a system of information security and censorship; and
- effect all international connections through an international communications gateway established with the approval of the MIIT.

We have adopted measures necessary to ensure that we are in compliance with all of these requirements.

Laws and Regulations Related to Intellectual Property Protection

China has adopted comprehensive legislation governing intellectual property rights, including copyrights, patents and trademarks.

Copyright

On September 7, 1990, the Standing Committee of the National People's Congress promulgated *the Copyright Law*, which took effect on June 1, 1991 and was amended in 2001, 2010, and 2020. The 2020 amended Copyright Law, which will take effect on June 1, 2021, extends copyright protection to Internet activities, products disseminated over the Internet, and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. The amended Copyright Law also requires registration of the pledge of a copyright. The latest amended Copyright Law clarifies the scope of works entitled to copyright protection and provides for more stringent enforcement measures against copyright infringement.

In order to further implement the *Computer Software Protection Regulations*, promulgated by the State Council on December 20, 2001 and amended on May 19, 2004 and January 30, 2013, the NCA issued *Computer Software Copyright Registration Procedures* on February 20, 2002 and amended it on May 19, 2004, which specify detailed procedures and requirements with respect to the registration of software copyrights.

To address the problem of copyright infringement related to content posted or transmitted over the Internet, on April 29, 2005 the NCA and the MIIT jointly promulgated the *Measures for Administrative Protection of Copyright Related to Internet*, which became effective on May 30, 2005. These measures apply to situations where an ICP operator (i) allows another person to post or store any works, recordings, audio or video programs on the Websites operated by such ICP operator, or (ii) provides links to, or search results for, the works, recordings, audio or video programs posted or transmitted by such person, without editing, revising or selecting the content of such material. Upon receipt of an infringement notice from a legitimate copyright holder, an ICP operator must take remedial actions immediately by removing or disabling access to the infringing content. If an ICP operator knowingly transmits infringing content or fails to take remedial actions after receipt of a notice of infringement harming public interest, the ICP operator could be subject to administrative penalties, including an order to cease infringing activities; confiscation by the authorities of all income derived from the infringement activities; or payment of fines.

On May 18, 2006, the State Council promulgated the *Regulations on the Protection of the Right to Network Dissemination of Information* (as amended in 2013). Under these regulations, an owner of the network dissemination rights with respect to written works or audio or video recordings who believes that information storage, search or link services provided by an Internet service provider infringe his or her rights may require that the Internet service provider delete, or disconnect the links to, such works or recordings.

Since 2005, the NCA, together with certain other PRC governmental authorities, have jointly launched annual campaigns, which normally last for three to four months every year, specifically aiming to crack down on Internet copyright infringement and piracy in China.

Table of Contents

According to the *Notice of 2010 Campaign to Crack Down on Internet Infringement and Piracy* promulgated by the NCA, the MPS and the MIIT on July 19, 2010, one of the main targets, among others, of the 2010 campaign was Internet audio and video programs. From the time the 2010 campaign commenced in late July, the local branches of the NCA focused on popular movies and television series, newly published books, online games and animation, music and software and illegal uploading or transmission of a third party's works without proper license or permission, sales of pirated audio/video and software through e-commerce platforms, providing search links, information storage, Web hosting or Internet access services for third parties engaging in copyright infringement or piracy and infringement by the use of mobile media. In serious cases, the operating permits of the Websites engaging in illegal activities may be revoked, and such Websites may be ordered to shut down. The Jian Wang Campaign for 2020, which targets copyright infringement related to the online transmission of games, music, and other copyrighted audio-visual works on or through e-commerce, online education, knowledge sharing, and other social platforms, and aims to strengthen the protection of online literature, application software and other copyrighted content, was launched on June 12, 2020.

On April 17, 2015, the NCA issued the *Circular on Regulating the Order of Internet Reproduction of Copyrighted Works* ("Internet Reproduction Circular"). Under the Internet Reproduction Circular, in order to reproduce the work of others, Internet media companies must comply with relevant provisions of the copyright laws and regulations, and, unless provided otherwise by law or regulation, must obtain permission from and pay remuneration to the owner of the copyright to the work, and must indicate the name of the author, as well as the title and the source of the work, and may not infringe any other rights or interests of the copyright owner. Moreover, when reproducing the work of others, Internet media companies may not make material alterations to the content; and may not make editorial modifications or abridgments of the work that change the work's title or its original intent. When reproducing the work of others, we will need to comply with these strict requirements of the Internet Reproduction Circular.

We have adopted measures to mitigate copyright infringement risks, such as real-time monitoring and mechanisms for fast removal upon receipt of notices of infringement.

On May 28, 2020, the National People's Congress approved the Civil Code, which came into effect on January 1, 2021 and replaced the *Torts Liability Law* and eight other civil laws and regulations. Under the Civil Code, both Internet users and Internet service providers may be liable for the wrongful acts of users who infringe the lawful rights of other parties. If an Internet user infringes the rights of another party, the holder of the rights that are infringed may request the provider of the Internet service through which the rights were infringed to take necessary measures, such as removing or blocking the content, or disabling the links thereto, to prevent or stop the infringement. The notice from the holder of the rights to the service provider is required to include preliminary evidence of infringement and identify the holder of the rights, and the Internet service provider is then required to notify the infringer of the request by the holder of the rights and to take necessary measures. If the Internet service provider does not take necessary measures, it will be jointly liable for any further damages suffered by the holder of the rights. Furthermore, if an Internet service provider fails to take necessary measures when it knows or should have known that an Internet user has used the provider's Internet services to infringe the lawful rights of other parties, it will be jointly liable with the Internet user for damages resulting from the infringement.

On December 17, 2012, PRC Supreme People's Court promulgated the *Provisions on Several Issues Concerning the Application of Law for Trial of Civil Dispute Cases Involving Infringement of the Right to Network Dissemination of Information* ("Network Dissemination of Information Provision"), which were most recently amended on December 29, 2020. The Network Dissemination of Information Provisions stipulate that the dissemination by network users or network service providers of written works, performances or audio or video recordings without the permission of the holder of the rights to such dissemination will constitute infringement of such rights, and that network service providers that aid or abet any network user's infringement of the rights of another to network dissemination of any works or recordings may be liable for such network user's infringing activities.

Patent

On March 12, 1984, the Standing Committee of the National People's Congress promulgated the *Patent Law*, which was amended in 1992, 2000, 2008 and 2020. The 2020 amended Patent Law will take effect on June 1, 2021. On June 15, 2001, the State Council promulgated the *Implementation Regulation for the Patent Law*, which was lately amended in January 9, 2010. According to these laws and regulations, the Patent Office of the CNIPA is responsible for administering patents in the PRC. The Chinese patent system adopts a "first to file" principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who filed the application first. To be patentable, invention or utility models must meet three conditions: novelty, inventiveness and practical applicability. A patent is valid for twenty years in the case of an invention, ten years in the case of utility models and designs. From June 1, 2021, in the case of designs, a patent will be valid for fifteen years from the date of the filing of the patent application. A third-party user must obtain consent or a proper license from the patent owner to use the patent. Otherwise, third-party use constitutes an infringement of patent rights.

Trademark

On August 23, 1982, the Standing Committee of the National People's Congress promulgated the *Trademark Law* (the "Trademark Law"), which was amended in 1993, 2001, 2013, and 2019. On August 3, 2002, the State Council promulgated the *Implementation Regulation for the Trademark Law*, which was amended in April 29, 2014. Under the Trademark Law and the implementing regulation, the Trademark Office is responsible for the registration and administration of trademarks and resolving trademark disputes. As with patents, China has adopted a "first-to-file" principle for trademark registration. If two or more applicants apply for registration of identical or similar trademarks for the same or similar commodities, the application that was filed first will receive preliminary approval and will be publicly announced. For applications filed on the same day, the trademark that was first used will receive preliminary approval and will be publicly announced. Registered trademarks are valid for ten years from the date the registration is approved. A registrant may apply to renew a registration within twelve months before the expiration date of the registration. If the registrant fails to apply in a timely manner, a grace period of six additional months may be granted. If the registrant fails to apply before the grace period expires, the registered trademark shall be deregistered. Renewed registrations are valid for ten years. The amendment of the Trademark Law that became effective on November 1, 2019 provides for enhanced procedures for the prevention of malicious registration of trademarks and increases the amount of fines that may be imposed for trademark infringements.

Laws and Regulations Related to Encryption Software

In October 1999, the State Council promulgated the *Regulations for the Administration of Commercial Encryption*, most recently amended on February 3, 2016, followed in November 1999 by the *Notice of the General Office of the State Encryption Administration Commission* promulgated by the State Commission for the Administration of Cryptography. Both of these regulations address the use in China of software with encryption functions.

These regulations require that encryption products purchased for use be reported. Violation of the encryption regulations may result in the issuance of a warning, levying of a penalty, confiscation of the encryption products and even criminal liabilities. On March 18, 2000, the Office of the State Commission for the Administration of Cryptography issued a public announcement regarding the implementation of the regulations. The announcement states that only specialized hardware and software, the core functions of which are encryption and decoding, fall within the administrative scope of the regulations as "encryption products and equipment containing encryption technology." Other products, such as wireless telephone, Windows software and browsers do not fall within this scope.

The State Commission for the Administration of Cryptography changed its name to the State Cryptography Administration Bureau ("SCAB") in March 2005. The SCAB maintains authority over the importation, research, production, sale and use of cryptographic products in China ("products" are defined to include any cryptographic technologies and products to be applied in the encryption or secure authentication of information, other than state secrets). Legislation was issued to restrict the importation, research, production and sale of encryption products and requiring that the encryption functions of such products be placed in escrow with the SCAB for reasons of national security.

We are in full compliance with current PRC legislation governing encryption software.

Laws and Regulations Related to Consumer Protection and Privacy Protection

Consumer Protection

The MIIT set forth various requirements for consumer protection in a notice, issued on April 15, 2004, which addresses certain problems in the telecommunications sector, including ambiguity in billing practices for premium services, poor quality of connections and unsolicited SMS messages, all of which impinge upon the rights of consumers.

This trend was continued with the issuance of the *Notice Regarding the Ratification and Administration of Mobile Information Services Fees and Charges Method* by the MIIT on September 8, 2006.

On January 26, 2014, the SAMR issued the *Administrative Measures on Online Transactions* (the "Online Transaction Measures"), which took effect on March 15, 2014, to regulate online commodity trading and related online services and replace the previous *Interim Measures for the Administration of Online Commodities Trading and Relevant Services* issued on May 31, 2010. The Online Transaction Measures stipulate various obligations of online service providers, including the obligation to protect the interests of customers. Under the Online Transaction Measures, commodities or relevant services transacted online must comply with relevant laws, regulations and rules. When selling commodities or providing services to consumers, online commodity operators must comply with all applicable laws with respect to the protection of consumer rights/interests, intellectual property rights of others and the prevention of unfair competition. Information on commodities or services provided by online commodity operators or related service operators must be authentic and accurate.

On May 26, 2016, the MIIT issued the *Measures on the Complaint Settlement of the Telecommunication Services Users* (the "Complaint Settlement Measures"), which took effect on July 30, 2016. The Complaint Settlement Measures require telecommunication services providers to respond to their users within fifteen days upon the receipt of any complaint delivered by such users, the failure of which will give the complaining users the right to file a complaint against the service providers with the provincial branch offices of the MIIT.

We are aware of the increasingly strict legal environment covering consumer protection in China, and we strive to adopt all measures necessary to ensure that our business complies with these evolving standards.

Privacy Protection

The PRC Constitution states that PRC law protects the freedom and privacy of the communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have issued various regulations on the use of the Internet that are designed to protect personal information from unauthorized disclosure. For example, the ICP Measures prohibit an Internet information services provider from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. In addition, PRC regulations authorize PRC telecommunication authorities to demand rectification of unauthorized disclosure by ICPs.

Chinese law does not prohibit ICPs from collecting and analyzing personal information from their users. The PRC government, however, has the power and authority to order ICPs to submit personal information of an Internet user if such user posts any prohibited content or engages in illegal activities on the Internet. In addition, the Several Provisions stipulate that ICPs must not, without the users' consent, collect information on users that can be used, alone or in combination with other information, to identify the user, or User Personal Information, and may not provide any User Personal Information to third parties without prior user consent. ICPs may only collect User Personal Information necessary to provide their services and must expressly inform the users of the method, content and purpose of the collection and processing of such User Personal Information. In addition, an ICP may use User Personal Information only for the stated purposes under the ICP's scope of services. ICPs are also required to ensure the proper security of User Personal Information, and take immediate remedial measures if User Personal Information is suspected to have been disclosed. If the consequences of any such disclosure are expected to be serious, the ICP must immediately report the incident to the telecommunications regulatory authorities and cooperate with the authorities in their investigations. We require our users to accept a user agreement whereby they agree to provide certain personal information to us. If we violate these regulations, the MIIT or its local bureaus may impose penalties and we may be liable for damage caused to our users.

On December 28, 2012, the Standing Committee of the National People's Congress enacted the *Decision to Enhance the Protection of Network Information* ("Information Protection Decision"), to further enhance the protection of User Personal Information in electronic form. The Information Protection Decision provides that ICPs must expressly inform their users of the purpose, manner and scope of the ICPs' collection and use of User Personal Information, publish the ICPs' standards for their collection and use of User Personal Information, and collect and use User Personal Information only with the consent of the users and only within the scope of such consent. The Information Protection Decision also mandates that ICPs and their employees must keep strictly confidential User Personal Information that they collect, and that ICPs must take such technical and other measures as are necessary to safeguard the information against disclosure.

On July 16, 2013, the MIIT issued the *Order for the Protection of Telecommunication and Internet User Personal Information* (the "Order"). Most of the requirements under the Order that are relevant to ICP operators are consistent with the requirements already established under the MIIT provisions discussed above, except that under the Order the requirements are often stricter and have a wider scope. If an ICP operator wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Further, it must disclose to its users the purpose, method and scope of any such collection or use, and must obtain consent from the users whose information is being collected or used. ICP operators are also required to establish and publish their protocols relating to personal information collection or use, keep any collected information strictly confidential, and take technological and other measures to maintain the security of such information. ICP operators are required to cease any collection or use of the user personal information, and de-register the relevant user account, when a given user stops using the relevant Internet service. ICP operators are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such information unlawfully to other parties. In addition, if an ICP operator appoints an agent to undertake any marketing or technical services that involve the collection or use of personal information, the ICP operator is still required to supervise and manage the protection of the information. The Order states, in broad terms, that violators may face warnings, fines, and disclosure to the public and, in the most severe cases, criminal liability.

On January 5, 2015, the SAMR promulgated the Measures on Punishment for Infringement of Consumer Rights, which were amended on October 23, 2020. Under the Measures on Punishment for Infringement of Consumer Rights, business operators collecting and using personal information of consumers must comply with the principles of legitimacy, propriety and necessity, specify the purpose, method and scope of collection and use of the information, and obtain the consent of the consumers whose personal information is to be collected. Business operators may not: (i) collect or use personal information of consumers without their consent; (ii) unlawfully divulge, sell or provide personal information of consumers to others; (iii) send commercial information to consumers without their consent or request, or when a consumer has explicitly declined to receive such information.

On August 29, 2015, the Standing Committee of the National People's Congress issued Amendment (IX) to the Criminal Law of the People's Republic of China ("Amendment (IX)"), which strengthens the protection of personal information. Pursuant to Amendment (IX), network service providers and others who unlawfully sell or otherwise provide personal information and cause serious adverse consequences may be sentenced to prison for up to seven years. In addition, network service providers who disseminate such user information and cause serious adverse consequences, and who do not rectify the problem after they receive notice of such non-compliance from relevant regulatory authorities may be sentenced to prison for up to three years, and may also be subject to public surveillance and fines. On October 21, 2019, the Supreme People's Court of the PRC and the Supreme People's Procurator of the PRC issued the *Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in Criminal Cases Involving Illegal Use of Information Networks and Assistance in Criminal Activities Committed through Information Networks*, which clarifies the types of network service providers and the standards for judging whether the consequences of divulging the personal information are serious and adverse.

[Table of Contents](#)

On May 8, 2017, the Supreme People’s Court of the PRC and the Supreme People’s Procurator of the PRC issued the *Interpretation of the Supreme People’s Court and the Supreme People’s Procurator on Several Issues Concerning the Applicable Law for Criminal Cases with Respect to Infringement of Citizen’s Personal Information*, which defines “personal information,” “the provision of personal information,” and “the illegal collection of personal information.”

The SAMR (formerly the AQSIQ and SAC) issued the *Information Security Technology—Personal Information Security Specification*, which came into effect on October 1, 2020. The specification clarifies the principles and security requirements for personal information processing activities, such as collection, storage, use, sharing, transfer, public disclosure, and deletion, that are applicable to the standardization of personal information processing activities of various organizations. On April 10, 2019, the MPS and the Beijing Network Industry Association issued the *Guidelines for Protection of the Security of Personal Information on the Internet*, which provides guidelines and recommends procedures concerning the protection of personal information applicable to enterprises providing services via the Internet as well as organizations and individuals who control and process personal information in private and non-networked environments. On June 1, 2019, the National Information Security Standardization Technical Committee issued the *Internet Security Practice Guidelines—Specification of Information Necessary for Basic Business Functions of APPs*, which provides further guidelines for the use and collection of personal information by network operators, and specifies the types of personal information deemed to be necessary for the operation of online services for areas such as online payment, short videos, Internet news information, and real estate transactions.

On January 23, 2019, the OCLGCA, the MIIT, the MPS, and the SAMR jointly issued the Public Announcement Concerning the Illegal Collection of Personal Information by APPs, which emphasizes that APP operators must comply strictly with the Internet Security Law with in connection with their collection and use of personal information. On March 13, 2019, the SAMR issued the *Notice on the Launch of Special Enforcement Actions to Protect Consumers and Crack Down on Violations of Personal Information of Consumers* and the *Announcement of the Implementation of App Security Certifications*, and on October 31, 2019, the SAMR and the CAOC issued the *Notice of a Special Campaign to Rectify the Infringement of Legal Rights and Interests of APP Users* so as to further protect the rights of the APP users in and to their personal information and clarify the requirements for APP security certification. In addition, a number of relevant governmental authorities and industry associations have published a series of guidelines and standards, such as the *Guidelines for Self-Assessment of Illegal Collection and Use of Personal Information by APPs* issued by the Special Working Group Supervising the Illegal Collection and Use of Personal Information on March 3, 2019, and the *Methods for Identification of the Illegal Collection and Use of Personal Information by APPs* issued by the CAOC and three other PRC government authorities on December 30, 2019, pursuant to which APP operators are encouraged to conduct self-inspection and self-rectification to enhance the protection of personal information.

On August 22, 2019, the CAOC issued the *Provisions on the Protection of the Personal Information of Minors on the Internet*, effective on August 22, 2019, to regulate activities regarding the collection, use, and disclosure of minors’ personal information on the Internet.

On May 28, 2020, the National People’s Congress approved the Civil Code, which came into effect on January 1, 2021. The Civil Code specifies that the personal information of a natural person must be protected, and in particular provides that an organization or individual may obtain such personal information only when necessary; must ensure the safety of such information; and may not illegally collect, use, process or transmit such personal information or illegally purchase or sell, provide or make public such personal information.

Our current security measures and those of the third parties with whom we transact business may not be adequate for the protection of user personal information. In addition, we do not have control over the security measures of our third-party online payment vendors. Security breaches of our system and the online payment systems that we use could expose us to litigation and liability for failing to secure confidential customer information and could harm our reputation, ability to attract customers and ability to encourage customers to purchase virtual items.

Laws and Regulations Related to Security and Censorship

The principal pieces of PRC legislation concerning information security and censorship are:

- *The Law of the People’s Republic of China on the Preservation of State Secrets* (1988, as amended in 2010) and related Implementing Rules (2014);
- *The Law of the People’s Republic of China Regarding Anti-spy* (2014);
- *Rules of the People’s Republic of China for Protecting the Security of Computer Information Systems* (1994, as amended in 2011);
- *Administrative Regulations for the Protection of Secrecy on Railway Computer Information Systems Connected to International Networks* (1999);
- *Regulations for the Protection of State Secrets for Computer Information Systems on the Internet* (2000);

Table of Contents

- *Notice issued by the Ministry of Public Security of the People’s Republic of China Regarding Issues Relating to the Implementation of the Administrative Measure for the Security Protection of International Connections to Computer Information Networks* (2000); and
- *The Decision of the Standing Committee of the National People’s Congress Regarding the Safeguarding of Internet Security* (2000) which has been amended in 2009.

These pieces of legislation specifically prohibit the use of Internet infrastructure where it results in a breach of public security, the provision of socially destabilizing content or the divulgence of State secrets, as follows:

- “*A breach of public security*” includes a breach of national security or disclosure of state secrets; infringement on state, social or collective interests or the legal rights and interests of citizens or illegal or criminal activities.
- “*Socially destabilizing content*” includes any action that incites defiance or violation of Chinese laws; incites subversion of state power and the overturning of the socialist system; fabricates or distorts the truth, spreads rumors or disrupts social order; advocates cult activities; spreads feudal superstition; involves obscenities, pornography, gambling, violence, murder, or horrific acts; or instigates criminal acts.
- “*State secrets*” are defined as “matters that affect the security and interest of the state.” The term covers such broad areas as national defense, diplomatic affairs, policy decisions on state affairs, national economic and social development, political parties and “other State secrets that the State Secrecy Bureau has determined should be safeguarded.”

Under the aforementioned legislation, it is mandatory for Internet companies in the PRC to complete security filing procedures with the local public security bureau and for them provide regular updates to the local public security bureau regarding information security and censorship systems for their Websites. In this regard, on October 1, 2004, the *Administrative Rules on the Filing of Commercial Websites* (“Commercial Websites Filing Rules”) were promulgated by the Beijing Administration of Market Regulation (the “Beijing AMR”) to replace the *Detailed Implementing Rules for the Measures for the Administration of Commercial Website Filings for the Record* promulgated by the Beijing AMR on September 1, 2000. The Commercial Websites Filing Rules state that operators of commercial Websites must comply with the following requirements:

- filing with the Beijing AMR and obtain electronic registration marks for the Websites;
- placing the registration marks on the Websites’ homepages; and
- registering the Website names with the Beijing AMR.

On November 7, 2016, the Standing Committee of the National People’s Congress issued the *Internet Security Law* (the “Internet Security Law”), which took effect on June 1, 2017. The Internet Security Law requires providers of services over Internet networks to keep user information that they have collected in strict confidence and to establish improved systems for the protection of user information. Such service providers must provide notice of the purpose, methods and scope of their collection and use of user information, and obtain the consent of each person whose personal information will be collected. Providers of services over Internet networks may not collect any personal information that is not related to the services they provide, or disclose or tamper with personal information that they have collected, unless such information is encoded to prevent identification of individuals whose information is so disclosed or tampered with. Service providers who do not comply with the Internet Security Law may be subject to fines, suspension of their businesses, shutdown of their websites, and revocation of their business licenses.

Sohu Internet and Changyou have successfully registered the Sohu.com Website, the Changyou.com Website and the cy.com Website with the Beijing AMR and the electronic registration marks for the Websites are prominently placed on the homepages of the Sohu.com Website and the Changyou.com Website and the cy.com Website. Sogou Information has successfully registered the sogou.com Website with the Beijing AMR.

In addition, the State Security Bureau has issued regulations authorizing the blocking of access to any site it deems to be leaking State secrets or failing to comply with legislation regarding the protection of State secrets in the distribution of information online. Specifically, Internet companies in China with message boards, chat rooms or similar services, such as Sohu, must apply for the approval of the State Secrets Bureau prior to operating such services.

Table of Contents

Amendment (IX) provides, among other things discussed elsewhere in this report, that network service providers who do not comply with laws and regulations regarding the safe management of information on their networks and fail to correct their conduct after they receive notice of such non-compliance from relevant regulatory authorities, with results such as the dissemination of a substantial amount of illegal information or serious loss of evidence in criminal cases, may be convicted of the crime of failing to fulfill their obligations for the safe management of information on the Internet. In addition, entities and individuals are prohibited from offering such technical and other support for Internet access, online data storage, and communication transmission while knowing that recipients of any such support are conducting criminal activities through the Internet. The *Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in of Criminal Cases Involving Illegal Use of Information Networks and Assistance in Criminal Activities Committed through Information Networks*, issued on October 21, 2019, further clarifies standards for conviction of the crimes of failing to fulfill obligations for the safe management of information on the Internet and assisting in criminal activities related to information networks.

Accordingly, we have established an internal security committee and adopted security maintenance measures, employed a full-time supervisor and exchanged information on a regular basis with the local public security bureau with regard to sensitive or censored information and Websites.

Internet Content and Anti-Pornography

The PRC government has promulgated measures relating to Internet content through a number of government authorities, including the MIIT, the MCT, the SAPPREFT and the MPS. These measures specifically prohibit certain Internet activities, including the operation of online games, which results in the publication of any content which is found to, among other things, propagate obscenity, gambling or violence, instigate crimes, undermine public morality or the cultural traditions of the PRC, or compromise State security or secrets. If an ICP license holder violates these measures, the PRC government may revoke its ICP license and shut down its Websites.

In addition, the PRC government has issued several regulations concerning the installation of filter software to filter out unhealthy and vulgar content from the Internet. In April 1, 2009, the Ministry of Education, the MIIT and certain other PRC ministries and agencies issued a notice requiring that, by the end of May 2009, all computer terminals connected with the Internet at all elementary and secondary schools be able to include and operate Green Dam-Youth Escort, which is software aimed at filtering out unhealthy and vulgar content in text and graphics from the Internet and which, according to the Website for the software, may be used to control time spent on the Internet, prohibit access to computer games, and filter out unhealthy Websites. The MIIT further expanded the scope of required use of this filter software by issuing a notice on May 19, 2009 requiring that, effective as of July 1, 2009, all computers manufactured and sold in China have the latest available version of Green Dam-Youth Escort preinstalled when they leave the factory and that all imported computers have the latest available version of Green Dam-Youth Escort preinstalled before being sold in China. Green-Dam Youth Escort is to be preinstalled on the hard drive of the computer or in the form of a CD accompanying the computer and is also to be included in the backup partition and system restore CD. However, on June 30, 2009, the MIIT postponed the implementation of this requirement regarding pre-installation of Green Dam-Youth Escort.

On December 4, 2009, the MIIT and three other PRC government authorities jointly issued the *Incentives Measures for Report of Pornographic, Obscene and Vulgar Messages on Internet and Mobile Media* ("Anti-Pornography Notice"), to crack down on online pornography. Pursuant to the Anti-Pornography Notice, rewards of up to RMB10,000 will be provided to Internet users who report Websites that feature pornography, and a committee has been established to review such reports to determine an appropriate award. During a PRC anti-pornography campaign, which continued during 2014, many Websites (including mobile Websites) that contained pornography were closed down. In addition, China Mobile announced a temporary suspension of billing for Wireless Application Protocol ("WAP") services, as a means of fighting against Websites providing pornographic content.

On April 13, 2014, the National Working Group on Anti-Pornography and three other PRC government authorities jointly issued the *Proclamation of Special Action Regarding Crackdown on Online Pornographic Content* (the "Anti-Pornography Proclamation"). Under the Anti-Pornography Proclamation, Internet service providers must immediately remove texts, images, video, advertisements and other information that contain pornographic content. The relevant government authority may order enterprises or individuals who flagrantly produce or disseminate pornographic content to stop conducting business, and may revoke relevant administrative permits. Moreover, an enterprise or individual who provides telecom operation services, network access services, advertising services or payment services to facilitate dissemination of pornographic content may have criminal or civil penalties imposed under the PRC Criminal Law and other relevant laws and regulations.

Laws and Regulations Related to Unfair Competition

Pursuant to the *Unfair Competition Law of the PRC* (the "Unfair Competition Law") adopted by the Standing Committee of the National People's Congress on November 4, 2017 and effective on April 23, 2019, a business operator is prohibited from taking any of the following actions:

- unauthorized use of marks that are the same as or similar to the names, packaging, or decoration of another party's products;
- unauthorized use of another party's organizational name or the name of an individual;
- unauthorized use of another party's domain name, website name, or webpage; and
- other actions causing a third party to mistakenly believe that another party's product is that of the business operator.

[Table of Contents](#)

The Unfair Competition Law forbids business operators to pay bribes in order to gain an opportunity or competitive advantage in a business transaction or to misappropriate the trade secrets of another. “Trade secrets,” as defined in the Unfair Competition Law, refers to technical information, operating information, and other commercial information with commercial value that has not been released to the public, and is subject to appropriate measures to protect its confidentiality. On September 10, 2020, the Supreme People’s Court promulgated the *Regulations on Several Issues Concerning the Application of Law in the Trial of Civil Cases of Infringement of Trade Secrets*, which clarify the definition of trade secrets under the Unfair Competition Law, and provides guidance concerning, among other matters, confidentiality obligations, determination of infringement, and civil liabilities.

The Unfair Competition Law also stipulates that an Internet business operator may not, without the consent of another Internet business operator, insert links into the Internet products and services of such other Internet business operator in order to re-direct user traffic; may not mislead or compel users to modify, terminate, or un-install any Internet products or services of another Internet business operator; and may not take actions in bad faith to cause an Internet product or service of another Internet business operator to be unusable by users of the other business operator’s properties.

An amendment of the Unfair Competition Law that became effective on January 1, 2018 increases the maximum amount of administrative penalties that may be imposed for violations. An additional amendment of the Unfair Competition Law that became effective on April 23 2019 increases the amount of administrative penalties that may be imposed for malicious misappropriation of trade secrets.

In addition, the Supreme People’s Court promulgated an *Interpretation of Several Issues Relating to the Application of Law in Civil Trials of Unfair Competition Cases*, which became effective as of February 1, 2007 and was most recently amended on December 29, 2020. This interpretation provides guidance on how to conduct trials involving unfair competition, protect the legal rights and interests of business operators, and maintain orderly market competition.

Regulation of M&A and Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation (“SAT”), the SAMR, the China Securities Regulatory Commission (the “CSRC”), and the SAFE, jointly issued the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (“M&A Rule”), which became effective on September 8, 2006 and amended on June 22, 2009. The M&A Rule includes provisions that purport to require that an Offshore special purpose vehicle formed for purposes of the overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

On September 21, 2006, the CSRC published on its official Website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC. The application of this PRC regulation remains unclear, with no consensus currently existing among leading PRC law firms regarding the scope of the applicability of the CSRC approval requirement.

The M&A Rules also establish procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise.

In February 2011, the General Office of the State Council promulgated Circular 6, which established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire “de facto control” of domestic enterprises with “national security” concerns. In August 2011, the MOFCOM promulgated the *Rules on Implementation of Security Review System* (“MOFCOM Security Review Rules”), to replace the *Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* promulgated by the MOFCOM in March 2011. The MOFCOM Security Review Rules, which came into effect on September 1, 2011, provide that the MOFCOM will look into the substance and actual impact of a transaction and prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or Offshore transactions.

On October 23, 2019, the SAFE issued the *Notice of the State Administration of Foreign Exchange to Further the Facilitation of Cross-border Trade and Investment*, which cancelled restrictions on the use by foreign-invested companies that are not investment companies of their capital funds for equity investments.

The *Security Review Measures*, promulgated by the NDRC and MOFCOM on December 19, 2020, stipulate that where a foreign investor acquires the equity or assets of a domestic enterprise by means of merger or acquisition, or invests in China by other means, which affects or may affect national security, such merger, acquisition, or investment will be subject to a security review by relevant governmental authorities. See “Government Regulation and Legal Uncertainties—Specific Statutes and Regulations—Requirements for Establishment of WFOEs” regarding the other provisions of the Security Review Measures.

[Table of Contents](#)

Laws and Regulations Related to Antitrust

On August 30, 2007, the Standing Committee of the National People's Congress of the PRC adopted the PRC Anti-Monopoly Law ("AML"), which took effect on August 1, 2008. Pursuant to the AML, monopolistic conduct, including entering into monopolistic agreements, abuses of dominant market position, and Concentrations of Undertakings that have the effect of eliminating or restricting competition, is prohibited. To further implement the Antitrust Law and clarify certain issues, the State Council, the MOFCOM, the NDRC, and the SAMR issued several regulations and rules, including *the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings* issued by the State Council on August 3, 2008 and amended on September 18, 2018, *the Interim Regulations on the Prohibition of Monopolistic Agreements* issued by the SAMR on June 26, 2019, *the Interim Regulations on the Prohibition of Conduct Constituting an Abuse of a Dominant Market Position* issued by the SAMR on June 26, 2019, *the Declaration Rules for Concentrations of Undertakings* issued by the MOFCOM on January 5, 2009, amended on June 6, 2014, and re-issued by the SAMR on September 29, 2018, *the Assessment Rules for Concentration of Undertakings* issued by the MOFCOM on November 24, 2009, *the Provisional Measures on the Investigation and Handling of Concentrations Between Business Operators which Were Not Notified in Accordance with the Law* issued by the MOFCOM on December 30, 2011, and *the Interim Provisions on Reviewing Concentration of Undertakings* issued by the SAMR on October 23, 2020.

Taken together these various laws and regulations provide for the following:

Monopolistic Agreement: competing business operators may not enter into monopolistic agreements that eliminate or restrict competition, such as by boycotting transactions, fixing or changing the price of commodities, limiting the output of commodities, fixing the price of commodities for resale to third parties, unless such agreements satisfy the exemptions under the Antitrust Law, such as improving technologies or increasing the efficiency and competitiveness of small and medium-sized enterprises. Sanctions for violations include an order to cease the relevant activities, confiscation of illegal gains and fines (from 1% to 10% of sales revenue from the previous year, or RMB500,000 if the intended monopolistic agreement has not been performed).

Abuse of Dominant Market Position: a business operator with a dominant market position may not abuse its dominant market position to conduct acts such as selling commodities at unfairly high prices or buying commodities at unfairly low prices, selling products at prices below cost without any justifiable cause, and refusing to trade with a trading party without any justifiable cause. Dominant market position refers to a market position held by a business operator having the capacity to control the price, quantity or other trading conditions of commodities in the relevant market, or to hinder or affect any other business operator to enter the relevant market, which will be determined based on the market share of the relevant business operator, capacity of a business operator to control the sales market, the degree of dependence of other business operators upon the business operator in question in transactions, and the degree of difficulty for other business operators to enter into the relevant market. Sanctions for violation of the prohibition on the abuse of dominant market position include an order to cease the relevant activities, confiscation of illegal gains and fines (from 1% to 10% of sales revenue from the previous year).

Concentration of Undertakings: pursuant to the AML, where a Concentration of Undertakings reaches the declaration threshold stipulated by the State Council, a declaration must be lodged in advance with the antitrust authority under the State Council. Otherwise, the Concentration of Undertakings may not be effected. Concentration of Undertakings refers to (1) a merger of enterprises; (2) acquiring control over other enterprises by an enterprise through acquiring equities or assets; or (3) acquiring control over, or the possibility of exercising decisive influence on, an enterprise by contract or by any other means. Under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, the thresholds for prior notification of Concentration of Undertakings are the following:

- the combined worldwide turnover of all of the subject enterprises in the preceding financial year is more than RMB10.00 billion (or approximately \$1.45 billion), and the nationwide turnover within China of each of at least two of the subject enterprises in the preceding financial year is more than RMB400.0 million (or approximately \$58.0 million); or
- the combined nationwide turnover within China of all the subject enterprises in the preceding financial year is more than RMB2.00 billion (or approximately \$289.8 million), and the nationwide turnover within China of each of at least two of the subject enterprises in the preceding financial year is more than RMB400.0 million (or approximately \$58.0 million).

If business operators fail to comply with these mandatory declaration provisions, the antitrust authority is empowered to terminate and/or unwind the transaction, dispose of relevant assets, shares or businesses and impose fines up to RMB500,000 (or approximately \$72,452).

On February 7, 2021, the Anti-Monopoly Committee of State Council issued the Platform Guidelines. The Platform Guidelines were drafted under the framework of the Antitrust Law and, while taking into account the characteristics of the Internet platform economy, give guidance for Internet platform economy operators regarding monopolistic agreements, abuses of dominance, and Concentrations of Undertakings. The Platform Guidelines also stipulate that any Concentrations of Undertakings involving VIE structures fall within the scope of anti-monopoly review.

Regulation of Foreign Currency Exchange and Dividend Distribution

The principal regulations governing foreign currency exchange in China are the *Foreign Exchange Administration Regulations* (“FX Regulations”), which were last amended in August 2008. Under the FX Regulations, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made. Dividends paid by a PRC subsidiary to its overseas shareholder are deemed income of the shareholder and are taxable in the PRC. Pursuant to *the Administration Rules of the Settlement, Sale and Payment of Foreign Exchange*, foreign-invested enterprises in the PRC may purchase or remit foreign currency, subject to a cap approved by the SAFE, for settlement of current account transactions without the approval of the SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

In July 2014, the SAFE promulgated *the Circular on Issues Concerning Foreign Exchange Administration Over the Overseas Investment and Financing and Roundtrip Investment by Domestic Residents Via Special Purpose Vehicles* (“Circular 37”) which replaced *Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment through Offshore Special Purpose Vehicles* (“Circular 75”). Circular 37 requires PRC residents, including PRC institutions and individuals, to register with the local SAFE branch in connection with their direct establishment or indirect control of an Offshore entity, referred to in Circular 37 as a “special purpose vehicle,” for the purpose of holding domestic or Offshore assets or interests. PRC residents must also file amendments to their registrations in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. Under these regulations, PRC residents’ failure to comply with specified registration procedures may result in restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its Offshore parent, as well as restrictions on capital inflows from the Offshore entity to the PRC entity, including restrictions on the ability to contribute additional capital to the PRC entity. Further, failure to comply with the various SAFE registration requirements could result in liability under PRC law for evasion of foreign exchange regulations.

Under Circular 37, if a non-listed special purpose vehicle uses its own equity to grant equity incentives to any directors, supervisors, senior management or any other employees directly employed by a domestic enterprise which is directly or indirectly controlled by such special purpose vehicle, or with which such an employee has established an employment relationship, related PRC residents and individuals may, prior to exercising their rights, apply to the SAFE for foreign exchange registration formalities for such special purpose vehicle. However, in practice, different local SAFE branches may have different views and procedures on the interpretation and implementation of the SAFE regulations, and since Circular 37 was the first regulation to regulate the foreign exchange registration of a non-listed special purpose vehicle’s equity incentives granted to PRC residents, there remains uncertainty with respect to its implementation.

On December 25, 2006, the PBOC issued the *Administration Measures on Individual Foreign Exchange Control*, and related *Implementation Rules* were issued by the SAFE on January 5, 2007 and amended on May 29, 2016. Both became effective on February 1, 2007. Under these regulations, all foreign exchange transactions involving an employee share incentive plan, share option plan, or similar plan participated in by individuals in the PRC may be conducted only with approval from the SAFE or its authorized branch. Under the *Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company* (“Offshore Share Incentives Rules”), which was issued by the SAFE on February 15, 2012, PRC citizens who are granted share options, restricted share units or restricted shares by an overseas publicly listed company are required to register with the SAFE or its authorized branch and to comply with a series of other requirements. In November 2011, the SAFE approved our application to designate our PRC subsidiary Sohu Media to handle the registrations and other procedures required by the Offshore Share Incentives Rules. In February 2012, the SAFE approved Changyou’s application to designate its PRC subsidiary AmazGame to handle the registrations and other procedures required by the Offshore Share Incentive Rules. If we, Changyou or the PRC employees of Changyou and us who hold options, restricted share units or restricted shares fail to comply with these registration or other procedural requirements, we, Changyou and/or such employees may be subject to fines and other legal sanctions. Sogou has registered its 2017 Share Incentive Plan with the SAFE, and Sogou is in the process of applying for such registration of its 2010 Share Incentive Plan. If its 2010 Share Incentive Plan is not accepted for registration by the SAFE, Sogou and those who have received awards may be subject to fines and legal sanctions, and Sogou’s ability to contribute additional capital to its PRC subsidiaries and its PRC subsidiaries’ ability to distribute dividends to it may be limited.

The principal law and regulations governing distribution of dividends of foreign holding companies were the *Foreign Investment Enterprise Law* (1986), which was amended in October 2000 and October, 2016, and the *Administrative Rules under the Foreign Investment Enterprise Law* (2001), which were amended in February, 2014. This law and the related regulations were replaced by the *Foreign Investment Law* and the *Implementing Regulations of the Foreign Investment Law*, respectively, which both became effective on January 1, 2020. Under the new law and regulations, requirements for the distribution of dividends of newly-established foreign investment enterprises will be consistent with those that apply to domestic companies, which are included in the *Company Law of the PRC*. Under the *Company Law of the PRC*, newly-established foreign investment enterprises are required to set aside 10% of their after-tax profits each year to fund statutory common reserves until such reserves equal 50% of the amount of registered capital.

[Table of Contents](#)

Furthermore, under the CIT Law, which became effective on January 1, 2008 and was amended on February 24, 2017 and December 29, 2018, the maximum rate for withholding tax imposed on dividend payments from PRC foreign-invested companies to their overseas investors that are not regarded as “resident” for tax purposes is 20%. The rate was reduced to 10% under the Implementing Regulations for the CIT Law issued by the State Council. However, a lower withholding tax rate of 5% might be applied if there is a tax treaty between China and the jurisdiction of the foreign holding companies, such as is the case with Hong Kong, and certain requirements specified by PRC tax authorities are satisfied.

Laws and Regulations Related to Employment and Labor Protection

On June 29, 2007, the National People’s Congress promulgated the *Employment Contract Law of PRC* (“Employment Contract Law”), which became effective as of January 1, 2008 and was amended on December 28, 2012. The Employment Contract Law requires employers to provide written contracts to their employees, restricts the use of temporary workers and aims to give employees long-term job security.

Pursuant to the Employment Contract Law, employment contracts lawfully concluded prior to the implementation of the Employment Contract Law and continuing as of the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the Employment Contract Law but no written employment contract was concluded, a contract must be concluded within one month after its implementation.

On September 18, 2008, the State Council promulgated the *Implementing Regulations for the PRC Employment Contract Law* which came into effect immediately. These regulations interpret and supplement the provisions of the Employment Contract Law.

We have modified our standard employment contract to comply with the requirements of the Employment Contract Law and its implementing regulations. We have entered into written employment contracts with all of our employees.

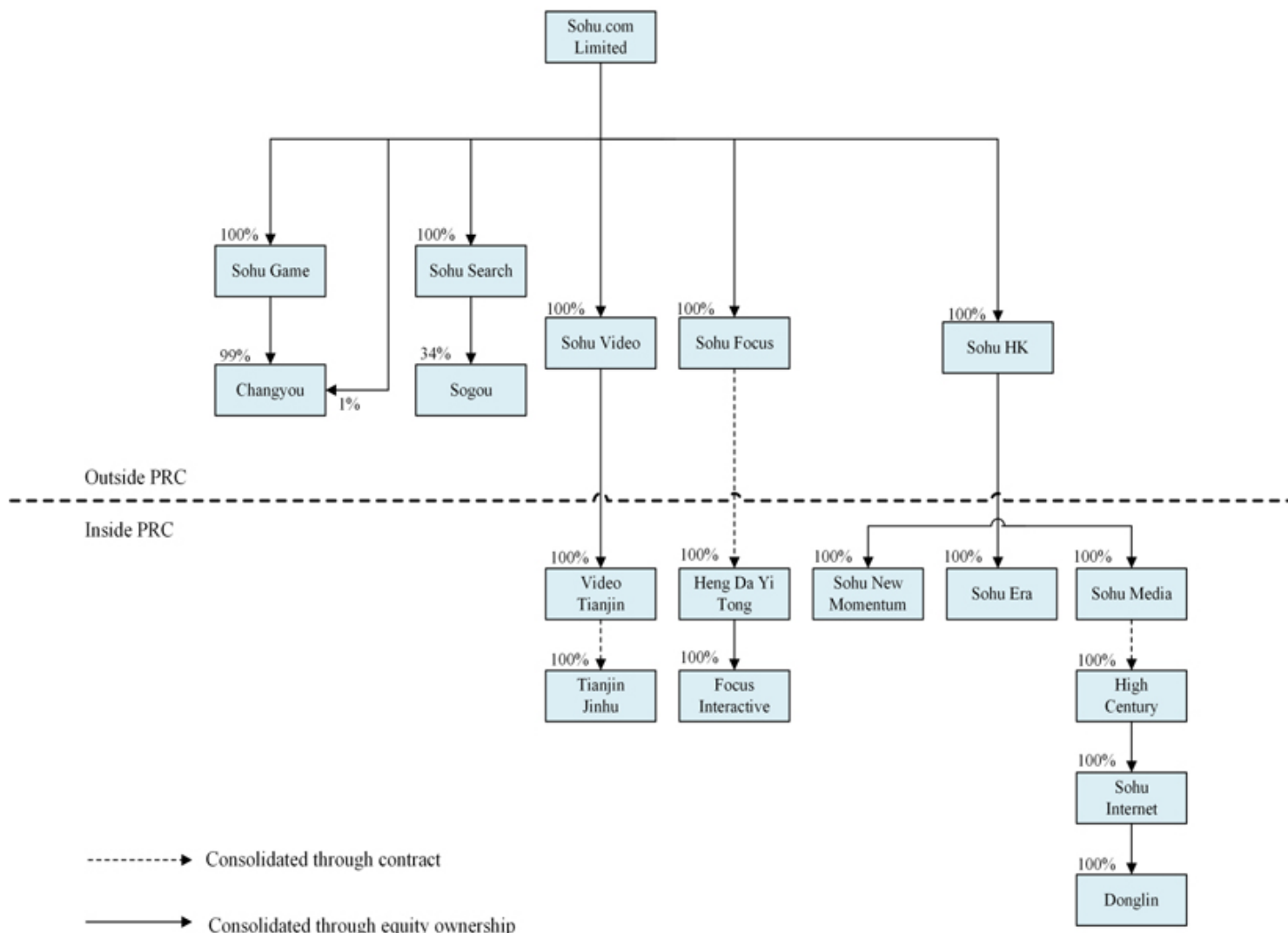
Conclusion

In the opinion of Haiwen, our principal PRC Subsidiaries and principal VIEs are approved to engage in the specific online services (categorized and addressed in the above sections) as described in the respective scopes indicated in the corresponding licenses and/or permits issued to the respective companies.

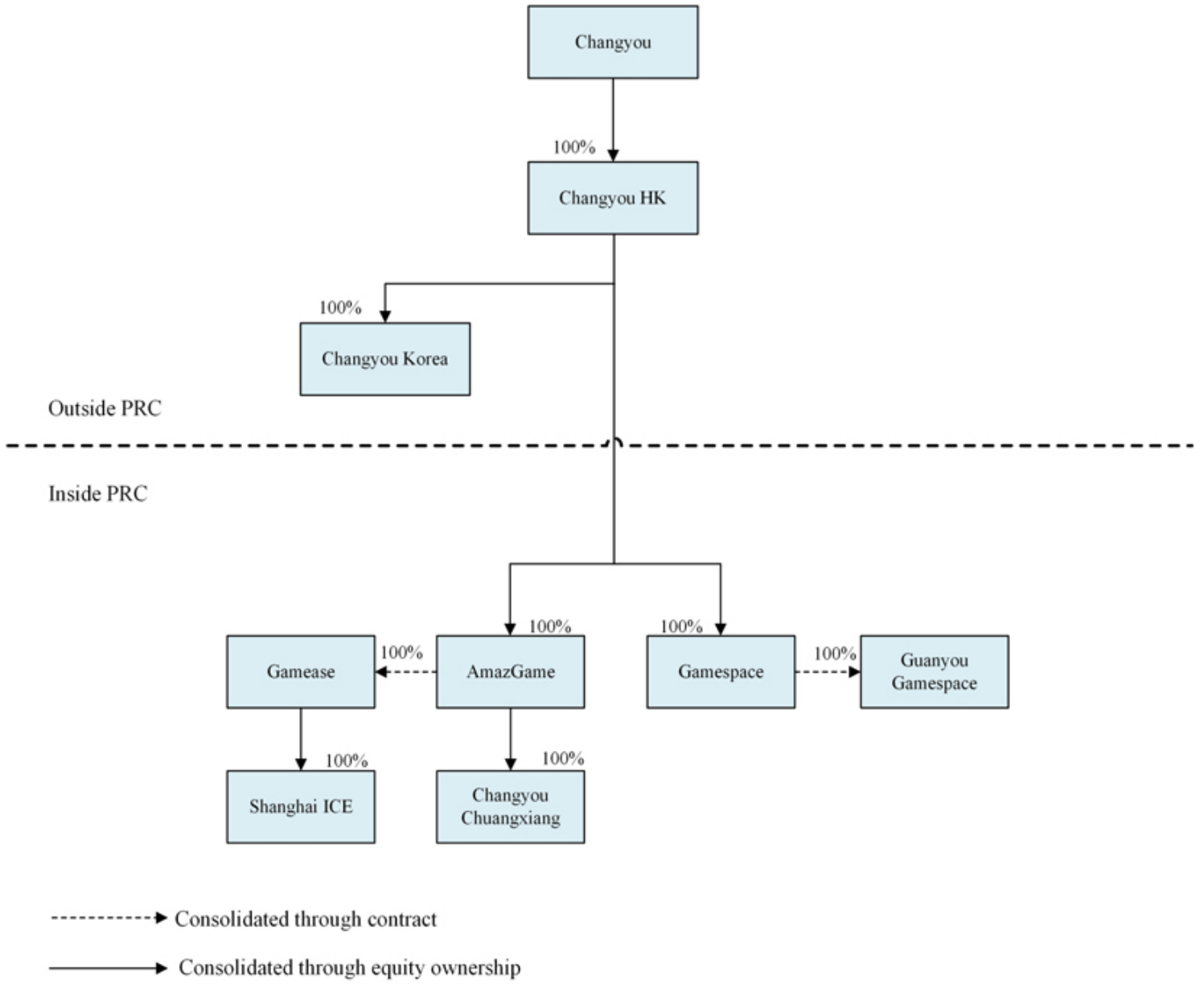
ORGANIZATIONAL STRUCTURE

The charts below present the principal consolidated entities of Sohu.com Limited, not including our consolidated Changyou entities and Sogou entities, and our principal consolidated Changyou entities and Sogou entities as of December 31, 2020. Certain intermediate holding companies that are not significant to the Sohu Group have been eliminated. As a result of the completion of the Changyou Merger on April 17, 2020, as of the date of this report, the Sohu Group holds 100% of the combined total of Changyou’s outstanding ordinary shares.

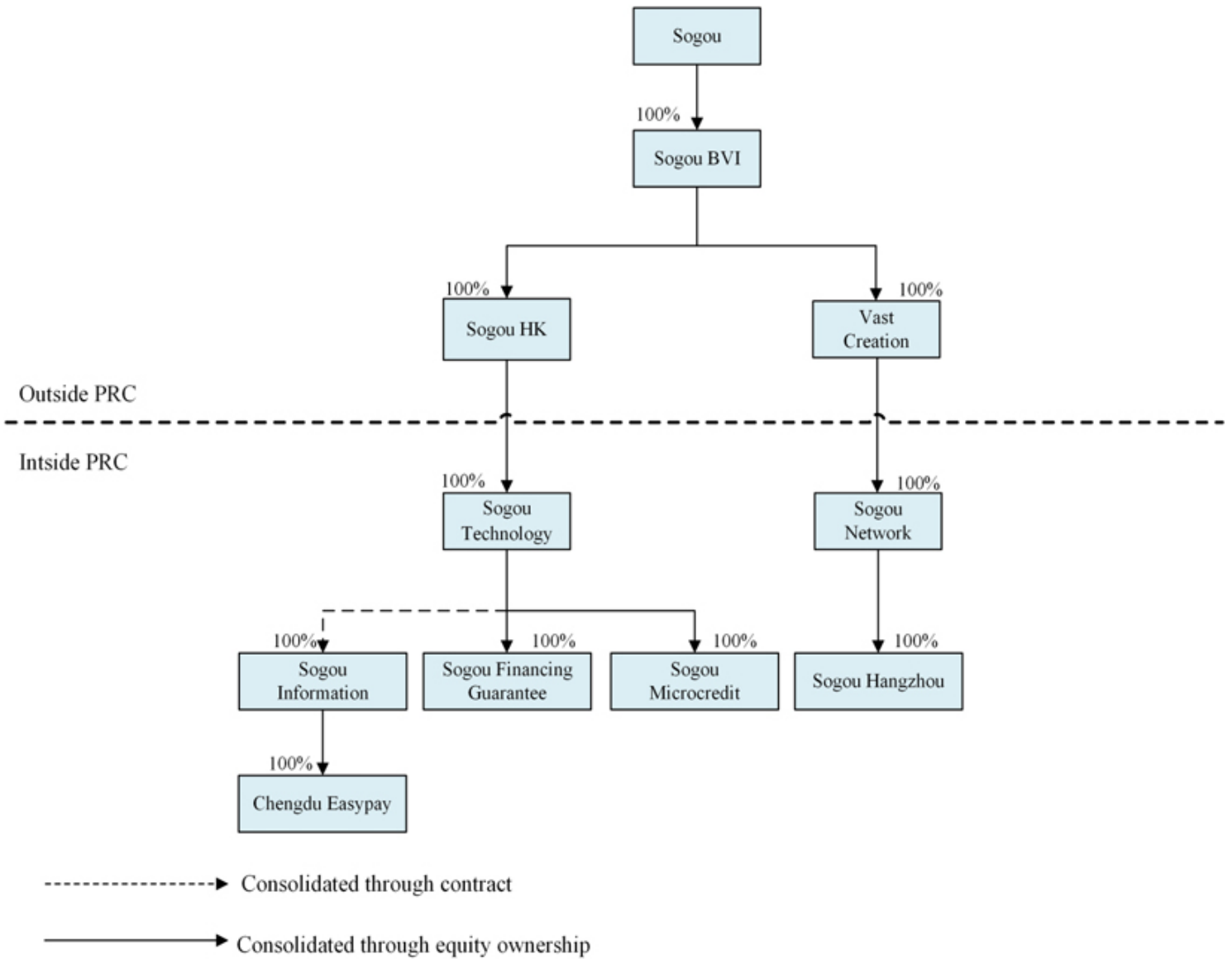
Sohu Organizational Chart



Changyou Organizational Chart



Sogou Organizational Chart



[Table of Contents](#)

Principal Subsidiaries

The following are our principal subsidiaries:

For Sohu

- Sohu.com (Hong Kong) Ltd., or Sohu HK, established in 2000;
- Beijing Sohu New Era Information Technology Co., Ltd., or Sohu Era, established in 2003;
- Sohu.com (Search) Limited, or Sohu Search, established in 2005;
- Beijing Sohu New Media Information Technology Co., Ltd., or Sohu Media, established in 2006;
- Sohu.com (Game) Limited, or Sohu Game, established in 2008;
- Beijing Sohu New Momentum Information Technology Co., Ltd., or Sohu New Momentum, established in 2010;
- Fox Video Limited, or Sohu Video, established in 2011;
- Fox Information Technology (Tianjin) Limited, or Video Tianjin, established in 2011; and
- Sohu Focus Limited, or Sohu Focus, established in 2013.

For Changyou

- Changyou.com Limited, or Changyou, established in 2007;
- Changyou.com (HK) Limited, or Changyou HK, established in 2007;
- Beijing AmazGame Age Internet Technology Co., Ltd., or AmazGame, established in 2007;
- Beijing Changyou Gamespace Software Technology Co., Ltd., or Gamespace, established in 2009;
- Changyou.com Korea LLC, or Changyou Korea, established in 2010; and
- Beijing Changyou Chuangxiang Software Technology Co., Ltd., or Changyou Chuangxiang, established in 2016.

For Sogou

- Sogou Inc., or Sogou, established in 2005;
- Sogou (BVI) Limited, or Sogou BVI, established in 2005;
- Beijing Sogou Technology Development Co., Ltd., or Sogou Technology, established in 2006;
- Sogou Hong Kong Limited, or Sogou HK, established in 2007;
- Vast Creation Advertising Media Services Limited, or Vast Creation, established in 2004 and acquired by Sogou in 2011;
- Beijing Sogou Network Technology Co., Ltd., or Sogou Network, established in 2012;
- Sogou (Shantou) Internet Microcredit Co., Ltd., or Sogou Microcredit, established in 2017;
- Sogou (Hangzhou) Intelligent Technology Co., Ltd., or Sogou Hangzhou, established in 2018; and
- Shantou Ying Zhong Bai Fu Financing Guarantee Co., Ltd., or Sogou Financing Guarantee, established in 2019.

Principal Variable Interest Entities

The following are our principal VIEs, which we established or acquired in China to perform value-added telecommunications services because of PRC restrictions on direct foreign investment in and operation of value-added telecommunications businesses, which restrictions are discussed in “Government Regulation and Legal Uncertainties-Specific Statutes and Regulations-Regulation of Foreign Direct Investment in Value-Added Telecommunications Companies.” We entered into contractual arrangements between our VIEs and our PRC Subsidiaries that govern a substantial portion of our operations, including those of the brand advertising business, the search and search-related business, the online game business and the others business. These entities are consolidated in Sohu’s consolidated financial statements, and noncontrolling interest is recognized when applicable.

For Sohu

- Beijing Century High-Tech Investment Co., Ltd., or High Century, a PRC company that was incorporated in 2001. As of December 31, 2020, Dr. Charles Zhang, our Chairman of the Board and Chief Executive Officer, and Wei Li, one of our employees, held 80% and 20% interests, respectively, in this entity;
- Beijing Heng Da Yi Tong Information Technology Co., Ltd., or Heng Da Yi Tong, a PRC company that was incorporated in 2002. As of December 31, 2020, Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity;
- Beijing Sohu Internet Information Service Co., Ltd., or Sohu Internet, a PRC company that was incorporated in 2003. As of December 31, 2020, High Century held a 100% interest in this entity;
- Beijing Sohu Donglin Advertising Co., Ltd., or Donglin, a PRC company that was incorporated in 2010. As of December 31, 2020, Sohu Internet held a 100% interest in this entity;
- Tianjin Jinhu Culture Development Co., Ltd, or Tianjin Jinhu, a PRC company that was incorporated in 2011. As of December 31, 2020, Xiufeng Deng and Xuemei Zhang, both of whom are our employees, each held a 50% interest in this entity; and
- Beijing Focus Interactive Information Service Co., Ltd., or Focus Interactive, a PRC company that was incorporated in July 2014. As of December 31, 2020, Heng Da Yi Tong held a 100% interest in this entity.

For Changyou

- Beijing Gamease Age Digital Technology Co., Ltd., or Gamease, a PRC company that was incorporated in 2007. As of December 31, 2020, High Century held a 100% interest in this entity;
- Shanghai ICE Information Technology Co., Ltd., or Shanghai ICE, a PRC company that was acquired by Changyou in 2010. As of December 31, 2020, Gamease held a 100% interest in this entity; and
- Beijing Guanyou Gamespace Digital Technology Co., Ltd., or Guanyou Gamespace, a PRC company that was incorporated in 2010. As of December 31, 2020, Beijing Changyou Star Digital Technology Co., Ltd (“Changyou Star”) held a 100% interest in this entity.

We have extended interest-free loans to the individual shareholders of the VIEs to fund their capital investment in the VIEs. The loans are secured by pledges of the shareholders’ equity interests in the VIEs, and can only be repaid by the shareholders by surrender of those equity interests to us. We have also entered into a series of agreements with the individual shareholders to transfer their equity interests in the VIEs to us when required to do so.

For Sogou

- Beijing Sogou Information Service Co., Ltd., or Sogou Information, a PRC company that was incorporated in 2005. As of December 31, 2020, Xiaochuan Wang, Sogou’s Chief Executive Officer, High Century and Tencent held 10%, 45% and 45% interests, respectively, in this entity; and
- Chengdu Easypay Technology Co., Ltd., or Chengdu Easypay, was incorporated in January 2015. As of December 31, 2020, Sogou Information held 100% of the equity interests in this entity.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled “Selected Consolidated Financial Data” and our consolidated financial statements and the related notes included elsewhere in this annual report. The discussion in this section contains forward-looking statements that involve risks and uncertainties. As a result of various factors, including those set forth under “Item 3. Key Information-Risk Factors” and elsewhere in this annual report on Form 20-F, our actual future results may be materially different from what we expect.

OVERVIEW

We are a leading Chinese online media, game and search service group providing comprehensive online products and services on PCs and mobile devices in China. Our businesses are conducted by the Sohu Group, which consists of Sohu, Changyou and Sogou. Sohu is a leading Chinese language online media content and services provider. Changyou is a leading online game developer and operator in China as measured by the popularity of its PC game TLBB and its mobile game Legacy TLBB Mobile, and engages primarily in the development, operation and licensing of online games for PCs and mobile devices. Sogou is an innovator in search and a leader in China’s Internet industry. With a mission to make it easy to communicate and get information, Sogou has grown to become the second largest search engine by mobile queries, according to CTR, and the fourth largest Internet company by MAU in China, according to iResearch.

Because of our entry into the Tencent/Sohu Sogou Share Purchase Agreement, the results of operations for Sogou have been excluded from continuing operations in our consolidated financial statements and are presented in separate line items as discontinued operations. Retrospective adjustments to our historical financial statements have been made in order to provide a consistent basis of comparison. See “Item 4. Information on the Company—History and Development of the Company.”

Through the operation of Sohu, Changyou, we generate brand advertising revenues, online games revenues and other revenues. Brand advertising revenues and online games are our core businesses. Sogou generates search and search related advertising revenues, which are reflected in our consolidated financial statements as discontinued operations. Most of our operations are conducted through our China-based subsidiaries and VIEs.

For the year ended December 31, 2020, our total revenues were approximately \$749.9 million, representing an increase of 11% compared to 2019, and our gross margin increased from 64% to 71%. Our brand advertising business generated revenues of \$146.5 million, with a 16% annual decrease, representing 20% of total revenues. Our online game business generated revenues of \$536.7 million, with a 22% annual increase, representing 72% of total revenues. In 2020, our net loss from continuing operations before deducting the noncontrolling interest was \$36.5 million, compared to a net loss from continuing operations of \$98.5 million in 2019. In 2020, our net loss from continuing operations after deducting the non-controlling interest was \$55.0 million, compared to a net loss from continuing operations of \$156.7 million in 2019. Diluted net loss from continuing operations per share attributable to Sohu.com Limited was \$1.40 in 2020, compared to a diluted net loss from continuing operations per share attributable to Sohu.com Limited of \$4.01 in 2019.

Factors and Trends Affecting our Business

With the accelerated shift in user activities from PCs to mobile devices and an increase in the number of Internet users, the use of various kinds of mobile Internet services continued to increase. At Sohu, we focused our efforts on developing a portfolio of leading mobile products across our business lines that we believed our users would like.

Smartphones have reshaped the online media business in China, as in-stream feeds have become a mainstream format through which users have become accustomed to receiving personalized information. To ensure we remain as a premier destination for our audience, we invested extensively in content and technology for Sohu Media Portal. We continually refined the technology and design of our key product Sohu News APP, and introduced innovative features to meet users’ appetites and enhance the user experience. We also introduced social features into our products to improve interactions between users and stickiness. Our advertising revenues from large brand advertisers decreased through 2020, as we faced significant challenges as a result of the COVID-19 pandemic and an uncertain macroeconomic environment in China. In response, we actively host various innovative events, using our unique live broadcasting technology, to attract attention and interest from both users and advertisers through our online platforms. Further, we also focus on upgrading our advertising systems to improve their effectiveness, with the goal of enhancing monetization and increasing small and medium enterprise (“SME”) customers’ allocations of their advertising budgets to us.

[Table of Contents](#)

Online video services remained one of the most popular Internet applications. Due to intensified competition among major players, the price of content, especially the prices of premium TV programs, went up sharply in the past few years. This caused industry-wide financial losses. For Sohu Video, we have changed our content procurement strategy and stopped buying expensive new TV programs. We now concentrate on self-developed content and other short-form video program categories, which are much less expensive than TV content. We have also integrated various social functions into our products to help users build and find their own unique social communities. Leveraging our exclusive original content and our good reputation as a producer and provider of accurate, reliable and professional content, we also actively explore opportunities with subscription services that we believe will become an important revenue source in addition to traditional advertising revenues. Our subscription revenues increased significantly during 2020. In addition, we prioritized in 2020, and will continue to accelerate in the future, the deployment of our livestreaming capabilities in the distribution of our content across various verticals on our platforms. Due to the initial positive results of these initiatives, the operating loss of Sohu Video in 2020 decreased by 54% year-on-year.

For Changyou's online game business, both PC game and mobile game revenues experienced increases during 2020. In 2020, Changyou reviewed its previous experience in mobile game development, streamlined its game development processes, and set higher standards in terms of the overall quality of games within the pipeline. It also continued to adjust the in-game environment of and optimize the operational strategy for its existing games. Going forward, Changyou plans to continue to improve its capabilities in game design, game technology, and graphic quality, enhance project management over the development process, and improve development efficiencies, as well as to further invest in talent acquisition and development. While Changyou expects that MMORPG mobile games will continue to be its strategic focus, it also plans to develop casual games, strategy games, and CCGs. For the three months ended December 31, 2020, the PC games and mobile games that Changyou operates had approximately 4.7 million total average monthly active accounts and approximately 1.5 million total active paying accounts.

For Sogou's search and search related business, growth in the online search market in China slowed in 2020, driven by a shift in the allocation of advertising budgets, the already high penetration of mobile devices, and slower growth of mobile search traffic. Changes in the macroeconomic and regulatory environment in China have also affected, and may continue to affect, the online search industry. Sogou strengthened its competitive advantages in search as it continued to build its content and service ecosystem during 2020. It has also continued to leverage the robust ecosystem it has built and shares with Tencent. Sogou Search is the default search engine for a range of Tencent products that offer general search functions. Sogou Search also continues to be the preferred third-party search engine on Weixin/WeChat to access Internet content outside Weixin/WeChat. In addition, Sogou has made significant breakthroughs in language-centered AI technology, including speech, computer vision, machine translation, dialogue, and question answering ("Q&A"). Sogou has further leveraged these AI capabilities to enhance the search experience for users. It has also integrated these AI capabilities into industry-leading solutions and expanded their use in multiple sectors.

The process of consummating the pending Tencent/Sohu Sogou Share Purchase and Sogou Merger has caused, and may continue to cause before the completion of the Sogou Merger, disruptions in Sogou's business. For example, the Sogou Merger Agreement, by its terms, imposes restrictions on Sogou's conduct of business prior to the completion of the Sogou Merger, which would delay or prevent Sogou from undertaking certain business opportunities that may arise pending the completion of the Sogou Merger. In addition, the announcement and pendency of the Sogou Merger had and may continue to have an adverse effect on Sogou's relationships with its customers, suppliers, and other third-party service providers and business partners. For example, Sogou's search and search-related revenues for the three months ended September 30, 2020 decreased by 33% year-over-year, primarily as a result of uncertainties on the part of certain advertisers with respect to Sogou's business strategies and policies following the announcement of the Sogou Merger.

The outbreak of COVID-19, which emerged in December 2019 and has rapidly spread to become a worldwide pandemic, has had, and may continue to have, a significant negative impact on the Chinese economy, and on the worldwide economy as a whole, and, in particular, on advertiser spending in the China market in which we operate, which has had, and may continue to have an adverse impact on our future business and results of operations.

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

Our discussion and analysis of our financial condition and results of operations relates to our consolidated financial statements, which have been prepared in accordance with United States of America generally accepted accounting principles ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Identified below are the accounting policies that reflect our most significant estimates and judgments, and those that we believe are the most critical to fully understanding and evaluating our consolidated financial statements.

Basis of Consolidation and Recognition of Noncontrolling Interest

Our consolidated financial statements include the accounts of Sohu and its subsidiaries and consolidated VIEs. All intra-Group transactions are eliminated except for revenues and expenses arising from intra-group transactions that are expected to continue after the disposal of the discontinued operations.

VIE Consolidation

Our VIEs are wholly or partially owned by certain employees as nominee shareholders. For our consolidated VIEs, management made evaluations of the relationships between us and our VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, we control the shareholders' voting interests in these VIEs. As a result of such evaluation, management concluded that we are the primary beneficiary of our consolidated VIEs.

Noncontrolling Interest Recognition

Noncontrolling interests are recognized to reflect the portion of the equity of subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholders. The noncontrolling interests in our consolidated financial statements primarily consist of noncontrolling interests for Changyou and Sogou.

Noncontrolling Interest for Changyou

Prior to the completion of the Changyou Merger on April 17, 2020, we consolidate Changyou in our consolidated financial statements and also recognized noncontrolling interest reflecting the economic interest in Changyou held by Changyou noncontrolling shareholders. Changyou's net income/(loss) attributable to the Changyou noncontrolling shareholders is recorded as noncontrolling interest in our consolidated statements of comprehensive income, based on their share of the economic interest in Changyou. Changyou's cumulative results of operations attributable to the Changyou noncontrolling shareholders, along with changes in shareholders' equity, adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and adjustment for changes in our ownership in Changyou, are recorded as noncontrolling interest in our consolidated balance sheets. As a result of the completion of Sohu's acquisition of the noncontrolling interests in Changyou on April 17, 2020, we hold 100% of the combined total of Changyou's outstanding ordinary shares and 100% of the total voting power in Changyou. We consolidate Changyou in our consolidated financial statements, and no noncontrolling interests are recognized except for noncontrolling interests reflecting economic interests in Changyou's subsidiaries held by shareholders other than Changyou.

Noncontrolling Interest for Sogou

Prior to the completion of Sogou's IPO in November 2017, we controlled the election of a majority of Sogou's Board of Directors pursuant to a shareholders' agreement that expired upon the completion of the IPO. Following the completion of Sogou's IPO, pursuant to the Voting Agreement and Sogou's Amended and Restated Articles of Association, we still have the right to appoint a majority of Sogou's Board of Directors.

As Sogou's controlling shareholder, we consolidate Sogou in our consolidated financial statements as discontinued operations, and recognize noncontrolling interests reflecting economic interests in Sogou held by shareholders other than us (the "Sogou noncontrolling shareholders"). Sogou's net income/(loss) attributable to the Sogou noncontrolling interest shareholders is recorded as net income/(loss) from discontinued operations attributable to the noncontrolling interest shareholders in our consolidated statements of comprehensive income.

Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, based on their share of the economic interest in Sogou, along with changes in shareholders' equity and adjustment for share-based compensation expense in relation to share-based awards that are unvested and vested but not yet settled and adjustment for changes in our ownership percentage in Sogou, are recorded as noncontrolling interest in our consolidated balance sheets.

Segment Reporting

Our Group's segments are business units that offer different services and are reviewed separately by the chief operating decision maker (the "CODM"), or the decision making group, in deciding how to allocate resources and in assessing performance. The CODM is our Chief Executive Officer.

Revenue Recognition

Impact of Adoption of ASC 606

On January 1, 2018, we adopted ASC 606, applying the modified retrospective method to contracts that were not completed as of January 1, 2018. The adoption of ASC 606 did not have a material impact on our accumulated deficit as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605.

Under ASC 605, advertising-for-advertising barter transactions for which the fair value of the advertising services was not determinable were recorded at the carrying amount of the advertising surrendered since we did not settle such barter transactions with the counterparties in cash. As ASC 605 has been superseded by ASC 606 on this subject, advertising-for-advertising barter transactions is to be recorded at the fair value of the advertising received by reference to the fair value of advertising services provided to other customers.

[Table of Contents](#)

Under ASC 606, revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The recognition of revenues involves certain management judgments, including estimated lives of virtual items purchased by game players, the estimation of the fair value of an advertising-for-advertising barter transaction, allocation of upfront license fees for licensed-out games between license and post-sale services, and the volume sales rebates. We do not believe that significant management judgements are involved in revenue recognition, but the amount and timing of our revenues could be different for any period if management made different judgments or utilized different estimates.

The following table presents our revenues disaggregated by products and services:

	Year Ended December 31, 2018 (in thousands)		
	Sohu	Changyou	Total
Brand advertising:			
Sohu Media Portal	\$127,612	0	127,612
Sohu Video	53,886	0	53,886
Focus	31,144	0	31,144
17173.com Website	0	19,697	19,697
Online games:			
PC games	0	236,743	236,743
Mobile games	0	151,737	151,737
Other games	0	1,308	1,308
Others	61,974	6,074	68,048
Total	\$274,616	415,559	690,175

	Year Ended December 31, 2019 (in thousands)		
	Sohu	Changyou	Total
Brand advertising:			
Sohu Media Portal	\$ 94,692	0	94,692
Sohu Video	34,529	0	34,529
Focus	32,120	0	32,120
17173.com Website	0	13,715	13,715
Online games:			
PC games	0	267,752	267,752
Mobile games	0	172,718	172,718
Other games	0	432	432
Others	57,082	763	57,845
Total	\$218,423	455,380	673,803

	Year Ended December 31, 2020 (in thousands)		
	Sohu	Changyou	Total
Brand advertising:			
Sohu Media Portal	\$ 86,293	0	86,293
Sohu Video	25,312	0	25,312
Focus	23,281	0	23,281
17173.com Website	0	11,640	11,640
Online games:			
PC games	0	353,737	353,737
Mobile games	0	182,947	182,947
Other games	0	0	0
Others	66,658	22	66,680
Total	\$201,544	548,346	749,890

[Table of Contents](#)

Brand Advertising Revenues

Brand advertising revenues are generated from brand advertising services. Certain customers may receive sales rebates, which are accounted for as variable consideration. We estimate annual expected revenue volume from each agent with reference to its historical results. Sales rebates will reduce revenues recognized. We recognize revenue for the amount of fees we receive from our advertisers, after deducting sales rebates and net of value-added tax (“VAT”). There have not been any significant changes, and we believe that there will not be significant changes, to our estimates of variable consideration.

Brand Advertising Revenues

Revenue Recognition of Multiple Performance Obligations

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenues to each performance obligation based on its relative standalone selling price. We generally determine the standalone selling price of each distinct performance obligation based on the prices charged to customers when sold on a standalone basis. Where a standalone selling price is not directly observable, we generally estimate the selling price based on the prices at which performance obligations of a similar nature and geography are charged to customers. Most of such contracts have all performance obligations completed within the same quarter.

Pricing Model

Through mobile devices and PCs, we provide advertisement placements to our advertisers on different Internet platforms and in different formats, which include banners, links, logos, buttons, full screen, pre-roll, mid-roll, post-roll video screens, pause video screens, loading page ads, news feed ads, in-feed video infomercial ads, and other formats.

Currently we have three main types of pricing models, consisting of the Fixed Price model, the CPM model, and the CPC model.

(i) Fixed Price model

Under the Fixed Price model, a contract is signed to establish a fixed price for the advertising services to be provided. Given that the advertisers benefit from displayed advertisements evenly over the period the advertisements are displayed, we recognize revenue on a straight-line basis over the period of display, provided all revenue recognition criteria have been met.

(ii) CPM model

Under the CPM model, the unit price for each qualifying display is fixed and stated in the contract with the advertiser. A qualifying display is defined as the appearance of an advertisement, where the advertisement meets criteria specified in the contract. Given that the fees are priced consistently throughout the contract and the unit prices are fixed in accordance with our pricing practices for similar advertisers, we recognize revenue based on the fixed unit prices and the number of qualifying displays upon their occurrence, provided all revenue recognition criteria have been met.

(iii) CPC model

Under the CPC model, there is no fixed price for advertising services stated in the contract with the advertiser and the unit price for each click is auction-based. We charge advertisers on a per-click basis when the users click on the advertisements. Given that the fees are priced consistently throughout the contract and the unit prices are fixed in accordance with our pricing practices with similar advertisers, we recognize revenue based on qualifying clicks and unit price upon the occurrence of the clicks, provided all revenue recognition criteria have been met.

[Table of Contents](#)

Online Game Revenues

Changyou's online game revenues are generated primarily from its self-operated and licensed-out PC games and mobile games. Prior to the sale of the MoboTap business in 2018, Changyou also generated a small amount of revenues from online card and board games. All of Changyou's games are operated under the item-based revenue model, where the basic game play functions are free of charge and players are charged for purchases of in-game virtual items, including those with a predetermined expiration time and perpetual virtual items.

Changyou is the principal of its self-operated games. Changyou hosts the games on its own servers and is responsible for the sale and marketing of the games as well as customer service. Accordingly, revenues are recorded gross of revenue sharing—payments to third-party developers and/or mobile APP stores, but net of VAT and discounts to game card distributors where applicable. Changyou obtains revenues from the sale of in-game virtual items. Revenues are recognized over time for virtual items with estimated lives and upon use for items that are consumed immediately. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues would be impacted.

PC Games

Proceeds from Changyou's self-operated PC games are collected from players and third-party game card distributors through sales of Changyou's game points on its online payment platform and prepaid game cards.

Changyou's self-operated PC games are either developed in house or licensed from third-party developers. For licensed PC games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are recorded in Changyou's cost of revenues.

Mobile Games

Self-operated Mobile Games

For self-operated mobile games, Changyou sells game points to its game players via third-party mobile APP stores. The mobile APP stores in turn pay Changyou proceeds after deducting their share of pre-agreed revenue-sharing amounts.

Changyou's self-operated mobile games are either developed in house or licensed from or jointly developed with third-party developers. For licensed and jointly developed mobile games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to mobile application stores and third-party developers are included in Changyou's cost of revenues.

Licensed Out Mobile Games

Changyou also authorizes third parties to operate its mobile games. Licensed out games include mobile games developed in house, such as Changyou's mobile game Legacy TLBB Mobile, and mobile games jointly developed with third-party developers. Changyou receives monthly revenue-based royalty payments from the third-party licensee operators. Changyou receives additional up-front license fees from certain third-party licensee operators who are entitled to an exclusive right to operate Changyou's games in specified geographic areas. Since Changyou is obligated to provide post-sale services ("PCS"), the initial license fees are allocated between the license and PCS based on relative standalone selling prices. The amount allocated to the license is recognized as revenue upon the commencement of the license period, given that Changyou's intellectual property rights subject to the license are considered to be functional and the licensee has the right to use such intellectual property rights as they exist at the point when the license is granted, and the amount allocated to PCS is recognized as revenue ratably over the license period. Monthly revenue-based royalty payments are recognized when the relevant services are delivered, provided that collectability is reasonably assured. Changyou views the third-party licensee operators as Changyou's customers and recognizes revenues on a net basis, as Changyou does not have the primary responsibility for fulfillment and acceptability of the game services. Changyou remits to the third-party developers a pre-agreed percentage of revenues and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are included in Changyou's cost of revenues or product development expenses.

Other Revenues

Sohu

Other revenues attributable to Sohu consist primarily of revenues from paid subscription services, interactive broadcasting services, and sub-licensing of purchased video content to third parties.

Changyou

Other revenues attributable to Changyou are primarily from IVAS.

Revenues generated from Changyou's IVAS were derived primarily from software applications for PCs and mobile devices offered by RaidCall, which ceased operations in March 2019. Prior to March 2018, IVAS revenues also included revenues generated from the Dolphin Browser operated by MoboTap. Revenues from IVAS are recognized during the period the services are rendered or items are consumed under the gross method, as Changyou is the principal obligor for provision of the services.

[Table of Contents](#)

As of August 12, 2019, we ceased consolidating Changyou's cinema advertising business in our consolidated financial statements and, accordingly, the financial results of the cinema advertising business are excluded from our results from continuing operations and are presented in separate line items as discontinued operations in the consolidated financial statements, and retrospective adjustments to our historical audited consolidated financial statements have been made in order to provide a consistent basis of comparison.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenue recognized prior to invoicing, when we have satisfied our performance obligations and have the unconditional right to payment. The allowance for credit losses is estimated based upon our assessment of various factors, including past collection experience and consideration of current and future economic conditions and other factors that may affect our customers' ability to pay. Contract assets as of December 31, 2020 were not material. The allowance for credit losses was \$7.0 million and \$4.0 million, respectively, as of December 31, 2020 and December 31, 2019.

Receipts in advance and deferred revenue relate to unsatisfied performance obligations at the end of the period and primarily consist of fees received from game players in the online game business and from advertisers in the advertising business. Due to the generally short-term duration of the contracts, the majority of the performance obligations are satisfied in the following reporting period. The amount of revenue recognized that was included in the receipts in advance and deferred revenue balance at the beginning of the period was \$42.6 million for the year ended December 31, 2020.

There was no significant change in the contract assets and contract liability balances during 2020.

Revenue recognized in 2020 from performance obligations related to prior years was not material.

Practical Expedients

We have used the following practical expedients as allowed under ASC 606:

- (i) The transaction price allocated to performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed as substantially all of our contracts have a duration of one year or less.
- (ii) Payment terms and conditions vary by contract type, although terms generally include a requirement of prepayment or payment within one year or less. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts generally do not include a significant financing component.
- (iii) We applied the portfolio approach in determining the commencement date of consumption and the estimated lives of virtual items for the recognition of games revenue given that the effect of applying a portfolio approach to a group game players' behaviors would not differ materially from considering each one of them individually.
- (iv) We generally expense sales commissions when incurred, because the amortization period would be one year or less. These costs are recorded within sales and marketing expenses.

Cost of Revenues

Cost of Brand Advertising Revenues

Cost of brand advertising revenues mainly consists of content and license costs, salary and benefits expenses, and bandwidth service costs. For self-developed video content, production costs incurred in excess of the amount of revenue contracted for are expensed as incurred.

Cost of Online Game Revenues

Cost of online game revenues mainly consists of revenue-sharing payments, salary and benefits expenses, bandwidth service costs, tax surcharges, depreciation and amortization expenses, content and license costs, and other direct costs.

Cost of Other Revenues

Cost of other revenues mainly consists of revenue-sharing payments related to interactive broadcasting services, content and license costs related to paid subscription services, and revenue-sharing payments related to paid subscription services.

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, content and license costs, depreciation and amortization expenses, professional fees, share-based compensation, and facilities expenses. These expenses are incurred for the enhancement and maintenance of our Internet platforms as well as for our products and services. The development costs of online games are expensed as incurred, including the development costs of online games prior to the establishment of technological feasibility and maintenance costs after the online games are available for marketing.

Sales and Marketing Expenses

Sales and marketing expenses mainly consist of advertising and promotional expenses, salary and benefits expenses, travel and entertainment expenses, and facilities expenses. Advertising and promotional expenses generally represent the expenses of promotions to create or stimulate a positive image of us or a desire to subscribe for our products and services. Advertising and promotional expenses are expensed as incurred.

General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses, professional fees, share-based compensation, bad debts, travel and entertainment expenses, and facilities expenses.

Share-based Compensation Expense

Sohu (excluding Sohu Video), Changyou, Sogou, and Sohu Video have incentive plans for the granting of share-based awards, including share options and restricted share units, to members of the boards of directors, management and other key employees.

For share-based awards for which a grant date has occurred, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates. For share-based awards for which the service inception date precedes the grant date, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income beginning on the service inception date and is re-measured on each subsequent reporting date before the grant date, based on the estimated fair value of the related share-based awards. Share-based compensation expense is charged to shareholders' equity or noncontrolling interest in the consolidated balance sheets. The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. If factors change or different assumptions are used, our share-based compensation expense could be materially different for any period. Moreover, the estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards.

After the completion of the Changyou Merger, our Board of Directors approved a modification plan for the granted but unvested share options under the Changyou 2014 Share Incentive Plan and the Changyou 2019 Share Incentive Plan (the "Changyou Plans' Modification").

After the Changyou Plans' Modification, liability will be accrued over the service period based on a fixed price of \$5.39 per Changyou Class A ordinary share, which equals the Changyou Merger consideration of \$5.40 per Changyou Class A ordinary share minus the per-share exercise price of \$0.01 of such options. No subsequent fair value re-measurement will be made given the award is an obligation based on a fixed amount underlying such vested share options.

Sohu (excluding Sohu Video), Changyou and Sogou Share-based Awards

Sohu (excluding Sohu Video) Share-based Awards

In determining the fair value of share options granted by Sohu (excluding Sohu Video) as share-based awards, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied. In determining the fair value of restricted share units granted, the public market price of the underlying shares on the grant dates was applied.

Upon the dissolution of Sohu.com Inc. on May 31, 2018, we assumed all then existing obligations of Sohu.com Inc. with respect to equity incentive awards that had been granted under Sohu.com Inc.'s Amended and Restated 2010 Stock Incentive Plan (the "Sohu 2010 Stock Incentive Plan") and remained outstanding, and such awards were converted into the right to receive upon exercise or settlement our ordinary shares under the Sohu 2018 Share Incentive Plan rather than shares of the common stock of Sohu.com Inc., subject to the other terms of such outstanding awards. Options for the purchase of our ordinary shares, including options converted from those contractually granted under the Sohu 2010 Stock Incentive Plan, are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets.

[Table of Contents](#)

Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Sohu and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimate of the awards' fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair value at the grant date.

Changyou Share-based Awards

Options for the purchase of Changyou Class A ordinary shares contractually granted under the Changyou 2014 Share Incentive Plan and the Changyou 2019 Share Incentive Plan are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets. Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Changyou and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimates of the awards' fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair values at the grant date. In determining the fair values of Changyou share options granted, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

After the Changyou Plans' Modification, a portion of the share options previously granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger were settled by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share, which equals the Changyou Merger consideration of \$5.40 per Changyou Class A ordinary share minus the per-share exercise price of \$0.01 of such options. None of the remaining share options granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger or that become vested in the future, and none of the share options granted under the Changyou 2019 Share Incentive Plan, will be exercisable, but can only be repurchased by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share underlying such vested share options upon termination of the option holders' employment or upon approval of the Chairman of our Board of Directors. As a result of the Changyou Plans' Modification, share-based compensation expense will be accrued over the service period based on the fixed price of \$5.39 per Changyou Class A ordinary share. No subsequent fair value re-measurement will be made, given that the award is an obligation based on a fixed amount of \$5.39 per Changyou Class A ordinary share.

As of December 31, 2020, 4,210,000 of these Changyou share options had been granted and had become vested on their respective vesting dates, as a mutual understanding of the subjective performance targets had been reached between Changyou and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. Cumulative share-based compensation expense of \$15.7 million was accrued based on the fixed price of \$5.39 per Changyou Class A ordinary share.

Sogou Share-based Awards

In determining the fair value of share options granted by Sogou as share-based awards, a binomial valuation model was applied. The determination of the fair value is affected by the fair value of the ordinary shares underlying the options as well as assumptions regarding a number of complex and subjective variables, including risk-free interest rates, exercise multiples, expected forfeiture rates, expected share price volatility rates, and expected dividends. The fair values of the ordinary shares are determined based on the trading price of Sogou ADSs in the public market.

Before Sogou's adoption of ASU 2018-07 "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" effective for fiscal years beginning after December 15, 2018, share-based compensation expense for share options granted to non-employees was measured at fair value at the earlier of the performance commitment date or the date service was completed and recognized over the period during which the service was provided. Sogou applied the guidance in ASC 505-50 to measure share options granted to non-employees based on the then-current fair value at each reporting date until the service was provided and the performance targets were met. After Sogou's adoption of ASU 2018-07, share-based compensation expense for share options granted to non-employees is recognized in accordance with the requirements of ASC 718 for employee share-based compensation awards.

Compensation Expense Recognition

For options and restricted share units granted with respect to Sohu (excluding Sohu Video) shares and Changyou shares, compensation expense is recognized on an accelerated basis upon the requisite service period and certain subjective performance targets being met. For share options granted with respect to Sogou shares, compensation expense is recognized over the estimated period during which the service period requirement and performance target will be met, which is usually within one year, or, after the performance target of Sogou's completion of an IPO was met upon the completion of Sogou's IPO on November 13, 2017, on an accelerated basis over the requisite service period, or, for options with only service period requirement, on an accelerated basis over the requisite service period. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses, compensation expense is recognized by Sogou on an accelerated basis over the requisite service period, and the fair value of the share-based compensation is re-measured at each reporting date until the service has been provided. Compensation expense recognized by Sogou is reflected as discontinued operations in our consolidated statements of comprehensive income. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and no compensation expense is recorded for the number of awards so estimated.

Sohu Video Share-based Awards

On January 4, 2012, Sohu Video, the holding entity of Sohu's video division, adopted a 2011 Share Incentive Plan (the "Sohu Video Share Incentive Plan") which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video (representing approximately 10% of the outstanding Sohu Video shares on a fully-diluted basis) to management and key employees of the video division and to Sohu management. As of December 31, 2020, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made, of which options for the purchase of 4,972,800 ordinary shares were vested.

For purposes of ASC 718-10-25, as of December 31, 2020, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. Therefore, the fair value of the awards was not determinable and could not be accounted for. In accordance with ASC 718-10-55, our management determined that the service inception date with respect to vested option awards for the purchase of 4,972,800 shares had preceded the grant date. Therefore, we recognized compensation expense for these vested Sohu Video share-based awards and re-measured, and will re-measure, the compensation expense on each subsequent reporting date based on the then-current fair values of these vested awards until the grant date is established.

Taxation

PRC Corporate Income Tax

Recognition

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Deferred income taxes are determined based on the differences between the accounting basis and the tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Deferred tax assets are reduced by a valuation allowance, if based on available evidence, it is considered that it is more likely than not that some portion of or all of the deferred tax assets will not be realized. In making such determination, we consider factors including future reversals of existing taxable temporary differences, future profitability, and tax planning strategies. If events were to occur in the future that would allow us to realize more of our deferred tax assets than the presently recorded net amount, an adjustment would be made to the deferred tax assets that would increase income for the period when those events occurred. If events were to occur in the future that would require us to realize less of our deferred tax assets than the presently recorded net amount, an adjustment would be made to the valuation allowance against deferred tax assets that would decrease income for the period when those events occurred. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities.

Our deferred tax assets are related to net operating losses and temporary differences between accounting basis and tax basis for our China-based subsidiaries and VIEs, which are subject to corporate income tax in the PRC under the CIT law.

Applicable Income Tax Rate

Principal Entities Qualified as HNTEs

The CIT Law generally applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to HNTEs. Under this preferential tax treatment, HNTEs can enjoy an income tax rate of 15%, but need to re-apply every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate.

As of December 31, 2020, the following principal entities were qualified as HNTEs and were entitled to an income tax rate of 15%.

For Sohu

- Sohu New Momentum. Sohu New Momentum qualified as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Sohu Internet and Video Tianjin. Sohu Internet and Video Tianjin qualified as HNTEs for the years 2018 through 2020, and will need to re-apply for HNTE qualification in 2021.
- Sohu Media. Sohu Media re-applied for HNTE qualification and received approval in December 2020. Sohu Media is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2020 through 2022, and will need to re-apply for HNTE qualification in 2023.

Table of Contents

For Changyou

- Gamespace and Changyou Chuangxiang. Gamespace and Changyou Chuangxiang qualified as HNTEs for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Gamease and AmazGame. Gamease and AmazGame re-applied for HNTE qualification and received approval in October 2020. Gamease and AmazGame are entitled to continue to enjoy the beneficial tax rate as HNTEs for the years 2020 through 2022, and will need to re-apply for HNTE qualification in 2023.

For Sogou

- Sogou Network. Sogou Network qualified as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Sogou Information. Sogou Information qualified as an HNTE for the years 2018 through 2020, and will need to re-apply for HNTE qualification in 2021.
- Sogou Technology. Sogou Technology re-applied for HNTE qualification and received approval in December 2020. Sogou Technology is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2020 through 2022, and will need to re-apply for HNTE qualification in 2023.

Principal Entities Qualified as Software Enterprises and KNSEs

The CIT Law and its implementing regulations provide that a Software Enterprise is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. An entity that qualifies as a KNSE is entitled to a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of a Software Enterprise or a KNSE must perform a self-assessment each year to ensure they meet the criteria for qualification and file required supporting documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to the tax authorities' assessment each year as to whether they are entitled to use the relevant preferential CIT treatments. If at any time during the preferential tax treatment years an enterprise uses the preferential CIT rates but the relevant authorities determine that it fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise's Software Enterprise or KNSE status.

For Changyou

- AmazGame. In 2020, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2019. Also in 2020, AmazGame was qualified as a KNSE after the relevant government authorities' assessment and became entitled to a preferential income tax rate of 10% for 2019. AmazGame will follow the appropriate rules and procedures of the relevant government authorities in order to maintain its KNSE status for 2020.
- Changyou Chuangxiang. In 2020, Changyou Chuangxiang completed a self-assessment and filed required supporting documents for KNSE status for 2019. Also in 2020, Changyou Chuangxiang was qualified as a KNSE after the relevant government authorities' assessment and became entitled to a preferential income tax rate of 10% for 2019. Changyou Chuangxiang will follow the appropriate rules and procedures of the relevant government authorities in order to maintain its KNSE status for 2020.

PRC Withholding Tax on Dividends

The CIT Law imposes a 10% withholding income tax on dividends distributed by foreign invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the "Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income," if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to a withholding tax rate of 10%.

PRC Value Added Tax

On May 1, 2016, the transition from the imposition of PRC business tax to the imposition of VAT was expanded to all industries in China, and all of our revenues have been subject to VAT since that date. To record VAT payable, we adopted the net presentation method, which presents the difference between the output VAT (at rates of 6% or 17% for the period from January 1, 2018 to April 30, 2018, at rates of 6% or 16% for the period from May 1, 2018 to March 31, 2019, and at rates of 6% or 13% after April 1, 2019) and the available input VAT amount (at the rate applicable to the supplier).

U.S. Corporate Income Tax

Sohu.com Inc., which was formerly the top-tier publicly-traded parent company of the Sohu Group, was dissolved and liquidated on May 31, 2018. Sohu.com Inc. was a Delaware corporation that was subject to U.S. federal corporate income tax on its taxable income at a rate of 21% for taxable years beginning after December 31, 2017 and of up to 35% for prior tax years. U.S. federal tax legislation signed into law on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act (the “U.S. TCJA”), significantly modified the U.S. Internal Revenue Code by, among other things, reducing the maximum statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a partial territorial tax system with a one-time transition tax (the “Toll Charge”) on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings. See Note 15 to our audited consolidated financial statements beginning on page F-1 of this report.

Certain activities conducted in the PRC resulted in U.S. corporate income taxes being imposed on Sohu.com Inc. when its subsidiaries that were controlled foreign corporations (“CFCs”) generated income that was subject to Subpart F of the U.S. Internal Revenue Code (“Subpart F”). Generally, passive income, such as rents, royalties, interest, dividends, and gains from disposal of the Sohu Group’s investments, were among the types of income that were subject to taxation under Subpart F. Any income taxable under Subpart F was taxable in the U.S. at the applicable federal corporate income tax rate. Subpart F income also included certain income from intra-Group transactions between Sohu.com Inc.’s non-U.S. subsidiaries and VIEs and Changyou’s non-U.S. subsidiaries and VIEs or Sogou’s non-U.S. subsidiaries and VIEs, or where Sohu.com Inc.’s non-U.S. subsidiaries or VIEs made an “investment in U.S. property,” such as holding the stock in, or making a loan to, a U.S. corporation. Under a provision of the U.S. tax code commonly referred to as the CFC look-through rule, Sohu.com Inc. did not have to treat dividends received by its CFC subsidiaries as Subpart F income includible in Sohu.com Inc.’s taxable income in the U.S.

To the extent that portions of Sohu.com Inc.’s U.S. taxable income, such as Subpart F income or global intangible low-taxed income (“GILTI”), as applicable, had been determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may have been entitled to claim foreign tax credits to offset its U.S. income tax liabilities. Following the enactment of the U.S. TCJA, if dividends that Sohu.com Inc. received from its subsidiaries after January 1, 2018 were determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. would generally not have been required to pay U.S. corporate income tax on those dividends. Liabilities for U.S. corporate income tax were accrued in our consolidated statements of comprehensive income and estimated tax payments were made when required by U.S. law.

Treatment of Toll Charge Related to the U.S. TCJA

Beginning in the fourth quarter of 2017, the Sohu Group had recognized a provisional amount of income tax expense for the Toll Charge of \$219 million, which represented management’s estimate of the amount of the Toll Charge that would have been payable by Sohu.com Inc. based on the deemed repatriation to the United States of its share of previously deferred earnings of certain of its non-U.S. subsidiaries, offset by a reduction of \$4 million in liability for deferred U.S. income tax, as a result of the U.S. TCJA. The Sohu Group included the provisional amount of the Toll Charge of \$219 million in its interim financial statements through the quarter ended September 30, 2018, in reliance on SAB 118.

For the fourth quarter of 2018, the Sohu Group’s management re-evaluated the impact on the Sohu Group of the Toll Charge under the U.S. TCJA. Management determined that it was more likely than not, based on the technical merits, that the tax position that the Sohu Group had no Toll Charge liability would be sustained. The Group recognized a tax benefit in the amount of \$77 million, which was the largest amount that management determined to be greater than 50% likely to be realized upon settlement with the U.S. IRS. As a result, as of December 31, 2018, the Sohu Group had an unrecognized tax benefit in the amount of \$142 million, which represented the difference between the tax benefit recognized in the fourth quarter of 2018 and management’s previous estimate of the Toll Charge. The estimate remained unchanged as of December 31, 2020. In addition, the Sohu Group accrued \$8 million and \$6 million, respectively, in interest on the unrecognized tax benefit for the years of 2019 and 2020.

The tax benefit recognized and the unrecognized tax benefit in relation to the Toll Charge may be subject to further adjustment in subsequent periods based on facts and circumstances that arose after December 31, 2020, such as any IRS assessments upon audit and management’s further judgment and estimates.

Uncertain Tax Positions

We are subject to various taxes in different jurisdictions, but primarily the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to our income and transactions. In order to assess uncertain tax positions, we apply a more likely than not threshold and a two-step approach for tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

Net Income/(Loss) per Share

Basic net income/(loss) per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net income/(loss) per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potential ordinary shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income/(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income/(loss) per share.

Additionally, for purposes of calculating the numerator of diluted net income/(loss) per share, the net income/(loss) attributable to Sohu is calculated as discussed below. The adjustment will not be made if there is an anti-dilutive effect.

Changyou's net income/(loss) attributable to Sohu

Prior to the completion of the Changyou Merger on April 17, 2020, Changyou's net income/(loss) attributable to Sohu was determined using the percentage that the weighted average number of Changyou shares held by Sohu represented of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Changyou, which was used for the calculation of basic net income per share. After the completion of the Changyou Merger, Sohu holds 100% of the combined total of Changyou's outstanding ordinary shares, so Changyou's net income/(loss) is wholly attributable to Sohu.

As a result of the Changyou Plans' Modification, a portion of the share options previously granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger were settled by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share, which equals the Changyou Merger consideration of \$5.40 per Changyou Class A ordinary share minus the per-share exercise price of \$0.01 of such options. None of the remaining share options granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger or that become vested in the future, and none of the share options granted under the Changyou 2019 Share Incentive Plan, will be exercisable, but can only be repurchased by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share underlying such vested share options upon termination of the option holders' employment or upon approval of the Chairman of the Sohu Board. As a result of the Changyou Plans' Modification, share-based compensation expense will be accrued over the service period based on the fixed price of \$5.39 per Changyou Class A ordinary share. No subsequent fair value re-measurement will be made, given that the award is an obligation based on a fixed amount of \$5.39 per Changyou Class A ordinary share.

In the calculation of our diluted net income/(loss) per share, before the Changyou Plans' Modification, a dilutive effect should be assumed. All of Changyou's existing unvested restricted share units and share options, and vested restricted share units and share options that have not yet been settled or exercised, are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu in Changyou to decrease. As a result, Changyou's net income/(loss) attributable to us on a diluted basis decreased accordingly. Assuming an anti-dilutive effect, all of these Changyou restricted share units and share options are excluded from the calculation of our diluted net income/(loss) per share. As a result, Changyou's net income/(loss) attributable to us on a diluted basis equals the number used for the calculation of our basic net income/(loss) per share.

As a result of the Changyou Plans' Modification, all of Changyou's previously granted share-based awards have been reclassified as obligation-based awards. Accordingly, all of those Changyou awards are excluded from the calculation of our diluted net income/(loss) per share. Changyou's net income/(loss) attributable to us on a diluted basis equals the number used for the calculation of our basic net income/(loss) per share. There have been no diluted effects resulting from Changyou's existing unvested share options.

Sogou's net income/(loss) attributable to Sohu (Discontinued)

Sogou's net income/(loss) attributable to Sohu is determined using the percentage that the weighted average number of Sogou shares held by Sohu represents of the weighted average number of Sogou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Sogou, which is used for the calculation of basic net income per share. Sogou's net income/(loss) attributable to Sohu is reflected as discontinued operations in the Sohu Group's consolidated statements of comprehensive income.

[Table of Contents](#)

In the calculation of Sohu's diluted net income/(loss) per share, assuming a dilutive effect, the percentage of Sohu's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested Sogou share options with the performance targets achieved as well as vested but unexercised Sogou share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of Sohu's diluted income/(loss) per share. As a result, Sogou's net income/(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income/(loss) per share.

Fair Value of Financial Instruments

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1—observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2—include other inputs that are directly or indirectly observable in the market place.

Level 3—unobservable inputs which are supported by little or no market activity.

Our financial instruments consist primarily of cash equivalents, restricted cash, short-term investments, accounts receivable, prepaid and other current assets, long-term investments, restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term bank loans and long-term accounts payable.

Cash Equivalents

Our cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash.

Restricted Cash and Restricted Time Deposits

Restricted cash and restricted time deposits are valued based on the prevailing interest rates in the market using the discounted cash flow method.

Short-term Investments

For investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, we elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive income.

Accounts Receivable, Net

The carrying value of accounts receivable is reduced by an allowance that reflects our best estimate of the amounts that will not be collected. We make estimates of the collectability of accounts receivable. Many factors are considered in estimating the general allowance, including reviewing delinquent accounts receivable, performing a customer credit analysis, and analyzing historical bad debt records and current and future economic trends.

Accounts receivable are measured at amortized cost and reported on our consolidated balance sheets at the outstanding principals adjusted for any write-offs and any allowance for credit losses.

Allowance for credit losses

Effective on January 1, 2020, we adopted Accounting Standards Update (ASU) 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13") under a modified retrospective transition. This guidance replaces the existing "incurred loss" methodology, and introduces an expected loss approach using macroeconomic forecasts, referred to as a current expected credit losses ("CECL") methodology. Under the incurred loss methodology, credit losses are only recognized when the losses are probable of having been incurred. The CECL methodology requires that the full amount of expected credit losses for the lifetime of the financial instrument be recorded at the time it is originated or acquired, considering relevant historical experience, current conditions and reasonable and supportable macroeconomic forecasts that affect the collectability of financial assets, and adjusted for changes in expected lifetime credit losses subsequently, which may require earlier recognition of credit losses.

We adopted ASU 2016-13 using the modified retrospective transition approach and recognized a cumulative-effect adjustment to the opening balance of accumulated deficit in the consolidated financial statements. Results for reporting periods beginning after January 1, 2020 are presented using the CECL methodology while comparative information continues to be reported in accordance with the incurred loss methodology in effect for prior periods.

[Table of Contents](#)

The following table shows the overall adjustments recognized for each individual line item (in thousands).

	<u>December 31, 2019</u>	<u>ASU 2016-13 adjustment</u>	<u>January 1, 2020</u>
Allowance for credit losses			
Accounts receivable, net	\$ 126,081	\$ (3,383)	\$ 122,698
Accounts receivable and financing receivables, net classified as assets held for sale (1)	134,635	(3,273)	131,362
Total assets	2,691,864	(6,656)	2,685,208
Shareholders' equity			
Accumulated deficit	(544,137)	(6,656)	(550,793)

Note (1): Of the total adjustment of \$3.3 million, \$2.5 million was related to financing receivables.

Accounts receivable, net

The allowance for credit losses reflects our estimated expected losses. We assess the allowance for credit losses, mainly based on the past collection experience as well as consideration of current and future economic conditions and changes in our collection trends. We estimate the expected credit losses for accounts receivable with similar risk characteristics on a pool basis. For each pool, we first estimate its recovery period based on relevant historical accounts receivable collection information. Then we estimate the credit allowances based on the recovery period, the historical distribution of each aging bucket, and the impact of macroeconomic factors.

Accounts receivable are written off when there is no reasonable expectation of recovery. Allowance for credit losses is presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Accounts receivable, net, as of December 31, 2019 and 2020 consisted of the following (in thousands):

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
Accounts receivable, net		
Accounts receivable	\$ 130,037	\$ 94,528
Less: Allowance for credit losses	(3,956)	(7,007)
	\$ 126,081	\$ 87,521

The following table presents the aging analysis of accounts receivable as of December 31, 2019 and 2020 (in thousands):

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
Less than 179 days	\$ 113,173	\$ 78,805
180-359 days	6,516	7,569
360 days and greater	10,348	8,154
Total	130,037	94,528

The movement of allowance for credit losses for the years ended December 31, 2018, 2019 and 2020 was as follows (in thousands):

	<u>For the year ended December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
Balance at the beginning of year	\$ 4,487	\$ 7,574	\$ 3,956
Changes on initial application of ASU 2016-13 (1)	0	0	3,383
Additional allowance for credit losses, net of recoveries	5,449	4,724	2,419
Write-offs	(1,940)	(8,237)	(3,231)
Exchange difference	(422)	(105)	480
Balance at the end of year	7,574	3,956	7,007

Note (1): We adopted ASU 2016-13 using the modified retrospective transition approach. The adjustments arising from the new CECL model are recognized in the opening Consolidated Balance Sheet on January 1, 2020.

[Table of Contents](#)

Accounts Receivable and Financing Receivables, Net classified as assets held for sale

Financing receivables, net, classified as assets held for sale consist primarily of small consumer loans that Sogou makes to individual borrowers. Sogou funds such loans either through its own capital or through a trust which was jointly established by Sogou and a third-party investor, and is administered by a third-party trust company. As the trust only invests in loans facilitated by Sogou, Sogou has power to direct the activities of the trust. Sogou also has the obligation to absorb losses and the right to receive benefits from the trust that could potentially be significant to the trust. As a result, Sogou is considered the primary beneficiary of the trust and the trust is considered a consolidated VIE (the “Consolidated Trust”) under ASC 810.

The financing receivables, net, classified as assets held for sale are recorded at the principal amount and interest accrued, net of allowance for credit losses that reflects Sogou’s best estimate of the amounts that will not be collected. Interest on loans is accrued based on the contractual interest rates of the loans when earned. The loan periods granted by Sogou to the borrowers related to the small consumer loans are generally within one year.

Sogou estimates its credit losses of the financing receivables collectively, using a pool basis within applicable credit risk classification levels of the underlying customers, mainly based on delinquency levels. The significant assumptions used in the process of estimating the allowance for credit losses include portfolio composition, loan delinquencies, loss severity and recoveries, and application of macroeconomic forecasts. The lifetime CECL allowance is measured as the product of the ending balance and two key parameters, the lifetime Probability of Default (“PD”) and Loss Given Default (“LGD”). PD represents the expected probability of payment and time to default of small consumer loans made by Sogou. LGD represents the percentage of the expected balance due at default that is not recoverable. The calibration of PD and LGD starts with the Sogou’s historical information, with PD considering vintage, recent performance, and macroeconomic factors and LGD being assessed based on portfolio delinquencies, loss severity, and future recoveries default. The estimated credit losses are further adjusted to incorporate the impact of macroeconomic conditions. To incorporate the impact based on Sogou’s macroeconomic forecasts, quantitative adjustments are applied to key parameters such as PD and LGD on a collective basis. Macroeconomic factors used in models include variables such as consumer price index and total retail sales of consumer goods.

Financing receivables are written off when there is no reasonable expectation of recovery. Allowance for credit losses is presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The accounts receivable and financing receivables, net, classified as assets held for sale as of December 31, 2019 and 2020 consisted of the following (in thousands):

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
Accounts receivable	\$ 77,210	\$35,975
Financing receivables	66,858	41,911
Less: Allowance for credit losses (1)	(12,255)	(6,700)
	<u>\$131,813</u>	<u>\$71,186</u>

Note (1): The allowance for credit losses related to financing receivables was \$6.4 million as of December 31, 2020.

Table of Contents

The following table summarizes the past-due status of the principle of financing receivables classified as assets held for sale as of December 31, 2019 and 2020 (in thousands):

	1 -30 Days Past Due	31 -60 Days Past Due	61 -90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total
December 31, 2019							
Financing receivables by origination year							
2018	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,744	\$ 1,744
2019	10,606	1,635	1,176	1,709	15,126	49,988	65,114
Total	10,606	1,635	1,176	1,709	15,126	51,732	66,858
December 31, 2020							
Financing receivables by origination year							
2018	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,081	\$ 1,081
2019	1	1	2	0	4	182	186
2020	7,037	576	548	501	8,662	31,982	40,644
Total	\$ 7,038	\$ 577	\$ 550	\$ 501	\$ 8,666	\$33,245	\$41,911

The movement of allowance for credit losses for the years ended December 31, 2018, 2019 and 2020 was as follows (in thousands):

	For the year ended December 31,		
	2018	2019	2020
Beginning balance	\$ 384	\$ 7,511	\$ 12,255
Change on initial application of ASU 2016-13 (1)	0	0	3,273
Additional allowance for credit losses, net of recoveries	9,119	15,620	3,049
Write-offs	(1,908)	(11,741)	(12,517)
Exchange difference	(84)	865	640
Balance at the end of year	\$ 7,511	\$ 12,255	\$ 6,700

Note (1): We adopted ASU 2016-13 using the modified retrospective transition approach. The adjustments arising from the new CECL model are recognized in the opening consolidated balance sheet on January 1, 2020.

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are initially recognized on the date a foreign exchange forward contract is entered into and are subsequently measured at fair value.

Equity Investments

Investments in entities are recorded as equity investments under long-term investments. For investments in common stock or in-substance common stock of entities over which we can exercise significant influence but do not own a majority equity interest or control, the equity method is applied, and we adjust the carrying amount of an investment and recognize investment income or loss for our share of the earnings or loss of the investee after the date of investment. For those equity investments accounted for other than under the equity method or those that result in consolidation, the fair value method is applied. However, for equity investments that do not have readily determinable fair values, we choose to account for them at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. If this measurement alternative is elected, changes in the carrying value of the equity investment will be required to be made whenever there are observable price changes in transactions for identical or similar investments of the same issuer. The implementation guidance notes that an entity should make a "reasonable effort" to identify price changes that are known or that can reasonably be known.

We assess investments for impairment by considering factors including, but not limited to, current economic and market conditions, operating performance of the companies, including current earnings trends and undiscounted cash flows, and other company-specific information, such as recent financing rounds. The fair value determination, particularly for investments in privately-held companies whose revenue model is still unclear, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments. If the assessment indicates that an impairment exists, we estimate the fair value of the investment and write down the asset to its fair value, taking the corresponding charge to the consolidated statements of comprehensive income/(loss).

Long-Lived Assets

Long-lived assets include fixed assets and intangible assets.

[Table of Contents](#)

Fixed Assets

Fixed assets mainly comprise office buildings, leasehold improvements, building improvements, vehicles, office furniture and computer equipment and hardware. Fixed assets are recorded at cost less accumulated depreciation with no residual value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Fixed Assets	Estimated Useful Lives (years)
Office buildings	36-47
Leasehold improvements	Lesser of term of the lease or the estimated useful lives of the assets
Vehicles	4-10
Office furniture	5
Computer equipment and hardware	2-5

Expenditure for maintenance and repairs is expensed as incurred.

The gain or loss on the disposal of fixed assets is the difference between the net sales proceeds and the carrying value of the relevant assets and is recognized in operating expenses in the consolidated statements of comprehensive income.

Intangible Assets

Intangible assets mainly comprise purchased video content, operating rights for licensed games, domain names and trademarks, computer software, and developed technologies. Intangible assets are recorded at cost less accumulated amortization with no residual value. Amortization of intangible assets other than purchased video content is computed using the straight-line method over their estimated useful lives. Amortization of purchased video content is computed based on the trend in viewership accumulation over the shorter of the applicable license period or two years.

The estimated useful lives of our intangible assets are listed below:

Intangible Assets	Estimated Useful Lives (years)
Purchased video content	1 month to 2 years
Computer software	1-5
Developed technologies	3-10
Domain names and trademarks	4-30
Operating rights for licensed games	over the contract terms

Sohu Video enters into nonmonetary transactions to exchange online broadcasting rights for purchased video content with other online video broadcasting companies. Under ASC 845, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain the acquired nonmonetary asset, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if the fair value of the asset received is more reliable than the fair value of the asset surrendered. We record these nonmonetary exchanges at the fair values of the online broadcasting rights for purchased video content and recognize any net gain or loss from such exchange transactions.

Impairment of Long-lived Assets Other Than Purchased Video Content

In accordance with ASC 360-10-35, we review the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows independent of other assets. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of the long-lived assets is not recoverable, the carrying amount of such assets is reduced to fair value. The estimation of future cash flows requires significant management judgment based on our historical results and anticipated results and is subject to many factors. The discount rate that is commensurate with the risk inherent in our business model is determined by our management.

Impairment of Purchased Video Content

Purchased video content is stated at the lower of cost less accumulated amortization, or fair value.

In accordance with ASC 920-350-35, if management's expectations of the programming usefulness of a program, series, package, or program segment are revised downward, it may be necessary to write off to the income statement the amount by which the unamortized capitalized costs exceed fair value. A write-off from unamortized cost to fair value establishes a new cost basis. Accordingly, we measure the video content's impairment loss by comparing the content's carrying value to its fair value. An impairment loss will be recorded if the carrying value of video content is higher than its fair value. The impairment to be recognized is measured by the amount by which the carrying value of video content exceeds its fair value.

Lease

We adopted ASU No. 2016-02, Leases (Topic 842), at the beginning of the first quarter of 2019 using the modified retrospective method, and did not restate comparable periods. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting under Topic 840.

We elected the package of practical expedients permitted under the transition guidance, which allowed us to carry forward the historical lease classification, the assessment on whether an existing or expired contract contains a lease, and the treatment of initial direct costs. We also elected to keep leases with an initial term of 12 months or less off the balance sheet.

Under the new lease guidance, we determine if an arrangement is or contains a lease at inception. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of remaining lease payments over the lease terms. We only consider payments that are fixed and determinable at the time of lease commencement. The adoption of the new lease guidance resulted in recognition of \$7.4 million of right-of-use assets, \$6.7 million of lease liabilities, \$17.9 million of right-of-use assets on assets held for sale and \$16.2 million of lease liabilities on liabilities held for sale as of January 1, 2019.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in our subsidiaries and consolidated VIEs. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our financial statements provisional amounts for the items for which the accounting is incomplete. If a measurement period adjustment is identified, we recognize the adjustment as part of the acquisition accounting. We increase or decrease the provisional amounts of identifiable assets or liabilities by means of increases or decreases in goodwill for measurement period adjustments.

In accordance with ASC 350, we do not amortize goodwill, but test it for impairment. We test goodwill for impairment at the reporting unit level on an annual basis as of October 1, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. We adopted ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, and in accordance with the FASB, we have the option to choose whether we will apply a qualitative assessment first and then a quantitative assessment, if necessary, or to apply a quantitative assessment directly. For reporting units applying a qualitative assessment first, we start the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of the reporting unit with its carrying value, including goodwill. If the carrying amount of each reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, but limited to the total amount of goodwill allocated to that reporting unit.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. We estimate fair value using the income approach and the market approach. The judgment in estimating the fair value of reporting units includes revenue growth rates and profitability in estimating future cash flows; determining appropriate discount rates and earnings multipliers based on market data of comparable companies engaged in a similar business under the market approach; and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Comprehensive Income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on our consolidated balance sheets, consists of a cumulative foreign currency translation adjustment.

Functional Currency and Foreign Currency Translation

An entity's functional currency is the currency of the primary economic environment in which it operates, normally that is the currency of the environment in which the entity primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and intra-Group transactions and arrangements. The functional currency of Sohu.com Limited, and its predecessor Sohu.com Inc., is the U.S. dollar. The functional currency of our subsidiaries in the U.S., the Cayman Islands, the British Virgin Islands and Hong Kong is the U.S. dollar. The functional currencies of our subsidiaries and VIEs in other countries are the national currencies of those countries, rather than the U.S. dollar.

[Table of Contents](#)

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency re-measurement are included in the consolidated statements of comprehensive income.

Financial statements of entities with a functional currency other than the U.S. dollar are translated into U.S. dollars, which is the reporting currency. Assets and liabilities are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average of the exchange rates in effect during the reporting period. Shareholders' equity accounts are translated using the historical exchange rates at the date the entry to shareholders' equity was recorded, except for the change in retained earnings during the year, which is translated using the historical exchange rates used to translate each period's income statement. Differences resulting from translating a foreign currency to the reporting currency are recorded in accumulated other comprehensive income in the consolidated balance sheets.

RESULTS OF OPERATIONS

Unless indicated otherwise, results of operations data for all periods presented relate to our continuing operations only, and exclude results from Changyou's cinema advertising business, which ceased operations in August 2019, and exclude results from Sogou's businesses, as a result of the fact that in September 2020 we entered into the Tencent/Sohu Sogou Share Purchase Agreement, pursuant to which we agreed to sell all of the Sogou ordinary shares owned by us to Tencent. The historical results of Changyou's cinema advertising business and Sogou's business are reported as "discontinued operations."

[Table of Contents](#)**Revenues**

The following table presents our revenues by revenue source and by proportion for the periods indicated (in thousands, except percentages)

	Year ended December 31,									
	2018		2019		2020		2019 VS 2018		2020 VS 2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Incremental ratio	Amount	Incremental ratio
Revenues:										
Brand advertising	\$232,339	34%	\$175,056	26%	\$146,526	20%	\$(57,283)	(25)%	\$(28,530)	(16)%
Online games	389,788	56%	440,902	65%	536,684	72%	51,114	13%	95,782	22%
Others	68,048	10%	57,845	9%	66,680	8%	(10,203)	(15)%	8,835	15%
Total revenues	<u>\$690,175</u>	100%	<u>\$673,803</u>	100%	<u>\$749,890</u>	100%	<u>\$(16,372)</u>	<u>(2)%</u>	<u>\$ 76,087</u>	<u>11%</u>

[Table of Contents](#)

Brand Advertising Revenues

Brand advertising revenues were \$146.5 million for 2020, compared to \$175.1 million and \$232.3 million, respectively, for 2019 and 2018. The year-on-year reduction in brand advertising revenues from 2019 to 2020 resulted mainly from reductions in the revenues of Sohu Media, Sohu Video and Focus. The year-on-year reduction in brand advertising revenues from 2018 to 2019 resulted mainly from reductions in the revenues of Sohu Media and Sohu Video.

Sohu

- Sohu Media Portal

Revenues from Sohu Media Portal were \$86.3 million for 2020, compared to \$94.7 million and \$127.6 million, respectively, for 2019 and 2018. In 2020, due to the challenges of the macroeconomic environment in China, many brand advertisers and SMEs shrank their advertising budgets in general. The number of advertisers for Sohu Media Portal was 1,947 for 2020, compared to 2,757 and 4,074, respectively, for 2019 and 2018. The average amount spent per advertiser was approximately \$44,000 for 2020, compared to \$34,000 and \$31,000, respectively, for 2019 and 2018.

- Sohu Video

Revenues from Sohu Video were \$25.3 million for 2020, compared to \$34.5 million and \$53.9 million, respectively, for 2019 and 2018. The changes were mainly attributable to reductions in the average amount spent per advertiser and the number of advertisers. The number of advertisers on Sohu Video was 106, 127 and 200, respectively, for 2020, 2019 and 2018. The average amount spent per advertiser was approximately \$239,000, \$272,000 and \$270,000, respectively, for 2020, 2019 and 2018.

- Focus

Revenues from Focus were \$23.3 million for 2020, compared to \$32.1 million and \$31.1 million, respectively, for 2019 and 2018. Revenues generated from the Fixed Price model were \$20.1 million for 2020, compared to \$29.1 million and \$27.5 million, respectively, for 2019 and 2018. The number of advertisers under the Fixed Price model was 1,150, 1,113 and 1,282, respectively, for 2020, 2019 and 2018. The average amount spent per advertiser was approximately \$17,000, \$26,000 and \$21,000, respectively, for 2020, 2019 and 2018.

Changyou

- 17173.com Website

Revenues from the 17173.com Website were \$11.6 million for 2020, compared to \$13.7 million and \$19.7 million, respectively, for 2019 and 2018. The decreases were primarily a result of fewer Web games, PC games and mobile games being marketed on the 17173.com Website. The number of advertisers on the 17173.com Website was 108, 82 and 126, respectively, for 2020, 2019 and 2018. The average amount spent per advertiser was approximately \$107,000, \$167,000 and \$156,000, respectively, for 2020, 2019 and 2018.

Other information

Sales to our five largest advertising agencies and advertisers comprised approximately 27% of total brand advertising revenues for 2020, compared to 28% and 22%, respectively, for 2019 and 2018. As of December 31, 2020, 2019 and 2018, we recorded \$5.6 million, \$7.3 million and \$10.3 million, respectively, of receipts in advance from advertisers. As of December 31, 2020, we had obligations to provide, and advertisers had obligations to purchase, advertising services under existing contracts in the amount of \$4.4 million that are required to be provided during the year ending December 31, 2021.

Online Game Revenues

Revenues from the online game business were \$536.7 million for 2020, compared to \$440.9 million and \$389.8 million, respectively, for 2019 and 2018.

PC games and Mobile Games

Revenues from PC games were \$353.7 million for 2020, compared to \$267.8 million and \$236.7 million, respectively, for 2019 and 2018, representing 66%, 61% and 61%, respectively, of Changyou's online game revenues for the corresponding years. The dominant PC game operated by Changyou is TLBB. In 2020, TLBB generated \$309.7 million in revenues, accounting for approximately 58% of Changyou's online game revenues, approximately 56% of Changyou's total revenues and approximately 41% of the Sohu Group's total revenues. The year-on-year increase in revenues from PC games was mainly due to the successful launch of a number of special servers for TLBB PC that used a memorable early version of the game for content ("TLBB Vintage") in October 2020.

[Table of Contents](#)

Revenues from mobile games were \$183.0 million for 2020, compared to \$172.7 million and \$151.7 million, respectively, for 2019 and 2018. The dominant mobile game operated by Changyou was Legacy TLBB Mobile. In 2020, the mobile game Legacy TLBB Mobile generated \$88.3 million in revenues, accounting for approximately 16% of Changyou's online game revenues, approximately 16% of Changyou's total revenues, and approximately 12% of the Sohu Group's total revenues. The year-on-year increase in mobile game revenues for 2020 was \$10.3 million, mainly due to the revenue contribution from TLBB Honor, and the revenue contribution from several new games launched during 2020. The year-on-year increase in mobile game revenues for 2019 was \$21.0 million, mainly due to the revenue contribution from TLBB Honor, which was launched in August 2019.

The following table sets forth certain operating data for Changyou's PC games and mobile games for the periods indicated:

Average Monthly Active Accounts (1) (in millions)	Three Months Ended March 31		Three Months Ended June 30		Three Months Ended September 30		Three Months Ended December 31	
	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games
2018	2.5	2.6	2.3	3.2	2.3	3.7	2.0	2.9
2019	1.9	2.7	2.0	2.7	2.1	3.5	2.2	3.7
2020	2.1	3.4	1.9	3.1	2.0	3.8	2.3	2.4

Quarterly Aggregate Active Paying Accounts (2) (in millions)	Three Months Ended March 31		Three Months Ended June 30		Three Months Ended September 30		Three Months Ended December 31	
	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games
2018	0.8	0.8	0.7	0.7	0.8	0.7	0.9	0.7
2019	0.9	0.6	0.9	0.6	1.0	1.1	1.0	1.1
2020	1.0	1.0	0.9	0.6	1.0	0.6	0.9	0.6

- (1) Average Monthly Active Accounts for a given period refers to the number of registered accounts that were logged in to these games at least once during the period.
- (2) Quarterly Aggregate Active Paying Accounts for a given quarter refers to the number of accounts from which game points are used at least once during the quarter.

Other Games

Revenues from games other than PC games and mobile games were nil for 2020, compared to \$0.4 million and \$1.3 million, respectively, for 2019 and 2018.

Other Revenues

Revenues from other services were \$66.7 million for 2020, compared to \$57.8 million and \$68.0 million, respectively, for 2019 and 2018. The \$8.9 million year on year increase in 2020 was mainly attributable to a \$12.5 million increase in revenues from paid subscription services, and a \$2.1 million increase in revenues from Sohu's sub-licensing of its purchased video content to third parties, offset by a \$5.1 million decrease in revenues from Sohu's interactive broadcasting services. The \$10.2 million year on year decrease in 2019 was mainly attributable to a \$5.3 million decrease in revenues from Changyou's IVAS business due to RaidCall having ceased operations in March 2019, and a \$4.6 million decrease in revenues from content provided through the platforms of the three main telecommunications operators in China.

[Table of Contents](#)**Costs and Expenses****Cost of Revenues**

The following table presents our cost of revenues by source and by proportion for the periods indicated (in thousands, except percentages):

	Year ended December 31,									
	2018		2019		2020		2019 VS 2018		2020 VS 2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Incremental ratio	Amount	Incremental ratio
Cost of revenues:										
Brand advertising	\$184,473	64%	\$126,406	52%	\$105,604	49%	\$(58,067)	(31)%	\$(20,802)	(16)%
Online games	60,981	21%	88,992	37%	91,526	42%	28,011	46%	2,534	3%
Others	43,562	15%	28,249	11%	20,307	9%	(15,313)	(35)%	(7,942)	(28)%
Total cost of revenues	<u>\$289,016</u>	100%	<u>\$243,647</u>	100%	<u>\$217,437</u>	100%	<u>\$(45,369)</u>	<u>(16)%</u>	<u>\$(26,210)</u>	<u>(11)%</u>

[Table of Contents](#)

Cost of Brand Advertising Revenues

Cost of brand advertising revenues was \$105.6 million for 2020, compared to \$126.4 million and \$184.5 million, respectively, for 2019 and 2018.

The year-on-year decrease for 2020 was \$20.8 million, which mainly consisted of a \$20.5 million decrease in content and license cost and a \$3.9 million decrease in salary and benefits expenses, offset by a \$3.2 million increase in expenses incurred for related events, and a \$2.0 million increase in professional fees.

The year-on-year decrease for 2019 was \$58.1 million, which mainly consisted of a \$33.5 million decrease in content and license costs, a \$12.4 million decrease in bandwidth service costs, a \$6.6 million decrease in salary and benefits expenses, a \$2.0 million decrease in facilities expenses, a \$1.5 million decrease in depreciation and amortization expenses, and a \$1.5 million decrease in professional fees.

We recognized impairment losses for Sohu Video as content and license costs of \$1.5 million, \$4.0 million, and \$10.4 million, respectively, in 2020, 2019 and 2018, as revenues did not meet management's expectations.

Our brand advertising gross margin was 28% for 2020, compared to 28% and 21%, respectively, for 2019 and 2018.

Cost of Online Game Revenues

Cost of online game revenues was \$91.5 million for 2020, compared to \$89.0 million and \$61.0 million, respectively, for 2019 and 2018.

The year-on-year increase in cost of online game revenues for 2020 was \$2.5 million. The increase included a \$5.6 million increase in revenue-sharing payments to licensors, game developers and platforms, and a \$1.1 million increase in salary and benefits expenses, offset by a \$4.2 million decrease in content and license cost.

The year-on-year increase in cost of online game revenues for 2019 was \$28.0 million. The increase included an increase of \$28.6 million in revenue-sharing payments to licensors, game developers, and platforms.

Our online game gross margin was 83%, 80% and 84%, respectively, for 2020, 2019 and 2018.

Cost of Other Revenues

Cost of other revenues was \$20.3 million for 2020, compared to \$28.2 million and \$43.6 million, respectively, for 2019 and 2018. The year-on-year decrease for 2020 was \$7.9 million, which was mainly due to a \$4.4 million decrease in revenue sharing payments related to interactive broadcasting services, a \$2.9 million decrease in content and license costs related to paid subscription services and a \$1.2 million decrease in costs of Changyou's IVAS business, offset by a \$1.4 million increase in revenue sharing payments related to paid subscription services. The year-on-year decrease for 2019 was \$15.4 million, which was mainly due to a \$6.5 million decrease in content and license costs related to paid subscription services, a \$4.2 million decrease in costs of Changyou's IVAS business and a \$3.0 million decrease in revenue-sharing payments related to China mobile network operators.

[Table of Contents](#)

Operating Expenses

The following table presents our operating expenses by nature and by proportion for the periods indicated (in thousands, except percentages)

	Year ended December 31,									
	2018		2019		2020		2019 VS 2018		2020 VS 2019	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Incremental ratio	Amount	Incremental ratio
Operating expenses:										
Product										
development	\$246,155	43%	\$234,852	47%	\$241,941	53%	\$(11,303)	(5)%	\$ 7,089	3%
Sales and marketing	236,898	42%	204,665	41%	159,787	35%	(32,233)	(14)%	(44,878)	(22)%
General and administrative	70,129	12%	54,591	11%	57,354	12%	(15,538)	(22)%	2,763	5%
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	16,369	3%	7,245	1%	0	0%	(9,124)	(56)%	(7,245)	(100)%
Total operating expenses	<u>\$569,551</u>	100%	<u>\$501,353</u>	100%	<u>\$459,082</u>	100%	<u>\$(68,198)</u>	<u>(12)%</u>	<u>\$(42,271)</u>	<u>(8)%</u>

[Table of Contents](#)

Product Development Expenses

Product development expenses were \$241.9 million for 2020, compared to \$234.9 million and \$246.2 million, respectively, for 2019 and 2018.

The year-on-year increase for 2020 was \$7.1 million, representing a year-on-year increase of 3%. The increase mainly consisted of a \$17.9 million increase in content and license costs, a \$6.0 million increase in share-based compensation expense, and a \$2.0 million increase in bad debt expenses, offset by a \$13.5 million decrease in salary and benefits expenses, a \$2.0 million decrease in communication expenses, a \$1.4 million decrease in depreciation and amortization expenses, and a \$1.3 million decrease in travel and entertainment expenses.

The year-on-year decrease for 2019 was \$11.3 million, representing a year-on-year decrease of 5%. The decrease mainly consisted of a \$13.7 million decrease in salary and benefits expenses, a \$3.0 million decrease in advertising and promotion expenses, a \$2.1 million decrease in facilities expenses, a \$1.1 million decrease in bad debt expenses, and a \$0.9 million decrease in depreciation and amortization expenses, offset by a \$5.5 million increase in share-based compensation expense, and a \$4.0 million increase in content and license costs.

Sales and Marketing Expenses

Sales and marketing expenses were \$159.8 million for 2020, compared to \$204.7 million and \$236.9 million, respectively, for 2019 and 2018.

The year-on-year decrease for 2020 was \$44.9 million, representing a year-on-year decrease of 22%. The decrease mainly consisted of a \$39.9 million decrease in advertising and promotional expenses, a \$2.0 million decrease in travel and entertainment expenses, a \$1.5 million in depreciation and amortization expenses, and a \$1.2 million decrease in salary and benefits expenses.

The year-on-year decrease for 2019 was \$32.2 million, representing a year-on-year decrease of 14%. The decrease mainly consisted of a \$14.0 million decrease in salary and benefits expenses, a \$13.1 million decrease in advertising and promotional expenses, a \$3.2 million decrease in travel and entertainment expenses, and a \$1.8 million decrease in facilities expenses.

General and Administrative Expenses

General and administrative expenses were \$57.4 million for 2020, compared to \$54.6 million and \$70.1 million, respectively, for 2019 and 2018.

The year-on-year increase for 2020 was \$2.8 million, representing a year-on-year increase of 5%. The increase mainly consisted of a \$4.8 million increase in share-based compensation expense and a \$0.9 million increase in professional fees, offset by a \$2.2 million decrease in salary and benefits expenses and a \$1.2 million decrease in content and license costs.

The year-on-year decrease for 2019 was \$15.5 million, representing a year-on-year decrease of 22%. The decrease mainly consisted of a \$14.7 million decrease in professional fees, a \$3.9 million decrease in salary and benefits expenses, a \$1.1 million decrease in bad debt expenses, a \$0.9 million decrease in fixed asset disposal expenses, and a \$0.8 million decrease in facilities expenses, offset by a \$7.4 million increase in share-based compensation expense.

Goodwill Impairment and Impairment of Intangible Assets Acquired as Part of Business Acquisitions

In 2020, there was no goodwill impairment or impairment of intangible assets acquired as part of business acquisitions.

In 2019, we recognized a \$7.2 million impairment loss for a domain name relating to the 56.com Website, mainly due to enhance restrictions that Chinese regulatory authorities imposed on the broadcasting industry, which had an adverse effect on the operation of the 56.com Website.

In 2018, we recognized a \$16.4 goodwill impairment loss associated with the 17173.com Website, which is operated by Changyou. The \$16.4 million of goodwill impairment was primarily due to (i) the launch of new initiatives for the 17173.com Website having fallen behind schedule in the fourth quarter of 2018, and the profit outlook of the business remained uncertain, and (ii) the relevant Chinese authority's suspension between April and December of 2018 of its review of, and issuance of publishing and authorization codes for, online games, which resulted in declines in the number of new games launched and the related demand from game developers and operators for online advertising services on the 17173.com Website. Changyou management determined that, as a result, there was a material adverse impact on our ability to generate revenues from the 17173.com Website.

[Table of Contents](#)

Share-based Compensation Expense

Share-based compensation expense was recognized in costs and expenses for the years ended December 31, 2018, 2019 and 2020, respectively, as follows (in thousands):

	Year Ended December 31,		
	2018	2019	2020
Share-based compensation expense			
Cost of revenues	\$ (739)	\$ 142	\$ 720
Product development expenses	(4,182)	1,364	7,325
Sales and marketing expenses	(920)	(326)	460
General and administrative expenses	(6,267)	1,170	5,975
	<u>\$ (12,108)</u>	<u>\$ 2,350</u>	<u>\$ 14,480</u>

Share-based compensation expense was recognized for share-based awards of Sohu (excluding Sohu Video), Changyou, and Sohu Video as follows (in thousands):

	Year Ended December 31,		
	2018	2019	2020
Share-based compensation expense			
For Sohu (excluding Sohu Video) share-based awards	\$ (5,100)	\$ 1,940	\$ 2,633
For Changyou share-based awards	(6,461)	1,305	12,544
For Sohu Video share-based awards	(547)	(895)	(697)
	<u>\$ (12,108)</u>	<u>\$ 2,350</u>	<u>\$ 14,480</u>

The negative amounts in the tables above resulted from re-measured compensation expense based on the then-current fair value of the awards on the reporting date.

There was no capitalized share-based compensation expense for the years ended December 31, 2018, 2019 and 2020.

Operating Profit/(Loss)

We had an operating income of \$73.4 million for 2020, compared to an operating loss of \$71.2 million for 2019 and an operating loss of \$168.4 million for 2018.

Other Income/(Expense)

Other income was \$26.0 million for 2020, compared to other income of \$8.0 million and other income of \$30.7 million, respectively, for 2019 and 2018. The year-over-year increase in 2020 was mainly attributable to a \$22.8 million decrease in impairment loss on an equity investment, and a \$5.3 million increase from an individual tax refund and an additional deduction of PRC value-added tax, offset by a \$6.8 million decrease from a change in the fair value of financial instruments and a \$3.0 million decrease in investment income.

Interest Income

Interest income was \$7.4 million for 2020, compared to \$6.1 million and \$16.0 million, respectively, for 2019 and 2018.

[Table of Contents](#)

Interest Expense

Interest expense was \$6.2 million for 2020, compared to \$14.4 million and \$17.5 million, respectively, for 2019 and 2018. The decrease in 2020 was primarily due to the repayment of bank loans under loan agreements that Sohu entered into with ICBC in late 2017 and with CMB in 2018, which resulted in a decrease of approximately \$6.8 million in interest expense in 2020.

Income Tax Expense/(Benefit)

Income tax expense was \$133.2 million for 2020, compared to income tax expense of \$28.4 million and income tax benefit of \$14.6 million, respectively, for 2019 and 2018.

The difference in income tax expense for 2020 compared to the income tax expense for 2019 resulted primarily from accrued regular income tax expense of \$40.7 million and additional income withholding tax of \$88 million recognized by Changyou due to a revised policy with respect to Changyou's PRC subsidiaries regarding their distribution of cash dividends, offset by a reversal of PRC income tax expense of \$6.9 million recognized by Changyou due to preferential tax rates that Changyou's subsidiaries were entitled to as KNSE and Software Enterprises; and \$6 million for U.S. corporate income tax, resulting primarily from accrued interest on an unrecognized tax benefit.

The difference in income tax expense for 2019 compared to the income tax benefit for 2018 resulted primarily from accrued regular income tax expense of \$32.6 million, offset by a reversal of PRC income tax expense of \$19.5 million by Changyou due to preferential tax rates that Changyou's subsidiaries were entitled to as KNSE and Software Enterprises; and \$8 million for U.S. corporate income tax, resulting primarily from accrued interest on an unrecognized tax benefit.

Net Income/(Loss)

As a result of the foregoing, we had a net loss from continuing operations of \$36.5 million for 2020, compared to a net loss of \$98.5 million and a net loss of \$121.3 million, respectively, for 2019 and 2018.

We had a net loss from discontinued operations of \$91.8 million for 2020, compared to net income of \$55.1 million, and net income of 53.9 million, respectively, for 2019 and 2018.

Net Income/(loss) Attributable to Noncontrolling Interest

Our net income from continuing operations attributable to noncontrolling interest was \$18.4 million for 2020, compared to net income attributable to noncontrolling interest of \$58.2 million for 2019, and net income attributable to noncontrolling interest of \$41.7 million for 2018.

Our net loss from discontinued operations attributable to noncontrolling interest was \$60.7 million for 2020, compared to net income attributable to noncontrolling interest of \$47.7 million for 2019, and net income attributable to noncontrolling interest of \$51.0 million for 2018.

Net income/(Loss) attributable to Sohu.com Limited

As a result of the foregoing, we had a net loss from continuing operations of \$55.0 million attributable to Sohu.com Limited for 2020, compared to net loss of \$156.7 million attributable to Sohu.com Limited and net loss of \$163.0 million attributable to Sohu.com Limited for 2019 and 2018, respectively.

We had a net loss from discontinued operations of \$31.1 million attributable to Sohu.com Limited for 2020, compared to net income of \$7.4 million attributable to Sohu.com Limited and net income of \$3.0 million attributable to Sohu.com Limited. for 2019 and 2018, respectively.

LIQUIDITY AND CAPITAL RESOURCES**Resources Analysis****Liquidity Sources and Balances**

Our principal sources of liquidity are cash and cash equivalents, short-term investments, and cash flows generated from our operations. Cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash. Short-term investments comprise investment instruments issued by commercial banks in China, with a variable interest rate indexed to performance of underlying assets and maturity dates within one year.

As of December 31, 2020, we had cash and cash equivalents of approximately \$217.1 million, restricted cash of \$330.8 million, and short-term investments of \$100.7 million. Of our cash and cash equivalents, \$182.8 million was held in financial institutions inside Mainland China and \$34.3 million was held in financial institutions outside of Mainland China. Of the cash and cash equivalents held in financial institutions inside Mainland China, \$47.0 million was held by our VIEs and \$135.8 million was held by our PRC-based subsidiaries.

We believe our current liquidity and capital resources are sufficient to meet anticipated working capital needs (net cash used in operating activities), commitments, capital expenditures, and investment activities over the next twelve months. We may, however, require additional cash resources due to changes in business conditions and other future developments, or changes in general economic conditions.

See “Item 3. Key Information-Risk Factors-Risks Related to China’s Regulatory Environment—Restrictions on currency exchange may limit our ability to use our revenues effectively,” “- Our Offshore entities may need to rely on dividends and other distributions on equity paid by our Mainland China-based subsidiaries, including the Mainland China-based subsidiaries of our subsidiaries Changyou and Sogou, to fund any cash requirements those Offshore entities may have. Our Offshore entities may not be able to obtain cash from distributions because our subsidiaries and VIEs in Mainland China are subject to restrictions imposed by PRC law on paying such dividends and making other payments,” and “- Dividends we receive from our operating subsidiaries located in the PRC are subject to PRC profit appropriation and PRC withholding tax,” and “Risks Related to Our Corporate Structure—Although the Sohu Group holds substantial amounts of cash and cash equivalents, a significant portion of such cash and cash equivalents is held by Sogou, and it can be difficult for Sohu to have access to the portion held by Sogou” See also “Restrictions and Limitations on Cash Available to Sohu.com Limited.” below and Item 11 “Quantitative and Qualitative Disclosure About Market Risk-Foreign Currency Exchange Rate Risk.”

Cash Generating Ability

Our cash flows were summarized below (in thousands):

	Year Ended December 31,		
	2018	2019	2020
Net cash provided by/(used in) continuing operating activities	\$ (52,143)	\$ (18,267)	\$ 163,394
Net cash provided by/(used in) discontinued operating activities	136,168	228,857	(68,187)
Net cash provided by operating activities	84,025	210,590	95,207
Net cash provided by/(used in) continuing investing activities	180,146	(214,814)	184,393
Net cash provided by/(used in) discontinued investing activities	(639,390)	(228,406)	235,374
Net cash provided by/(used in) investing activities	(459,244)	(443,220)	419,767
Net cash provided by/(used in) continuing financing activities	96,333	(479,748)	101,795
Net cash provided by/(used in) discontinued financing activities	1	(33,415)	(8,209)
Net cash provided by/(used in) financing activities	96,334	(513,163)	93,586
Effect of exchange rate change on cash, cash equivalents, restricted cash and restricted time deposits	(19,544)	(10,047)	36,984
Net increase/(decrease) in cash, cash equivalents, restricted cash and restricted time deposits	(298,429)	(755,840)	645,544
Cash, cash equivalents, restricted cash and restricted time deposits at beginning of period	<u>1,368,295</u>	<u>1,069,866</u>	<u>314,026</u>
Cash, cash equivalents, restricted cash and restricted time deposits at end of period	<u>\$ 1,069,866</u>	<u>\$ 314,026</u>	<u>\$ 959,570</u>
Less: Cash, cash equivalents, restricted cash and restricted time deposits of discontinued operations, end of year	<u>187,867</u>	<u>147,834</u>	<u>310,203</u>
Cash, cash equivalents, restricted cash and restricted time deposits of continuing operations, end of year	<u>881,999</u>	<u>166,192</u>	<u>649,367</u>

Net Cash Provided by/(Used in) Operating Activities

For 2020, \$163.4 million net cash provided by continuing operation activities was primarily attributable to our net loss of \$36.5 million, adjusted by (i) the add back of non-cash items consisting of \$39.9 million of depreciation and amortization expenses, \$14.5 million of share-based compensation expense, \$4.9 million of allowance for credit losses, \$4.2 million of impairment of intangible assets, \$1.8 million of change in fair value of financial instruments, \$0.5 million of investment income from equity investments, and \$0.2 million cash provided by other continuing operating activities, (ii) offset by \$0.4 million from disposal of fixed assets. The increase in cash from \$134.3 million in working capital items is also included in operating cash flow.

For 2019, \$18.3 million net cash used by continuing operation activities was primarily attributable to our net loss of \$98.5 million, adjusted by (i) the add back of non-cash items consisting of \$67.1 million of depreciation and amortization expenses, \$23.2 million of impairment of long-term investments, \$7.2 million of goodwill impairment and impairment of intangible assets acquired as part of business acquisitions, \$5.9 million of impairment of other intangible assets and other assets, \$4.7 million of allowance for credit losses, and \$2.4 million of share-based compensation expense, (ii) offset by \$3.0 million of investment loss from equity investments, \$1.2 million of change in fair value of financial instruments, and \$0.8 million from disposal of fixed assets. The decrease in cash from \$25.3 million in working capital items is also included in operating cash flow.

For 2018, \$52.1 million net cash used by continuing operating activities was primarily attributable to our net loss of \$121.3 million, adjusted by (i) the add back of non-cash items consisting of \$90.2 million in depreciation and amortization expenses, \$16.4 million in goodwill impairment and impairment of intangible assets acquired as part of business acquisitions, \$11.2 million of change in fair value of financial instruments, \$10.8 million in impairment of other intangible assets and other assets, \$5.4 million in allowance for credit losses, and \$4.0 million of investment income from equity investments, (ii) offset by \$12.1 million of share-based compensation expense and \$0.7 million used in other continuing operating activities. The decrease in cash from \$56.0 million in working capital items is also included in operating cash flow.

Net Cash Provided by/(Used in) Investing Activities

For 2020, \$184.4 million net cash provided by continuing investing activities was primarily attributable to (i) \$1.42 billion in proceeds from financial instruments, and \$1.2 million cash received from other investing activities, (ii) offset by \$1.21 billion used in purchase of financial instruments, and \$33.8 million used in purchase of fixed assets and intangible assets.

For 2019, \$214.8 million net cash used in continuing investing activities was primarily attributable to (i) \$1.02 billion used in purchase of financial instruments, \$65.7 million used in purchase of fixed assets and intangible assets, and \$12.3 million used in the purchase of long-term investments, (ii) offset by \$884.0 million from collection of financing receivables and \$1.2 million cash received from other investing activities.

For 2018, \$180.1 million net cash provided by continuing investing activities was primarily attributable to (i) \$1.78 billion in proceeds from financial instruments, \$12.1 million from sale of an equity investment, and \$5.3 million from loan repayment by a third party to Changyou, (ii) offset by \$1.50 billion used in purchase of financial instruments, \$121.5 million used in purchase of fixed assets and intangible assets and \$0.8 million used in the purchase of long-term investments.

Net Cash Provided by/(Used in) Financing Activities

For 2020, \$101.8 million net cash provided by continuing financing activities was primarily attributable to (i) \$407.6 million in proceeds received from bank loans, (ii) offset by \$191.8 million used in the Changyou Merger, and \$114.0 million used in repayment of loans from banks.

[Table of Contents](#)

For 2019, \$479.7 million net cash used in continuing financing activities was primarily attributable to (i) \$371.9 million used in repayment of loans from banks and \$165.8 million for the portion of a Changyou dividend distributed to holders of the non-controlling interests in Changyou, (ii) offset by \$58.0 million in proceeds received from bank loans.

For 2018, \$96.3 million net cash provided by continuing financing activities was primarily attributable to (i) \$325.8 million in proceeds received from bank loans, (ii) offset by \$162.5 million for the portion of a Changyou dividend distributed to holders of the non-controlling interests in Changyou, and \$67.0 million used in repayment of loans from banks.

Restrictions and Limitations on Cash Available to Sohu.com Limited.

To fund any cash requirements it may have, Sohu.com Limited may need to rely on dividends and other distributions on equity paid by our direct subsidiaries, which are all located outside PRC. Since substantially all of our operations are conducted through our indirect Mainland China-based subsidiaries and VIEs, all of Sohu.com Limited's direct subsidiaries may need to rely on dividends, loans or advances made by our PRC subsidiaries and VIEs in order to make dividends and other distributions to us.

The ability of Sohu.com Limited's direct subsidiaries to receive dividends and distributions from our China-based subsidiaries and VIEs, and the amount of cash available for distribution to, and use by, Sohu.com Limited, are subject to certain restrictions and limitations related to PRC law and our subsidiary and VIE structure. We do not expect any of such restrictions or taxes to have a material impact on our ability to meet our cash obligations. However, such restrictions and taxes limit our ability to use cash and cash equivalents held by Changyou and its subsidiaries and VIEs, and by Sogou and its subsidiaries and VIEs, for our Sohu business separate from Changyou and Sogou. See "Risk Factors—Risks Related to Our Corporate Structure—Although the Sohu Group holds substantial amounts of cash and cash equivalents, a significant portion of such cash and cash equivalents is held by Sogou, and it can be difficult for Sohu to have access to the portion held by Sogou."

PRC Regulations Related to Profit Appropriation, Withholding Tax on Dividends and Foreign Currency Exchange

Regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Our China-based WFOEs are also required to set aside each year to their general reserves at least 10% of their after-tax profit based on PRC accounting standards, until the cumulative amount reaches 50% of their paid-in capital. These reserves may not be distributed as cash dividends, or as loans or advances. Our WFOEs may also allocate a portion of their after-tax profits, at the discretion of their Boards of Directors, to their staff welfare and bonus funds. Any amounts so allocated may not be distributed by Sohu.com Limited, Changyou.com Limited, or Sogou's parent company Sohu.com (Search) Limited and, accordingly, would not be available for distribution to Sohu.com Limited.

The CIT Law imposes a 10% withholding income tax for dividends distributed by foreign-invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the "Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income" if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to withholding tax at a rate of 10%. As of December 31, 2020, we had accrued deferred tax liabilities in the amount of \$206.6 million for withholding taxes associated with dividends paid by Changyou's Mainland China-based WFOEs to Changyou's Hong Kong subsidiary.

Under regulations of the SAFE, the RMB is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of Mainland China, unless prior approval of the SAFE is obtained and prior registration with the SAFE is made.

[Table of Contents](#)

PRC Restrictions Related to Our VIE Structure

A significant portion of our operations is conducted through our VIEs, which generate a significant amount of our revenues. Significant cash balances remained in certain of our VIEs as of December 31, 2020. As our VIEs are not owned by our PRC subsidiaries, the VIEs are not able to make dividend payments to the subsidiaries. Therefore, in order for Sohu.com Limited or our subsidiaries outside of Mainland China to receive any dividends, loans, or advances from our PRC subsidiaries, in some cases we may need to rely on payments made by our VIEs to our PRC subsidiaries pursuant to service contracts between them. Depending on the nature of services provided by our PRC subsidiaries to their corresponding VIEs, certain of these payments will subject to PRC taxes, such as VAT, which will effectively reduce the amount that the PRC subsidiary receives from its corresponding VIE. In addition, the PRC government could impose restrictions on such payments or change the tax rates applicable to such payments.

Capital Expenditure

Our capital expenditures include the purchase of fixed assets, intangible assets and other assets. Our capital expenditures were \$121.5 million, \$65.7 million, and \$33.8 million, respectively, for the years ended December 31, 2018, 2019, and 2020.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of December 31, 2020 (in thousands):

	2021	2022	2023	2024	2025	Thereafter	Total
Repayment of principal of bank loans related to Changyou Merger	\$ 0	7,500	7,500	77,000	0	0	92,000
Royalties and expenditures for licensed content of games	28,423	7,870	0	0	0	0	36,293
Operating lease obligations	6,101	5,432	2,586	264	132	0	14,515
Purchase of bandwidth	14,084	150	102	0	0	0	14,336
Interest payment commitment	6,623	1,458	1,334	628	0	0	10,043
Purchase of content and services - others	6,715	236	19	0	0	0	6,970
Purchase of content and services - video	5,398	1,006	0	0	0	0	6,404
Others	518	24	0	0	0	0	542
Total Payments Required	<u>\$67,862</u>	<u>23,676</u>	<u>11,541</u>	<u>77,892</u>	<u>132</u>	<u>0</u>	<u>181,103</u>

OTHER LONG-TERM LIABILITIES

We recorded long-term tax liabilities of \$188.8 million, consisting primarily of a \$6.2 million in interest on the unrecognized tax benefit related to the Toll Charge, and \$182.6 million related to certain business transactions that took place in previous years and management determined may result in additional tax obligations under relevant tax rules.

At this time, we are unable to make a reasonably reliable estimate of the timing of payments of long-term liabilities in individual years beyond 12 months due to uncertainties in the timing of the tax impact of the transactions. As a result, this amount is not included in the table above.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. We are not subject to any additional potential payments. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or product development services with us.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Financial Instruments-Credit Losses (Topic 326). In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. We adopted ASU 2016-13 at the beginning of the first quarter of 2020, using the modified retrospective approach. We recorded an increase of approximately \$3.4 million to allowance for credit losses on accounts receivable and \$3.3 million to allowance for credit losses on assets held for sale on our adoption date of ASU 2016-13's of January 1, 2020. See "Summary of Significant Accounting Policies" above and Note 2.

[Table of Contents](#)

Simplifying the Test for Goodwill Impairment (Topic 350). In January 2017 the FASB issued ASU No. 2017-04, “*Simplifying the Test for Goodwill Impairment*.” The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. We adopted this guidance on January 1, 2020 and applied the revised impairment model for all goodwill impairment tests within that fiscal year. The adoption of ASU 2017-04 did not have a material impact on our consolidated financial statements.

Cloud computing. In 2018, the FASB issued new guidance on a customer’s accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor (i.e., a service contract). Under the new guidance, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The guidance is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those fiscal years. The adoption of this standard did not have a material impact on our consolidated financial statements.

Other accounting standards adopted beginning January 1, 2020 do not have a significant impact on our consolidated financial statements.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

Simplifying the accounting for income taxes (Topic 740). In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)-Simplifying the Accounting for Income Taxes*. ASU No. 2019-12 removes certain exceptions to the general principles in Topic 740 and provides for consistent application of and simplifies generally accepted accounting principles for other areas of Topic 740 by clarifying and amending existing guidance. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The method of adoption varies depending on the component of the new rule that is being adopted. Early application is permitted. We do not expect to adopt ASU 2019-12 early and we are currently evaluating the impact of adopting this standard on our consolidated financial statements.

Investments-Equity securities (Topic 321), Investments-Equity method and joint ventures (Topic 323), and Derivatives and hedging (Topic 815)-Clarifying the interactions between Topic 321, Topic 323, and Topic 815. In January 2020, the FASB issued ASU No. 2020-01, *Investments-Equity securities (Topic 321), Investments-Equity method and joint ventures (Topic 323), and Derivatives and hedging (Topic 815)-Clarifying the interactions between Topic 321, Topic 323, and Topic 815*. The amendments clarify the interaction of the accounting for equity investments under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. We do not expect to adopt ASU 2020-01 early and we are currently evaluating the impact of adopting this standard on our consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report. The business address of each of our directors and executive officers is Sohu.com Media Plaza, Block 3, No. 2 Kexueyuan South Road, Haidian District, Beijing 100190, People’s Republic of China.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position</u>
Charles Zhang	56	Chairman of the Board and Chief Executive Officer
Dewen Chen	45	Chief Executive Officer of Changyou

[Table of Contents](#)

Directors and Executive Officers	Age	Position
Xiaochuan Wang	42	Chief Executive Officer of Sogou
Joanna Lv	50	Chief Financial Officer
Charles Huang	51	Director
Zhonghan Deng ^{(1) (2) (3)}	53	Independent Director
Dave De Yang ⁽¹⁾	55	Independent Director
Dave Qi ^{(1) (2) (3)}	57	Independent Director
Shi Wang ⁽³⁾	70	Independent Director

(1) Member of the audit committee of our Board of Directors.

(2) Member of the compensation committee of our Board of Directors.

(3) Member of the nominating committee of our Board of Directors.

Dr. Charles Zhang is our founder and has been Chairman of our Board and Chief Executive Officer since August 1996. Dr. Charles Zhang also served as our President from August 1996 to July 2004. Prior to founding Sohu, Dr. Charles Zhang worked for Internet Securities Inc. and helped to establish its China operations. Prior to that, Dr. Charles Zhang worked as the liaison officer with China for the Massachusetts Institute of Technology (“MIT”). Dr. Charles Zhang is also the Chairman of the Board of Sogou and was the Chairman of the Board of Changyou prior to the completion of the Changyou Merger. Dr. Charles Zhang has a Ph.D. in experimental physics from MIT and a Bachelor of Science degree from Tsinghua University.

Dewen Chen is the Chief Executive Officer of Changyou and was one of the principal founders of Changyou’s online game business. Mr. Chen was named as one of our executive officers effective November 1, 2016. Mr. Chen joined us in 2005 as a business manager, responsible for building a sales team for game products. Beginning in May 2006, Mr. Chen was in charge of the overall marketing, promotion, sales and channel distribution of our game products. Prior to Changyou’s carve-out from us in 2007, Mr. Chen was the Director of Marketing & Operations of our online game business. From April 2000 until he joined us in 2005, Mr. Chen worked at Shanghai Hua Teng Software System Co. Ltd. as a pre-sale technology consultant and sales manager. Prior to that, Mr. Chen worked with Fujian Shi Da Computer Group as a software engineer and project manager, and later as the Director of the Technology Department of the Shanghai branch office. Mr. Dewen Chen received a bachelor’s degree in Computer Engineering from Xi’an Jiaotong University.

Xiaochuan Wang has been the Chief Executive Officer of Sogou since 2010, and was named as one of our executive officers effective November 1, 2016. Under his leadership, Sogou has developed many strategic products, including the Sogou Search Engine, the Sogou Pinyin Input Method, and the Sogou Browser. Mr. Wang has played an integral role in establishing a technology-driven culture at Sogou through a focus on team building and product innovation. Mr. Wang served as our senior vice president from 2008 to 2009 and as our Chief Technology Officer from 2009 to 2013. Mr. Wang received a Gold Medal in the 8th International Olympiad in Informatics. Mr. Wang received a bachelor’s degree and a master’s degree in Computer Science from Tsinghua University.

Joanna Lv has been our Chief Financial Officer since January 27, 2018. Ms. Lv joined us in August 2000. From July 31, 2016 to January 26, 2018, Ms. Lv was our Acting Chief Financial Officer. Prior to July 31, 2016, Ms. Lv was our Senior Finance Director, in charge of day-to-day finance operations, including financial reporting, budget planning and treasury. Ms. Lv brings extensive experience in financial management and has been involved in multiple strategic financial projects for us. Ms. Lv received a bachelor’s degree in economics from the Capital University of Economics and Business in Beijing and an EMBA degree from Tsinghua University.

Mr. Charles Huang is the Founder, Chief Executive Officer and Chairman of Netbig Education Holdings Ltd. (“Netbig”), a leading education enterprise in China. Prior to founding Netbig in 1999, Mr. Huang served as Executive Director and Head of the Asia Securitization Group of Deutsche Bank, New York and Hong Kong, as well as a Senior Vice President of Prudential Securities Inc., New York. Mr. Huang is also a Chartered Financial Analyst, and serves as director of ZTO Express (Cayman) Inc. (New York Stock Exchange). Mr. Huang holds a Master of Science degree in Computer Science from MIT and a Bachelor of Science degree from the University of Science and Technology of China.

[Table of Contents](#)

Dr. Zhonghan Deng is the Chief Scientist and Chairman of the Board of Directors of Vimicro International Corporation (“Vimicro”), which he co-founded in 1999. Dr. Zhonghan Deng also worked as a research scientist for International Business Machines Corporation at the T.J. Watson Research Center in Yorktown Heights, New York. Dr. Deng received a Ph.D. in electrical engineering and computer sciences, a Master of Science degree in economics and a Master of Science degree in physics from the University of California, Berkeley.

Dave De Yang has served as the Chief Financial Officer and a Partner of Dalton International, an investment firm based in Chicago, since 2017. From 2012 through 2016, Mr. Yang served as Chief Financial Officer for the North Asia region, including China, Hong Kong, Taiwan, Japan, and Korea, of Reckitt Benckiser, a London-based company that is listed on the London Stock Exchange and is included in the FTSE 100 Index. Prior to joining Reckitt Benckiser, Mr. Yang worked for McDonald’s Corporation as a senior financial director, including an international assignment as the Corporate Controller of McDonald’s China for three and half years. Prior to that role, he served as acting controller of McDonald’s India and Indonesia divisions and as a senior director of McDonald’s Corporation in the Asia Pacific, Middle East and Africa division, where he oversaw the development and supervision of financial strategy and policy. Prior to joining McDonald’s Corporation, Mr. Yang worked in the U.S. business unit of Ernst & Young LLP for seven years in various positions, including as a group manager. During Mr. Yang’s tenure at Ernst & Young LLP, he focused on business risk management consultation, corporate M&A, restructuring of corporate internal management processes, internal audits, risk assessment, control system designs, and auditing of corporate financial statements, primarily for Fortune 500 companies. Mr. Yang has also served as a member of the Board of Directors and of the Audit Committee of Changyou since 2009. Mr. Yang has a master of business administration degree from the City University of New York, a master’s degree in Management and Engineering from the Graduate School of the Chinese Academy of Sciences in Beijing, and a bachelor’s degree in physics from the University of Science and Technology of China. Mr. Yang is a member of the U.S. Institute of Certified Internal Auditors, the Institute of Certified Public Accountants and the Institute of Certified Management Accountants.

Dr. Dave Qi is a Professor of Accounting and the former Associate Dean of the Cheung Kong Graduate School of Business. He began teaching at the Cheung Kong Graduate School of Business in 2002 and was the founding Director of the Executive MBA program. Before joining the Cheung Kong Graduate School of Business, Dr. Dave Qi was an Associate Professor at the School of Accounting of the Chinese University of Hong Kong. Dr. Dave Qi has published many articles and research essays on accounting, financial reporting, capital market and other related topics. Dr. Dave Qi also serves as director of the following public companies: Bison Finance Group Limited (HK Stock Exchange), CTV Golden Bridge International Media Co., LTD. (Hong Kong Stock Exchange), Momo Inc. (NASDAQ), Jutal Offshore Oil Services Limited (Hong Kong Stock Exchange), Yunfeng Financial Group Limited (formerly Reorient Group Limited) (Hong Kong Stock Exchange) and Haidilao International Holding Ltd. (HK Stock Exchange). In addition, Dr. Dave Qi serves as Chairman of the Audit Committee of each of Bison Finance Group Limited, CTV Golden Bridge International Media Co., LTD., and Haidilao International Holding Ltd., and as a member of the Audit Committee of each of Momo Inc., Jutal Offshore Oil Services Limited and Yunfeng Financial Group Limited. Dr. Qi has a Ph.D. in accounting from the Eli Broad Graduate School of management of Michigan State University, a Master of Business Administration from the University of Hawaii at Manoa and a Bachelor of Science and a Bachelor of Arts degree from Fudan University. Dr. Dave Qi is currently a member of the American Accounting Association.

Mr. Shi Wang is the Honorary Chairman of the Board of Directors of Vanke, of which he also served as General Manager from 1991 to 1999. In 1984 Mr. Shi Wang founded the Shenzhen Exhibition Center of Modern Science and Education Equipment, which is the predecessor of Vanke. Mr. Shi Wang is the Executive Manager of the China Real Estate Association and is Deputy Director of the City Housing Development Council of the China Real Estate Association.

Board of Directors

Our Board of Directors currently consists of six directors and is divided into two classes consisting of three directors each, with one class of directors being elected by the holders of our ordinary shares at each annual general meeting of shareholders and holding office for staggered two-year terms, with the term of one of the classes expiring at each annual general meeting. Our directors currently consist of Dr. Charles Zhang, Zhonghan Deng, and Dave De Yang, whose terms will expire at our 2022 annual general meeting of shareholders, and Charles Huang, Dave Qi, and Shi Wang, whose terms will expire at our 2021 annual meeting of shareholders. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract, proposed contract, or arrangement in which he is materially interested, provided the nature of such interest is disclosed prior to any vote thereon.

Committees of the Board of Directors

Audit Committee

The members of our audit committee currently are Dr. Dave Qi, Dr. Zhonghan Deng and Mr. Dave De Yang, who are each independent as that term is defined in Rule 10A-3 under the Exchange Act and Rule 5605(a)(2) of the NASDAQ Listing Rules. Our Board has determined that Dr. Dave Qi is an audit committee financial expert as set forth under the applicable SEC rules and Rule 5605(c)(2) of the NASDAQ Listing Rules. The full responsibilities of our audit committee are set forth in its charter, which will be reviewed and updated annually and approved by our board, and will be posted on our Website at <http://investors.sohu.com/committee-details/audit-committee>. The audit committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- overseeing our accounting and financial reporting processes and audits of the financial statements of our company;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, as defined in the NASDAQ Listing Rules;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls over financial reporting and any special audit steps adopted in the light of any significant deficiencies or materially weakness in our internal controls; and
- meeting separately and periodically with management and the independent auditors.

Compensation Committee

The members of our compensation committee currently are Dr. Dave Qi and Dr. Zhonghan Deng, who are each independent as that term is defined in Rule 5605(a)(2) of the NASDAQ Listing Rules. Our compensation committee makes recommendations concerning salaries and incentive compensation, administers and approves share-based awards under our equity incentive plans, and otherwise determines compensation levels and performs such other functions regarding compensation as our Board of Directors may delegate to our compensation committee. The full responsibilities of our compensation committee are set forth in its charter, which is posted on our Web site at <http://investors.sohu.com/committee-details/compensation-committee>

Nominating Committee

The members of our nominating committee currently are Dr. Dave Qi, Mr. Shi Wang and Dr. Zhonghan Deng, who are each independent as that term is defined in Rule 5605(a)(2) of the NASDAQ Listing Rules. The purpose of our nominating committee is to assist our Board of Directors in identifying individuals qualified to become directors under criteria approved by our Board of Directors, periodically review director compensation and benefits, recommend to our Board of Directors any proposed revisions to our corporate governance guidelines and assist our Board of Directors in assessing directors' independence, board effectiveness, continuing education, new director orientation and committee membership. The full responsibilities of our nominating committee are set forth in its charter, which is posted on our Web site at <http://investors.sohu.com/committee-details/nominating-committee>

It is a policy of our nominating committee that candidates for director (i) be determined to have unquestionable integrity and honesty, (ii) have the ability to exercise sound, mature and independent business judgment which is in the best interests of the shareholders as a whole, (iii) have a background and experience in fields which will complement the talents of the other Board members, (iv) have the willingness and capability to take the time to actively participate in Board and committee meetings and related activities, (v) have the ability to work professionally and effectively with other Board members and our management, (vi) have the ability to remain on our Board long enough to make a meaningful contribution and (vii) have no material relationships with competitors or other third parties that could create a reasonable likelihood of a conflict of interest or other legal issues.

Neither our nominating committee nor our Board of Directors has a policy with regard to the consideration of diversity when identifying and evaluating proposed director candidates, although both may consider diversity when identifying and evaluating proposed director candidates, and one of the enumerated factors under our nominating committee's charter that the committee may consider when identifying potential nominees is the interplay of the candidate's experience with the experience of the other board members. In compiling a list of possible candidates and considering their qualifications, our nominating committee makes its own inquiries, solicits input from other directors on our Board and may consult or engage other sources, such as a professional search firm, if it deems appropriate.

Duties of Directors

Under Cayman Islands law, our directors have a common law duty owed to our company to act honestly in good faith with a view to the best interests of our company and for a proper purpose. A director must exercise the skill and care of a reasonably diligent person having both—(a) the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to the company (an objective test), and (b) if greater, the general knowledge, skill and experience that that director actually possesses (a subjective test). In fulfilling their duty of care to our company, our directors must ensure compliance with our memorandum and articles of association and the Companies Act. A shareholder may have the right to seek various remedies, including damages on behalf of our company, if a duty owed by our directors is breached.

Terms of Directors and Officers

A director may be removed by ordinary resolution passed by a majority of our shareholders before the expiration of such director's term. For more information about the classification of our Board of Directors, see "- Board of Directors." Officers are elected by and serve at the discretion of the Board of Directors.

Compensation of Executive Officers and Directors

During the year ended December 31, 2020, we paid an aggregate of approximately \$6.7 million in cash compensation to our executive officers. We paid an aggregate of approximately \$0.6 million in cash compensation to our directors other than Dr. Charles Zhang. In 2020, the total compensation expense for our non-executive directors and executive officers recorded in our consolidated statements of comprehensive income was \$7.8 million. None of our directors, other than Dr. Charles Zhang, have service contracts that provide for benefits upon termination of employment.

Employment Agreements with Executive Officers

Employment Agreements with Dr. Charles Zhang, Ms. Joanna Lv and Mr. Dewen Chen.

We have entered into a three-year employment agreement with our Chief Executive Officer, Dr. Charles Zhang, and a three-year employment agreement with our Chief Financial Officer, Ms. Joanna Lv, and Changyou has entered into an employment agreement with Mr. Dewen Chen, Changyou's Chief Executive Officers. Under these agreements we or Changyou may terminate Dr. Zhang's, Ms. Lv's or Mr. Chen's employment for cause, at any time, for certain acts of such officer such as willful misconduct or gross negligence, repeated failure to perform substantially his or her duties, indictment or conviction for or confession of a felony, or any crime involving moral turpitude. In any such case, such officer will not be entitled to receive payment of any severance benefits or other amounts by reason of termination other than accrued salary and vacation through the date of termination and such officer's right to all other benefits will terminate, except as required by applicable law.

We or Changyou may also terminate our employment agreements with Dr. Zhang, Ms. Lv or Mr. Chen without cause upon thirty days' advance written notice. In such case of termination by us and also in a case where Dr. Zhang, Ms. Lv or Mr. Chen voluntarily terminates his or her employment with us upon thirty-days' advance written notice for "good reason," we are required to provide him or her with severance benefits equal to an amount up to six (6) months of his or her monthly base salary, provided that he or she complies during the severance period with the non-competition, non-solicitation, confidential information and work product provisions discussed below, which are incorporated into the employment agreement, and executes a release agreement in a form requested by us. "Good reason" includes (i) any significant change in the executive officer's duties and responsibilities inconsistent in any material and adverse respect with his or her title and position, and (ii) any material breach of the employment agreement by us, including any reduction in the executive officer's base salary or our failure to pay to him or her any portion of his or her compensation.

[Table of Contents](#)

Each of Dr. Zhang, Ms. Lv and Mr. Chen has entered into an employee non-competition, non-solicitation, confidential information, and work product agreement with us or Changyou, respectively. Under these agreements, Dr. Zhang, Ms. Lv or Mr. Chen has agreed to be bound by (i) non-competition restrictions during his or her employment and for one year after the termination of his or her employment or for such longer period during which we pay him or her any severance benefits, and (ii) non-solicitation restrictions during the non-competition period. Each of Dr. Zhang, Ms. Lv and Mr. Chen has agreed to hold in confidence, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment, all of our confidential information or trade secrets, all confidential information or trade secrets of our clients or customers, and all confidential or proprietary information of any third party held by us. Each of Dr. Zhang, Ms. Lv and Mr. Chen has also agreed to disclose to us or Changyou all inventions which he or she conceives and develops during the employment and to assign all right, title and interest in them to us or Changyou and has agreed not to assert any such rights against us or Changyou.

Employment Agreement with Mr. Xiaochuan Wang

Our subsidiary Beijing Sogou Technology Development Co., Ltd. entered into an open-ended employment agreement with Mr. Xiaochuan Wang. Under his employment agreement, Mr. Wang is entitled to (i) base salaries and (ii) a performance-based cash bonus. His employment agreement also provides for certain additional benefits to the extent applicable, including vacation time; life, unemployment, medical, work-related injury and other insurance; and allowances for housing. Mr. Wang also agreed in his employment agreement to be bound by obligations regarding (i) assignment of intellectual property and (ii) confidential treatment of proprietary information. His employment agreement is governed by PRC law.

Share Incentive Plans

Sohu Share Incentive Plans

We adopted a share incentive plan in April 2018, or the Sohu 2018 Share Incentive Plan, which will expire in April 2028. The maximum number of our ordinary shares issuable under the Sohu 2018 Share Incentive Plan is 1,132,315, which is equal to the remaining number of 1,148,565 of shares of common stock issuable under the Sohu.com Inc. 2010 Share Incentive Plan as of the adoption of the Sohu 2018 Share Incentive Plan, reduced by 16,250 shares that were issued upon exercise or settlement between the time of the adoption of Sohu 2018 Share Incentive Plan and the dissolution and liquidation of Sohu.com Inc. on May 31, 2018. Our Board of Directors may amend, suspend, or terminate the Sohu 2018 Share Incentive Plan at any time; provided, however, that our Board of Directors must first seek the approval of the participants in the Sohu 2018 Share Incentive Plan if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards. Share incentive awards may be granted under the Sohu 2018 Share Incentive Plan to our management and employees. Share incentive awards that were granted, or may be granted, under the Sohu 2018 Share Incentive Plan include, among other forms, options, restricted share units and restricted shares, and the maximum term of any share incentive award granted is ten years from the grant date.

Our compensation committee, or our Board of Directors in the absence of such a committee, administers the Sohu 2018 Share Incentive Plan, and determines the terms and conditions of awards under the Sohu 2018 Share Incentive Plans. Awards granted under the Sohu 2018 Share Incentive Plan are evidenced by an award document that sets forth the terms and conditions applicable to each of the awards, as determined by our Board of Directors or compensation committee in its sole discretion.

Upon the dissolution of Sohu.com Inc. on May 31, 2018, we assumed all then existing obligations of Sohu.com Inc. with respect to equity incentive awards that had been granted under Sohu 2010 Stock Incentive Plan and then remained outstanding, and such awards were converted into the right to receive upon exercise or settlement our ordinary shares under the Sohu 2018 Share Incentive Plan rather than shares of the common stock of Sohu.com Inc., subject to the other terms of such outstanding awards.

Changyou Share Incentive Plan

Changyou adopted a share incentive plan in June 2014 (the “Changyou 2014 Share Incentive Plan”) that will terminate in June 2024, and adopted a share incentive plan in August 2019 (the “Changyou 2019 Share Incentive Plan”) that will terminate in August 2029 (the Changyou 2019 Share Incentive Plan and the Changyou 2014 Share Incentive Plan together, the “Changyou Share Incentive Plans”). The maximum number of Changyou Class A ordinary shares issuable under the Changyou 2014 Share Incentive Plan is 6,000,000 and the maximum number of Changyou’s Class A ordinary shares issuable under the Changyou 2019 Share Incentive Plan is 3,000,000. After the completion of the Changyou Merger, our Board of Directors may amend, suspend, or terminate the Changyou 2014 Share Incentive Plan and/or the Changyou 2019 Share Incentive Plan at any time; provided, however, that we must first seek the approval of the participants in the Changyou 2014 Share Incentive Plan or in the Changyou 2019 Share Incentive Plan, as the case may be, if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards. Share incentive awards may be granted under the Changyou Share Incentive Plans to Changyou management and employees and to management and employees of any of the Sohu Group companies. Share incentive awards that were granted, or may be granted, under the Changyou Share Incentive Plans include, among other forms, options, restricted share units and restricted shares, and the maximum term of any share incentive award granted is ten years from the grant date.

[Table of Contents](#)

Our Board of Directors administers the Changyou Share Incentive Plans following the completion of the Changyou Merger, and determines the terms and conditions of awards under the Changyou Share Incentive Plans. Awards granted under the Changyou Share Incentive Plans are evidenced by an award document that sets forth the terms and conditions applicable to each of the awards, as determined by our Board of Directors or compensation committee in its sole discretion.

Sogou Share Incentive Plans

Sogou adopted a share incentive plan in October 2010 (as amended from time to time, with the last amendment taking effect on August 22, 2014, the “Sogou 2010 Share Incentive Plan”) to provide incentives to Sogou’s management and employees and to management and employees of any of the Sohu Group companies. The maximum number of Sogou Class A Ordinary Shares issuable under the Sogou 2010 Share Incentive Plan is 41,500,000. The Sogou 2010 Share Incentive Plan expired on October 19, 2020, and is no longer available for granting new share-based awards. As of February 26, 2021, there were options outstanding under the Sogou 2010 Share Incentive Plan exercisable for the purchase of an aggregate of 3,462,691 Sogou Class A Ordinary Shares. The maximum term of any share incentive award granted under the Sogou 2010 Share Incentive Plan is ten years from the grant date.

Sogou also adopted a share incentive plan in October 2017 (the “Sogou 2017 Share Incentive Plan,” and, together with the Sogou 2010 Share Incentive Plan, the “Sogou Share Incentive Plans”). The maximum number of Sogou Class A Ordinary Shares issuable under the Sogou 2017 Share Incentive Plan is 28,000,000. Share incentive awards may be granted under the Sogou 2017 Share Incentive Plan to Sogou management and employees and to management and employees of any of the Sohu Group companies that is not a VIE of Sohu. Share incentive awards that may be granted under the Sogou 2017 Share Incentive Plan include, among other forms, options, restricted share units and restricted shares, and the maximum term of any share incentive award granted is ten years from the grant date. The Sogou 2017 Share Incentive Plan will terminate in October 2027.

Sogou’s compensation committee, or Sogou’s Board of Directors in the absence of such a committee, administers the Sogou Share Incentive Plans, and determines the terms and conditions of awards under the Sogou Share Incentive Plans. Awards granted under the Sogou Share Incentive Plans are evidenced by an award document that sets forth the terms and conditions applicable to each of the awards, as determined by Sogou’s Board of Directors or compensation committee in its sole discretion. Prior to Sogou’s IPO, the award documents for options previously granted under the Sogou 2010 Share Incentive Plan gave Sogou a right to repurchase from a grantee, within a certain time period, up to 50% of a grantee’s Class A Ordinary Shares subject to vested options, upon such grantee’s death, disability, or voluntary, or involuntary termination of employment with Sogou (other than for “Cause,” as defined in the Sogou 2010 Share Incentive Plan); the repurchase price for such a purchase was equal to the fair market value of Sogou’s ordinary shares, as determined in an appraisal by an independent professional appraisal firm chosen by Sogou. Sogou’s such repurchase rights under the award documents terminated upon the completion of Sogou’s IPO.

Sogou’s Board of Directors may amend, suspend, or terminate the Share Incentive Plans at any time; provided, however, that Sogou’s Board of Directors must first seek the approval of the participants in the Share Incentive Plans if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards.

Awards for Sogou Class A Ordinary Shares held by Sohu

We also grant to our management and employees options to purchase from us Sogou Class A ordinary shares that we hold for the purpose of making such grants. Vesting of options that we grant generally occurs in equal annual installments over a four-year period, but vesting for each year is also subject to the achievement of annual performance milestones related to Sogou that our Board of Directors establishes in its discretion.

[Table of Contents](#)

Sohu Video Share Incentive Plan

Our subsidiary Sohu Video adopted the Sohu Video Share Incentive Plan, which will expire in January 2022. The maximum number of Sohu Video ordinary shares issuable under the Sohu Video Share Incentive Plan is 25,000,000. Share incentive awards may be granted under the Sohu Video Share Incentive Plan to Sohu Video management and employees, and to management and employees of any of the Sohu Group companies. Share incentive awards that may be granted under the Sohu Video Share Incentive Plans include, among other forms, options, restricted share units and restricted shares, and the maximum term of any share incentive award granted is ten years from the grant date.

Sohu Video's compensation committee, or Board of Directors in the absence of such a committee, administers the Sohu Video Share Incentive Plan, and determines the terms and conditions of awards under the Sohu Video Share Incentive Plan. Awards granted under the Sohu Video Share Incentive Plan are evidenced by an award document that sets forth the terms and conditions applicable to each of the awards, as determined by Sohu Video's Board of Directors or compensation committee in its sole discretion. The award documents for options granted under the Sohu Video Share Incentive Plan give Sohu Video a right to repurchase from a grantee, within a certain time period, up to 50% of a grantee's Sohu Video ordinary shares subject to vested options, upon such grantee's death, disability, or voluntary, or involuntary termination of employment with us (other than for "Cause," as defined in the Sohu Video Share Incentive Plan). The repurchase price for such a purchase was equal to the fair market value of Sohu Video's ordinary shares, as determined in an appraisal by an independent professional appraisal firm chosen by Sohu Video. Sohu Video repurchase rights under the award documents will terminate upon the completion of Sohu Video's IPO.

Sohu Video's Board of Directors may amend, suspend, or terminate the Share Incentive Plans at any time; provided, however, that Sohu Video's Board of Directors must first seek the approval of the participants in the Sohu Video Share Incentive Plan if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards.

Grants of Shares and Options to Directors and Executive Officers

The following tables set forth summaries of all outstanding equity awards granted by us to, and held by each of our directors and executive officers as of February 26, 2021.

Awards Granted under Sohu 2018 Share Incentive Plan

<u>Directors and Executive Officers</u>	<u>Ordinary Shares underlying outstanding options</u>	<u>Exercise price</u>	<u>Date of grant</u>	<u>Expiration date</u>
Charles Zhang	75,000 ⁽¹⁾	\$ 0.001	2/16/2015	2/15/2025
Charles Zhang	70,000 ⁽²⁾	\$ 0.001	7/1/2019	6/30/2029
Joanna Lv	7,500 ⁽³⁾	\$ 0.001	2/16/2015	2/15/2025
Joanna Lv	40,000 ⁽⁴⁾	\$ 0.001	7/1/2019	6/30/2029
Joanna Lv	10,000 ⁽⁵⁾	\$ 0.001	9/1/2020	8/31/2030

- (1) Consists of options to purchase our ordinary shares at a nominal exercise price, of which 75,000 options are vested and exercisable as of February 26, 2021.
- (2) Consists of options to purchase our ordinary shares at a nominal exercise price, of which 17,500 options are vested and exercisable as of February 26, 2021.
- (3) Consists of options to purchase our ordinary shares at a nominal exercise price, of which 7,500 options are vested and exercisable as of February 26, 2021.
- (4) Consists of options to purchase our ordinary shares at a nominal exercise price, of which 10,000 options are vested and exercisable as of February 26, 2021.
- (5) Consists of options exercisable for the purchase of our ordinary shares that are subject to vesting in equal annual installments over a four-year period.

Awards Granted under Changyou 2019 Share Incentive Plan

<u>Directors and Executive Officers</u>	<u>Ordinary Shares underlying outstanding options</u>	<u>Exercise price</u>	<u>Date of grant</u>	<u>Expiration date</u>
Dewen Chen	1,288,000 ⁽¹⁾	\$ 0.01	8/26/2019	9/30/2029

- (1) Consists of options, granted on August 26, 2019 and effective as of October 1, 2019, that are subject to vesting in equal annual installments over a four-year period commencing on October 1, 2019.

Awards Granted under Sogou 2010 Share Incentive Plan

<u>Directors and Executive Officers</u>	<u>Restricted Sogou Class A Ordinary Shares</u>	<u>Exercise price</u>	<u>Date of grant</u>	<u>Expiration date</u>
Xiaochuan Wang	1,440,000 ⁽¹⁾	\$ 0.625	1/31/2013	N/A

- (1) Consists of Sogou Class A Ordinary Shares beneficially held by Mr. Wang that were issued in 2013 upon Mr. Wang's early exercise of share options granted under the Sogou 2010 Share Incentive Plan and are still subject to vesting. Such Sogou Class A Ordinary Shares are subject to vesting upon the fourth anniversary of the completion of Sogou's IPO, which took place on November 13, 2017.

Awards Granted under Sohu Video Share Incentive Plan

<u>Directors and Executive Officers</u>	<u>Ordinary Shares underlying outstanding options</u>	<u>Exercise price</u>	<u>Date of grant</u>	<u>Expiration date</u>
Joanna Lv	110,000 ⁽¹⁾	\$ 0.01	1/4/2012	1/3/2022
Xiaochuan Wang	50,000 ⁽²⁾	\$ 0.01	1/4/2012	1/3/2022

- (1) Consists of options to purchase Sohu Video's ordinary shares at a nominal exercise price, vesting in equal annual installments over a four-year period, but vesting for each year will also be subject to the achievement of annual performance milestones related to Sohu Video that our Board of Directors establishes in its discretion. As of February 26, 2021, 27,500 options are fully vested and exercisable.
- (2) Consists of options to purchase Sohu Video's ordinary shares at a nominal exercise price, vesting in equal annual installments over a four-year period, but vesting for each year will also be subject to the achievement of annual performance milestones related to Sohu Video that our Board of Directors establishes in its discretion. As of February 26, 2021, 12,500 options are fully vested and exercisable.

Employees

As of December 31, 2020, we had approximately 7,600 employees, including 3,000 employees for Sohu, 1,900 employees for Changyou, and 2,700 employees for Sogou. None of our personnel are represented under collective bargaining agreements. We have entered into standard employment agreements with our employees through our subsidiaries and VIEs. Sohu's and Sogou's employees have entered into confidentiality, non-competition and non-solicitation agreements with Sohu or Sogou, respectively. Changyou's employees have entered into confidentiality agreements with Changyou. However, the degree of protection afforded to an employer pursuant to confidentiality and non-competition agreements governed by PRC law may be more limited when compared to the degree of protection afforded under the laws of other jurisdictions. A number of our employees hold share-based awards granted by Sohu, Sogou, Changyou, and Sohu Video, which provide additional financial incentives to them. Most of these awards vest over a period of four years.

Share Ownership

Refer to "Item 7. Major Shareholders and Related Party Transactions" below for a description of the share ownership of our directors and senior executive officers.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

The following table sets forth certain information regarding the beneficial ownership of our ordinary share as of February 26, 2021 by (i) each person (including any “group” as that term is used in Section 13(d)(3) of the Exchange Act known by us to be the beneficial owner of more than 5% of our ordinary share (assuming conversion of all outstanding exercisable options and warrants held by that person), (ii) each current director, (iii) each named executive officer and (iv) all of our current directors and named executive officers as a group. Except as otherwise provided in the footnotes to this table, we believe that the persons named in this table have voting and investment power with respect to all the shares of common stock indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)
Charles Zhang	10,282,029 ⁽²⁾	26.09%
Charles Huang ⁽³⁾	76,265	*
Shi Wang ⁽⁴⁾	34,132	*
Dave Qi ⁽⁵⁾	28,940	*
Zhonghan Deng ⁽⁶⁾	14,514	*
Dave De Yang ⁽⁷⁾	—	—
Joanna Lv	20,500 ⁽⁸⁾	*
Xiaochuan Wang ⁽⁹⁾	69,258	*
Dewen Chen ⁽¹⁰⁾	—	—
All directors, nominees and executive officers as a group (9 persons)	10,525,638 ⁽¹¹⁾	26.70%
Photon Group Limited ⁽¹²⁾	9,920,829	25.23%
Macquarie Investment Management Business Trust ⁽¹³⁾	3,618,481	9.21%
Renaissance Technologies LLC. ⁽¹⁴⁾	2,699,355	7.30%

* Less than 1%.

- (1) Includes the number of shares and percentage ownership represented by such shares determined to be beneficially owned by a person in accordance with the rules of the SEC. The number of shares beneficially owned by a person includes the number of ordinary shares subject to options or restricted stock units held by that person that are currently exercisable or settleable or that are exercisable or settleable within 60 days of February 26, 2021. Such shares are deemed outstanding for the purpose of computing the percentage of outstanding shares owned by that person. Such shares are not deemed outstanding, however, for the purpose of computing the percentage ownership of each other person.
- (2) Includes (i) 92,500 ordinary shares subject to options exercisable within 60 days of February 26, 2021 and (ii) 9,920,829 ordinary shares beneficially owned by Photon Group Limited. Dr. Charles Zhang is a Director of Photon Group Limited, and may be deemed to be a beneficial owner of shares owned by it. Dr. Charles Zhang disclaims beneficial ownership of such shares except to the extent of his pecuniary interest in such shares. Dr. Charles Zhang’s address is c/o Sohu.com Limited., Level 18, Sohu.com Media Plaza, Block 3, No. 2 Kexueyuan South Road, Haidian District, Beijing 100190, People’s Republic of China.
- (3) Mr. Charles Huang’s address is Suite 5206, Central Plaza, Wanchai, Hong Kong.
- (4) Mr. Shi Wang’s address is Vanke Architecture Research Center, No. 68 Meilin Road, Futian District, Shenzhen 518049, People’s Republic of China.
- (5) Dr. Dave Qi’s address is 3/F, Tower E3, Oriental Plaza, 1 East Chang An Avenue, Beijing 100005, People’s Republic of China.
- (6) Dr. Zhonghan Deng’s address is 16/F, Shining Tower, No. 35, Xueyuan Road, Haidian District, Beijing 100191, People’s Republic of China.
- (7) Mr. Dave De Yang’s address is 24W435 Arrow Ct. Naperville, IL 60540, the United States.
- (8) Includes 17,500 ordinary shares subject to options exercisable within 60 days of February 26, 2021. Ms. Joanna Lv’s address is c/o Sohu.com Limited., Level 18, Sohu.com Media Plaza, Block 3, No. 2 Kexueyuan South Road, Haidian District, Beijing 100190, People’s Republic of China.
- (9) Mr. Xiaochuan Wang’s address is c/o Sogou Inc., Level 15, Sohu.com Internet Plaza, No. 1 Unit, Zhongguancun East Road, Haidian District, Beijing 100084, People’s Republic of China.
- (10) Mr. Dewen Chen’s address is c/o Changyou.com Limited, Changyou Tower, No. 65 East Bajiao Road, Shijingshan District, Beijing 100043, People’s Republic of China.
- (11) Includes 110,000 ordinary shares that such persons have the right to acquire pursuant to currently exercisable options or options that may be exercised within 60 days of February 26, 2021.
- (12) Photon Group Limited’s address is c/o Sohu.com Limited., Sohu.com Media Plaza, Block 3, No. 2 Kexueyuan South Road, Haidian District, Beijing 100190, People’s Republic of China.

[Table of Contents](#)

- (13) Data based on a Schedule 13G/A filed with the SEC on February 12, 2021. The principal business address of Macquarie Investment Management Business Trust is 2005 Market Street, Philadelphia, PA 19103.
- (14) Data based on a Schedule 13G/A filed with the SEC on February 11, 2021. The principal business address of Renaissance Technologies LLC is 800 Third Avenue, New York, New York 10022.

Related Party Transactions

Changyou's Loan Arrangements with Fox Financial Technology Group Limited ("Fox Financial," formerly known as "SoEasy Internet Finance Group Limited")

Commencing in April 2015, certain subsidiaries of Changyou and certain subsidiaries of Fox Financial entered into a series of loan agreements pursuant to which the subsidiaries of Changyou were entitled to draw down HK dollar-denominated or U.S. dollar-denominated loans from the Fox Financial subsidiaries and the Fox Financial subsidiaries were entitled to draw down equivalent RMB-denominated loans from the subsidiaries of Changyou, to facilitate each other's business operations. All of the loans carry a fixed rate of interest which approximates to the current market interest rate.

In December 2018 and 2019, Changyou entered into supplemental agreements with Fox Financial pursuant to which all accrued and unpaid interest on the loans as of December 31, 2018 and December 31, 2019 was added to the principal of the corresponding loans. Due to the depreciation of the RMB against the U.S. dollar in 2018, the principal amounts of the Changyou's outstanding RMB-denominated loans to Fox Financial as of December 31, 2018 were adjusted upward to amounts equal to the product of the principal amounts of Fox Financial's outstanding U.S. dollar denominated loans to Changyou as of December 31, 2018, multiplied by the monthly average RMB to U.S. dollar exchange rate published by the Bank of China for the month of December 2018. As a result of such adjustment, Changyou advanced additional RMB-denominated loans in the principal amount of RMB8.2 million (approximately \$1.2 million) to Fox Financial in January 2019.

In December 2019, Changyou entered into a supplemental agreement with Fox Financial which states that Fox Financial undertakes and agrees to provide to Changyou a guaranty of the repayment obligation of Fox Financial and to deposit an amount equal to the US dollar-denominated loan principal and corresponding interest owed by Changyou to Fox Financial as a security deposit. If Fox Financial fails to repay the RMB-denominated loan principal and corresponding interest owed to Changyou, then the security deposit will be applied to repayment of the loan principal and corresponding interest owed to Changyou. The security deposit will be required to be replenished by Fox Financial if it is insufficient to repay the loan principal and corresponding interest of the RMB-denominated loan owed to Changyou, and any remaining surplus after the repayment of the RMB-denominated loan principal and interest will be returned to Fox Financial. The parties entered into an additional supplemental agreement, in which Changyou undertakes and agrees to provide to Fox Financial a guaranty of Changyou's repayment obligation and to deposit an amount equal to the RMB-denominated loan principal and corresponding interest owed by Fox Financial to Changyou as a security deposit. If Changyou fails to repay the loan principal and corresponding interest, then the security deposit will be applied to repayment of the loan principal and corresponding interest owed to Fox Financial. The security deposit will be required to be replenished by Changyou if it is insufficient to repay the loan principal and corresponding interest to Fox Financial, and the remaining security deposit (if any) will be returned to Changyou if there is any surplus after the repayment of the US dollar denominated loan principal and interest.

As of December 31, 2020, the loan arrangements had expired and no new supplemental agreements were signed. Under supplemental agreements of guaranty between Changyou and Fox Financial entered into in December 2019, if Fox Financial failed to repay the RMB-denominated loan principle and corresponding interest, Changyou could apply the amount of the security deposit, consisting of the US dollar-denominated loan principal and corresponding interest owed by Changyou to Fox Financial, to repay the RMB-denominated loan principle and corresponding interest owed to Changyou. As of the date of this report, the loan arrangements have not been settled, and a settlement plan is under discussion. Changyou performed an assessment as of December 31, 2020 of expected credit losses for the RMB-denominated loans receivable from Fox Financial, and accrued an expected credit loss of \$2.4 million based on its estimate of the remaining exposure in excess of the security deposit and the lack of solvency of Fox Financial.

As of December 31, 2019 and 2020, Changyou had U.S. dollar-denominated loans payable to Fox Financial in a total amount of approximately \$33.5 million and \$34.1 million, respectively, and RMB-denominated loans receivable from Fox Financial in a total amount of approximately \$33.3 million and \$34.1 million, respectively. For the year ended December 31, 2019 and 2020, Changyou incurred interest expense of \$0.8 million and \$0.6 million, respectively, in connection with the loans payable and earned interest income of \$1.0 million and \$0.8 million, respectively, in connection with the loans receivable.

[Table of Contents](#)

Transactions with Vanke Co., Ltd.

In the 2018, 2019, and 2020 fiscal years, Vanke Co., Ltd. purchased \$220,755, \$174,259 and \$226,528, respectively, in advertising services from us. Mr. Shi Wang, one of our directors, is the Honorary Chairman of the Board of Vanke Co., Ltd.

Contractual Arrangements with our VIEs and their Shareholders

PRC law currently restricts foreign ownership of Internet information and content, internet access, value-added telecommunications, online game, and certain other businesses. To comply with PRC law, we conduct a significant part of our value-added telecommunications, online game, search and search-related and other businesses through contractual arrangements between our principal PRC subsidiaries and their corresponding VIEs and their respective shareholders. See “Information on the Company-Organizational Structure” in Item 4 of this annual report for a description of the ownership information of our current principal VIEs.

The following is a summary of the agreements currently in effect between these principal PRC subsidiaries and our principal VIEs:

Agreements between Subsidiaries, Consolidated VIEs and Nominee Shareholders

Loan and share pledge agreement between Sohu Media and the shareholders of High Century: The agreement provides for loans to the shareholders of High Century for them to make contributions to the registered capital of High Century in exchange for the equity interests in High Century, and the shareholders pledge those equity interests to Sohu Media as security for the loans. The agreement includes powers of attorney that give Sohu Media the power to appoint nominees to act on behalf of the shareholders of High Century in connection with all actions to be taken by High Century. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in High Century, which are held by the Sohu Group’s legal department and may be completed and effected at Sohu Media’s election.

Loan and share pledge agreement between Sohu Focus (HK) Limited (“Focus HK”) and the shareholders of Heng Da Yi Tong: The agreement provides for loans to the shareholders of Heng Da Yi Tong for them to make contributions to the registered capital of Heng Da Yi Tong in exchange for the equity interests in Heng Da Yi Tong, and the shareholders pledge those equity interests to Focus HK as security for the loans. The agreement includes powers of attorney that give Focus HK the power to appoint nominees to act on behalf of the shareholders of Heng Da Yi Tong in connection with all actions to be taken by Heng Da Yi Tong. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in Heng Da Yi Tong, which are held by the Sohu Group’s legal department and may be completed and effected at Focus HK’s election.

Loan agreements and equity pledge agreements between Fox Information Technology (Tianjin) Limited (“Video Tianjin”) and the shareholders of Tianjin Jinhu. The loan agreements provide for loans to the shareholders of Tianjin Jinhu for them to make contributions to the registered capital of Tianjin Jinhu in exchange for the equity interests in Tianjin Jinhu. Under the equity pledge agreements, the shareholders of Tianjin Jinhu pledge to Video Tianjin their equity interests in Tianjin Jinhu to secure the performance of their obligations under the loan agreements and Tianjin Jinhu’s obligations to Video Tianjin under their business agreements. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to Video Tianjin their equity interests in Tianjin Jinhu.

Exclusive equity interest purchase right agreements between Video Tianjin, Tianjin Jinhu and the shareholders of Tianjin Jinhu. Pursuant to these agreements, Video Tianjin and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Tianjin Jinhu all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Video Tianjin, Tianjin Jinhu and the shareholders of Tianjin Jinhu. The agreement sets forth the right of Video Tianjin to control the actions of the shareholders of Tianjin Jinhu. The agreement has a term of ten years, renewable at the request of Video Tianjin.

Table of Contents

Powers of Attorney executed by the shareholders of Tianjin Jinhu in favor of Video Tianjin with a term of ten years, extendable at the request of Video Tianjin. These powers of attorney give Video Tianjin the right to appoint nominees to act on behalf of each of the Tianjin Jinhu shareholders in connection with all actions to be taken by Tianjin Jinhu.

Loan agreements and equity pledge agreements between AmazGame and the sole shareholder of Gamease and between Gamespace and the sole shareholder of Guanyou Gamespace. The loan agreements provide for loans to the respective shareholders of Gamease and Guanyou Gamespace for the shareholders to make contributions to the registered capital of Gamease and Guanyou Gamespace in exchange for 100% of the equity interests in Gamease and Guanyou Gamespace. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to AmazGame and Gamespace, as the case may be, their equity interests in Gamease and Guanyou Gamespace. Under the equity pledge agreements, the respective shareholders of Gamease and Guanyou Gamespace pledge to AmazGame and Gamespace, their equity interests in Gamease and Guanyou Gamespace to secure the performance of their obligations under the loan agreements and Gamease's and Guanyou Gamespace's obligations to AmazGame and Gamespace under the various VIE-related agreements. If the shareholders breach their obligations under any VIE-related agreements (Gamease's or Guanyou Gamespace's breach of any of its obligations under the various applicable VIE-related agreements will be treated as its shareholder's breach of its obligations), including the equity pledge agreements, AmazGame and Gamespace are entitled to exercise their rights as the beneficiaries under the applicable equity pledge agreements, including all rights the respective shareholders have as shareholders of Gamease or Guanyou Gamespace.

Equity interest purchase right agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right, exercisable at any time if and when it is legal to do so under PRC law, to purchase from the respective shareholders of Gamease and Guanyou Gamespace all or any part of their equity interests in Gamease and Guanyou Gamespace at a purchase price equal to their initial contributions to the registered capital of Gamease and Guanyou Gamespace.

Powers of attorney executed by the sole shareholder of Gamease in favor of AmazGame and by the sole shareholder of Guanyou Gamespace in favor of Gamespace, with a term of ten years. These powers of attorney give the respective boards of directors of AmazGame and Gamespace the right to appoint nominees to act on behalf of their respective shareholders in connection with all actions to be taken by Gamease and Guanyou Gamespace.

Business operation agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. These agreements set forth the right of AmazGame and Gamespace to control the actions of Gamease and Guanyou Gamespace, as the case may be, and the respective shareholders of Gamease and Guanyou Gamespace. Each agreement has a term of ten years.

Loan and share pledge agreements between Sogou Technology and the shareholders of Sogou Information. The loan agreement provides for a loan to Xiaochuan Wang, the individual shareholder of Sogou Information, to be used by him to make contributions to the registered capital of Sogou Information in exchange for his equity interest in Sogou Information. The loan is interest free and is repayable on demand, but the shareholder may repay the loan only by transferring to Sogou Technology his equity interest in Sogou Information. Under the pledge agreement, all of the shareholders of Sogou Information pledge their equity interests to Sogou Technology to secure the performance of their obligations under the various VIE-related agreements. If any shareholder of Sogou Information breaches any of his or its obligations under any VIE-related agreements, Sogou Technology is entitled to exercise its right as the beneficiary under the share pledge agreement. The share pledge agreement terminates only after all of the obligations of the shareholders under the various VIE-related agreements are no longer in effect.

Exclusive equity interest purchase right agreements between Sogou Technology, Sogou Information and the shareholders of Sogou Information. Pursuant to these agreements, Sogou Technology and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Sogou Information all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Sogou Technology, Sogou Information and the shareholders of Sogou Information. The agreement sets forth the right of Sogou Technology to control the actions of the shareholders of Sogou Information. The agreement has a term of ten years, renewable at the request of Sogou Technology.

[Table of Contents](#)

Powers of Attorney executed by the shareholders of Sogou Information in favor of Sogou Technology with a term of ten years, extendable at the request of Sogou Technology. These powers of attorney give Sogou Technology the right to appoint nominees to act on behalf of each of the three Sogou Information shareholders in connection with all actions to be taken by Sogou Information.

Business Arrangements between Subsidiaries and Consolidated VIEs

Exclusive technology consulting and service agreement between Sohu Era and Sohu Internet. Pursuant to this agreement Sohu Era has the right to provide technical consultation and other related services to Sohu Internet, in exchange for a percentage of the gross revenue of Sohu Internet. The agreement has an initial term of two years, and is renewable at the request of Sohu Era.

Exclusive technology consulting and service agreement between Video Tianjin and Tianjin Jinhu. Pursuant to this agreement Video Tianjin has the right to provide technical consultation and other related services to Tianjin Jinhu in exchange for a fee. The agreement has a term of ten years and is renewable at the request of Video Tianjin.

Technology support and utilization agreements between AmazGame and Gamease and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right to provide certain product development and application services and technology support to Gamease and Guanyou Gamespace, respectively, for a fee equal to a predetermined percentage, subject to adjustment by AmazGame or Gamespace at any time, of Gamease's and Guanyou Gamespace's respective revenues. Each agreement terminates only when AmazGame or Gamespace is dissolved.

Services and maintenance agreements between AmazGame and Gamease, and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace, respectively, provide marketing, staffing, business operation and maintenance services to Gamease and Guanyou Gamespace, respectively, in exchange for a fee equal to the cost of providing such services plus a predetermined margin. Each agreement terminates only when AmazGame or Gamespace, as the case may be, is dissolved.

Exclusive technology consulting and service agreement between Sogou Technology and Sogou Information. Pursuant to this agreement Sogou Technology has the right to provide technical consultation and other related services to Sogou Information in exchange for a fee. The agreement has a term of ten years and is renewable at the request of Sogou Technology.

Certain of the contractual arrangements described above between the VIEs and the related wholly-owned subsidiaries of the Sohu Group are silent regarding renewals. However, because the VIEs are controlled by the Sohu Group through powers of attorney granted to the Sohu Group by the shareholders of the VIEs, the contractual arrangements can be, and are expected to be, renewed at the subsidiaries' election.

Other Transactions with Certain Directors, Shareholders and Affiliates

See "Directors, Senior Management and Employees - Compensation of Directors and Executive Officers."

Employment Agreements

See "Directors, Senior Management and Employees - Employment Agreements with Executive Officers."

Share Incentive Plans

See "Directors, Senior Management and Employees - Equity Incentive Plans."

Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

Please see Item 18 “Financial Statements” for our audited consolidated financial statements filed as a part of this annual report.

Legal Proceedings

From time to time we become subject to legal proceedings and claims in the ordinary course of our business. Such legal proceedings or claims, even if not meritorious, could result in the expenditure of significant financial and management resources.

Dividend Policy

The Sohu Group intends to retain all available funds and any future earnings for use in the operation and expansion of its own business, and does not anticipate paying any cash dividends on Sohu.com Limited’s common stock for the foreseeable future. Future cash dividends distributed by Sohu.com Limited., if any, will be declared at the discretion of Sohu.com Limited’s Board of Directors and will depend upon future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our Board of Directors may deem relevant.

ITEM 9. THE OFFER AND LISTING

Our ADSs commenced trading on June 1, 2018 on the NASDAQ Global Select Market under the symbol “SOHU.” Prior to June 1, 2018, the common stock of our predecessor Sohu.com Inc. was listed and traded on the NASDAQ Global Select Market under the same “SOHU” symbol.

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum of association and our amended and restated articles of association contained in our Registration Statement on Form F-4 (File No. 333-224069) filed with the SEC on April 19, 2018 and in Sohu.com Inc.’s and our joint proxy statement/prospectus filed with the SEC on April 23, 2018. Our shareholders adopted our Memorandum and Articles of Association by a special resolution on April 2, 2018, which became effective on April 2, 2018.

Differences in Corporate Law - Mergers and Similar Arrangements

The Companies Act is modeled after similar laws in the United Kingdom but does not follow all statutory enactments or legislative changes in the United Kingdom. In addition, the Companies Act differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Act applicable to us and the laws applicable to companies incorporated in the State of Delaware.

Mergers and Similar Arrangements

A merger or consolidation of two or more constituent companies under Cayman Islands law requires a plan of merger or consolidation to be approved by the directors of each constituent company and authorization by (a) a special resolution of the members of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company’s articles of association.

A merger or consolidation between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders. For this purpose, a subsidiary is a company of which shares carrying at least ninety percent (90%) of the votes exercisable in a general meeting are held by or registered in the name of the parent company.

The consent of each holder of a fixed or floating security interest over the assets of a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain circumstances, a dissenting shareholder of a Cayman constituent company is entitled to payment of the fair value of his shares, as assessed by the Grand Court of the Cayman Islands, upon dissenting to a merger or consolidation. The exercise of such appraisal rights will preclude the exercise of any other rights save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

[Table of Contents](#)

In addition, there are statutory provisions applicable to a scheme of arrangement that facilitate the takeover of companies or the reconstruction and amalgamation of companies, provided that the scheme of arrangement is approved by a majority in number of each class of shareholders or creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority shareholders or creditors to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Act.

When a takeover offer is made and accepted by holders of 90% of the shares that are subject to the offer within four months of the offer being made, the offeror may, within a two-month period commencing on the expiration of such four-month period, require the holders of the remaining shares to transfer such shares to the offeror on the same terms as the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of a lack of compliance with the statutory procedures, of fraud, bad faith, or collusion.

If a scheme of arrangement or takeover offer is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders in a merger or consolidation or to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits

In principle, our company will normally be the proper plaintiff, and, as a general rule, a derivative action may not be brought by a minority shareholder and requires leave or permission from the court in the Cayman Islands for such an action to be continued. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, subject to leave being given, a derivative action may be available when:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote of our shareholders and this has not been obtained; and
- those who control the company are perpetrating a "fraud on the minority."

Indemnification of Directors and Executive Officers and Limitation of Liability

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Amended and Restated Memorandum of Association and Amended and Restated Articles of Association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from fraud or dishonesty of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification agreements with our directors and senior executive officers that provide such persons with additional indemnification beyond that provided in our Amended and Restated Memorandum of Association and Amended and Restated Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

Anti-Takeover Provisions in the Memorandum of Association and Articles of Association

Some provisions of our Amended and Restated Memorandum of Association and Amended and Restated Articles of Association may discourage, delay, or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our Board of Directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our Amended and Restated Memorandum of Association and Amended and Restated Articles of Association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company and for a proper purpose.

In January 2019, we entered into a Shareholders' Rights Agreement with The Bank of New York Mellon, as Rights Agent (the "Shareholders' Rights Agreement"). The Shareholders' Rights Agreement is designed to deter coercive takeover tactics, including the accumulation of shares in the open market or through private transactions, and to prevent an acquirer from gaining control of the Sohu Group without offering a fair and adequate price and terms to all of our shareholders. Under the terms of the Shareholders' Right Agreement if a person or group acquired more than 15% or more of our outstanding ordinary shares (including ordinary shares represented by ADSs), except as specifically permitted under the Shareholders' Right Agreement, all other shareholders and holders of our ADSs would have the right to purchase securities from us at a substantial discount to those securities' fair market value, thus causing substantial dilution to the holdings of the person or group that acquires more than 15%. The rights granted under the Shareholders' Rights Agreement will expire on January 13, 2029, unless redeemed or cancelled earlier. Also see "Certain provisions of our Memorandum and Articles of Association, Cayman Islands law regarding mergers and similar arrangements, and our Shareholders' Rights Agreement could delay or deter a change in control" in Item 3 of this report.

Directors' Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation. As a matter of Cayman Islands law, a director of a Cayman Islands company owes the following duties to the company—a duty to act bona fide in the best interests of the company and for a proper purpose, a duty not to make a personal profit based on his position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party. A director must exercise the skill and care of a reasonably diligent person having both—(a) the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to the company (an objective test), and (b) if greater, the general knowledge, skill and experience that that director actually possesses (a subjective test).

Transactions with Interested Shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the Board of Directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's Board of Directors.

[Table of Contents](#)

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution: Winding-up

Under the Delaware General Corporation Law, unless the Board of Directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the Board of Directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under the Companies Act of the Cayman Islands and our Amended and Restated Articles of association, our company may be dissolved, liquidated or wound up voluntarily by a special resolution (the vote of the holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders) or, if our company is unable to pay its debts as they fall due, by an ordinary resolution of our shareholders. Under Cayman Islands law, a company may be wound up compulsorily by an order of the courts of the Cayman Islands if the company has passed a special resolution of its shareholders to be wound up by the court or, if the company is unable to pay its debts as they fall due. The court also has authority to order a winding up in a number of other specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Material Contracts

We have not entered into any material contracts within the past two fiscal years other than in the ordinary course of business, other than those listed in Item 19 "Exhibits," as described elsewhere in this annual report, or as described below.

Facility Agreement and Equity Share Mortgages with ICBC Tokyo

On April 3, 2020, our indirect wholly-owned subsidiary Sohu Game, as borrower, and Sohu.com Limited, as guarantor, entered into a facility agreement (the "Facility Agreement") with ICBC Tokyo pursuant to which ICBC Tokyo agreed to provide a term loan facility of up to \$250 million (the "Term Facility"), subject to customary conditions, to be used to finance the consummation of the Changyou Merger and the related transactions and to pay related fees and expenses associated with the Changyou Merger. The Term Facility will consist of (i) a one-year term facility for term loans of up to \$100 million (the "One-Year Facility") and (ii) a four-year term facility for term loans of up to \$150 million (the "Four-Year Facility"). The outstanding principal amount of the loans under the One-Year Facility will be due in full on the one-year anniversary of the date of the first utilization of the One-Year Facility. The outstanding principal amount of the loans under the Four-Year Facility will be due in installments, with \$7.5 million due and payable at the end of each of the second and third calendar years during the term of the Four-Year Facility and the remaining outstanding principal amount due and payable on the fourth anniversary of the date of the first utilization of the One-Year Facility. The Term Facility will be available for drawdown from the date of the Facility Agreement until six months after the date of the Facility Agreement, and the Term Facility may be drawn in up to three installments by Sohu Game at its election.

The Term Facility bears interest at a rate of Three Month LIBOR plus a margin of 1.75%, with LIBOR to be determined by ICBC on the basis of the London InterBank Offered Rate published two business days before the first day of each three calendar month interest period. Accrued interest will be paid every three calendar months on the first day after the end of each such three-month interest period.

The obligations of Sohu Game as borrower under the Term Facility are initially fully guaranteed by Sohu.com Limited, and are initially secured by first priority share pledges or mortgages over 97.9% of the outstanding equity interests in Changyou. In addition, Sohu Game is required to cause Changyou, within one (1) month after the initial funding under the Term Facility, to pledge a deposit certificate evidencing an RMB deposit equivalent to not less \$125 million at an exchange rate of RMB7.20 to \$1.00 and, within three months after the initial funding under the Term Facility, to pledge RMB deposit certificates evidencing amounts at least equivalent to the Facility Agreement amount (including the initial \$125 million-equivalent deposit certificate). Upon the effectiveness of such additional pledge, Sohu's guarantee and all share pledges or mortgages over the outstanding equity interests in Changyou will be released and discharged.

[Table of Contents](#)

Changyou's Credit Arrangement with CMB

On December 4, 2020, Changyou, through its wholly-owned subsidiary Changyou.com (HK) Limited ("Changyou HK"), entered into a credit agreement (together with related agreements and documentation, the "CMB Credit Agreement") with China Merchants Bank Co., Ltd. (together with the bank's Beijing Branch, "CMB"), pursuant to which Changyou is entitled to borrow from CMB up to an aggregate of RMB2.4 billion (or approximately \$370.0 million) (the "CMB Loan"). The proceeds of the CMB Loan were used by Changyou HK to repay an existing loan of RMB2.4 billion (or approximately \$367.8 million) from Changyou's PRC-based wholly-owned subsidiary AmazGame, which repayment is required pursuant to foreign exchange controls under PRC law and regulations.

The CMB Loan has a one-year term. Interest accrues on the principal amount of the CMB Loan outstanding from time to time at an annual rate equal to (i) LIBOR for loans with terms of up to one month (the "One-Month LIBOR"), adjusted monthly, plus (ii) a margin of 0.95%, and management fees at a combined annual rate of 0.90% of the principal amount of the CMB Loan outstanding from time to time will also be payable to CMB. Accordingly, the effective annual cost of the CMB Loan will be the One-Month LIBOR plus 1.85%.

The CMB Loan is secured by (i) a mortgage on a building owned by two PRC-based wholly-owned subsidiaries of Sohu that serves as Sohu's corporate headquarters in Beijing, and (ii) pledges by AmazGame of deposit certificates evidencing RMB deposits with CMB at least equivalent to the principal amount of the CMB Loan outstanding from time to time. AmazGame's RMB deposits with CMB will earn interest on market terms. The CMB Credit Agreement includes customary events of default.

In connection with the CMB Credit Agreement, Sohu issued to CMB a commitment letter pursuant to which we agreed that, at all times when the CMB Loan is outstanding, we will not pledge to any third party other than CMB, or create any other encumbrances on, any of the equity interests in Changyou and Changyou HK without the prior written consent of CMB.

Exchange Controls

China's government imposes control over the convertibility of RMB into foreign currencies. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates announced by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in significant appreciation of the RMB against the U.S. dollar by the end of 2014. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar.

Pursuant to the Foreign Exchange Administration Regulations issued by the State Council on January 29, 1996, and effective as of April 1, 1996 (and amended on January 14, 1997 and August 5, 2008) and the Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange issued by the People's Bank of China on June 20, 1996 and effective on July 1, 1996, or the FX Regulations, regarding the administration and control of foreign exchange, conversion of RMB into foreign exchange by foreign investment enterprises for current account items, including the distribution of dividends and profits to foreign investors in joint ventures, is permissible. Foreign investment enterprises are permitted to remit foreign exchange from their foreign exchange bank accounts in China on the basis of, inter alia, the terms of the relevant joint venture contracts and the board resolutions declaring the distribution of the dividend and payment of profits. Each conversion of RMB into a foreign currency and each remittance of a foreign currency for capital account items, including direct investment, loans and security investment, is subject to the approval of the SAFE.

Under the Foreign Exchange Administration Regulations, foreign investment enterprises are required to open and maintain separate foreign exchange accounts for capital account items (but not for other items). In addition, foreign investment enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business upon the production of valid commercial documents and, in the case of capital account item transactions, approval of the documents by the SAFE.

Currently, foreign investment enterprises are required to apply to the SAFE for "foreign exchange registration certificates for foreign investment enterprises" (which are granted to foreign investment enterprises, upon fulfilling specified conditions and which are subject to review and renewal by the SAFE on an annual basis). With such foreign exchange registration certificates and required underlying transaction documents, or with approval documents from the SAFE if the transactions are under capital account (which are obtained on a transaction-by-transaction basis), foreign-invested enterprises may enter into foreign exchange transactions at banks authorized to engage in the foreign exchange business to obtain foreign exchange for their needs.

Taxation

The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not discuss all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under United States state, local and other tax laws.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of our ADSs and ordinary shares. We will not be subject to Cayman Islands taxation on payments of dividends or upon the repurchase by us of your ADSs or Ordinary Shares, nor will gains derived from the disposal of ADSs or Ordinary Shares be subject to Cayman Islands income or corporation tax. There are no other taxes likely to be material to us or holders of our ADSs or ordinary shares levied by the Government of Cayman Islands except for stamp duties, which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands exempted companies, except those which hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

PRC Taxation

Under the CIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. On April 22, 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated Offshore is located in China, which will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC. Circular 82 applies only to Offshore enterprises controlled by PRC enterprises or PRC enterprise groups, rather than those controlled by PRC individuals or foreigners, like us, but the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all Offshore enterprises. Although we believe we are not a PRC tax resident enterprise, it is not clear whether Sohu.com Limited and our subsidiaries established outside of the PRC will be deemed to be PRC tax residents under the CIT Law. If we are considered to be a PRC tax resident under the CIT law by the PRC tax authorities, our global income will be subject to corporate income tax at a rate of 25%.

The implementation rules of the CIT Law provide that, (i) if an enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how “domicile” may be interpreted under the CIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we, or our subsidiaries located in Hong Kong, are considered to be a PRC tax resident enterprise for tax purposes, any dividends we pay to our non-PRC resident shareholders or ADS holders as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs may be regarded as PRC-sourced income and as a result become subject to PRC tax at the rate up to 10% in the case of enterprises or 20% in the case of individuals. In the case of dividends, we would be required to withhold any PRC tax at source. See “Risk Factors - Risk Related to China’s Regulatory Environment - Dividends payable by us to our foreign investors and profits on the sale of our shares may be subject to tax under PRC tax laws.”

United States Federal Income Taxation

The following is a general summary of the material United States federal income tax considerations related to the purchase, ownership and disposition of our ADSs or ordinary shares by U.S. holders (as defined below). This summary applies only to U.S. holders that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion does not address any aspect of United States federal gift, estate tax or Medicare tax, or state, local or foreign tax consequences of an investment in our ADSs or ordinary shares. This discussion is based on the tax laws of the United States as in effect on the date of this annual report and on United States Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations of such tax laws and regulations available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below. The following discussion does not describe the tax consequences that may be relevant to any particular investor or to persons in special tax situations such as:

- banks or certain financial institutions;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- persons holding ADSs or ordinary shares as part of a straddle, hedging, conversion transaction or other integrated investment;
- regulated investments companies;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation;
- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares entitled to vote or 10% or more of the total value of all classes of our shares; or
- partnerships or other pass-through entities for United States federal income tax purposes or persons holding ADSs or ordinary shares through partnerships or other pass-through entities.

U.S. holders are urged to consult their own tax advisors about the application of the United States federal tax rules to their particular circumstances as well as the state, local and foreign tax consequences to them of the purchase, ownership and disposition of our ADSs or ordinary shares.

The discussion below of the United States federal income tax consequences to “U.S. holders” will apply to a beneficial owner of ADSs or ordinary shares as capital assets for purposes of United States federal income tax laws and who is, for United States federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to United States federal income taxation regardless of its source; or
- a trust (1) whose administration is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) that has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

For United States federal income tax purposes, the tax treatment of a partner in a partnership or other entity taxable as a partnership that holds ADSs or ordinary shares depends on the partner’s status and the activities of the partnership. U.S. holders who hold their ADSs or ordinary shares through a partnership, limited liability company, or other entity taxable as a partnership should consult their tax advisers regarding their tax treatment.

The discussion below assumes that the representations contained in the Deposit Agreement are true and that the obligations in the Deposit Agreement and any related agreement have been and will be complied with in accordance with their terms. Holders of ADSs will be treated as the holders of the underlying ordinary shares represented by those ADSs for United States federal income tax purposes. Accordingly, deposits of ordinary shares in return for ADSs representing those shares, and surrender of ADSs in return for the underlying ordinary shares, will not be subject to United States federal income tax.

The United States Treasury has expressed concerns that parties to whom ADSs are released before the underlying shares are delivered to the depository (“pre-release”), or intermediaries in the chain of ownership between holders of ADSs and the issuer of the security underlying the ADSs, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of ADSs. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of PRC taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. holders, each described below, could be affected by actions taken by such parties or intermediaries.

Passive Foreign Investment Company

We believe that we may have been classified as a PFIC for United States federal income tax purposes for our taxable year ended November 30, 2020. Our expectation is based on our operations and the composition of our earnings and assets for the 2020 taxable year, including the valuation of our assets (including goodwill) based on the expected price of our ADSs in the market. We currently hold, and expect to continue to hold, a substantial amount of cash and cash equivalents, and because the value of our other assets may be based in part on the market price of our ADSs, which has fluctuated and is likely to continue to fluctuate (and may fluctuate considerably given that market prices of internet and online game companies historically have been especially volatile), our PFIC status in the current and future taxable years may depend in large part on the market price of our ADSs. A drop in the market price of our ADSs and associated decrease in the value of our goodwill would cause a reduction in the value of our non-passive assets for purposes of the asset test described below. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend our cash. Furthermore, it is not entirely clear how the contractual arrangements between us and our consolidated VIEs will be treated for purposes of the PFIC rules. If these contractual arrangements were found by PRC authorities with appropriate jurisdiction to be unenforceable, such a finding alone could cause more than 75% of our gross income or more than 50% of our assets to be passive in the year that this finding was made or in subsequent years, which, in a given taxable year for which we might not otherwise expect to be classified as a PFIC, could cause us to be classified as a PFIC. See “Risk Factors - Risks Related to Our Corporate Structure - We depend upon contractual arrangements with our VIEs for the success of our business and these arrangements may not be as effective in providing operational control as direct ownership of these businesses and may be difficult to enforce.” Also, our actual PFIC status for any taxable year will depend upon the character of our income and assets and the value of our assets for such year, which will not be determinable until after the close of the taxable year. Accordingly, there is no guarantee regarding our PFIC status for any taxable year.

A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income (such as certain dividends, interest or royalties) (the “income test”), or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

For the purposes of this determination, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the shares.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change from one year to the next.

If we are a PFIC for any taxable year during which a U.S. holder holds our ADSs or ordinary shares, such U.S. holder will be subject to special tax rules with respect to any “excess distribution” that such U.S. holder receives and any gain that such U.S. holder realizes from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless the holder makes a “mark-to-market” election as discussed below. For purposes of these special rules, if we are a PFIC for any year during which a U.S. holder holds ADSs or ordinary shares, we will continue to be treated as a PFIC with respect to such U.S. holder for all succeeding years during which such U.S. holder holds ADSs or ordinary shares, even if we are no longer classified as a PFIC in subsequent years. Under certain attribution rules, if we are a PFIC, a U.S. holder will be deemed to own such U.S. holder’s proportionate share of any subsidiaries or other entities that are PFICs in which we hold (directly or indirectly through other PFICs) an equity interest (“subsidiary PFICs”), and will generally be treated for purposes of the PFIC rules as if such U.S. holder directly held the shares of such subsidiary PFICs.

Under these rules, distributions that a U.S. holder receives in a taxable year that are greater than 125% of the average annual distributions that such U.S. holder received during the shorter of the three preceding taxable years or such U.S. holder’s holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. holder’s holding period for the ADSs or ordinary shares;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and

[Table of Contents](#)

- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for that taxable year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such taxable year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of ADSs or ordinary shares cannot be treated as capital, even if the U.S. holder holds the ADSs or ordinary shares as capital assets. A U.S. holder will be subject to the same United States federal income tax rules as described above on indirect or constructive distributions that the U.S. holder is deemed to receive on shares of a subsidiary PFIC and on indirect or constructive dispositions of shares of subsidiary PFICs.

Alternatively, a U.S. holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed in the two preceding paragraphs. A mark-to-market election will not be available, however, with respect to any subsidiary PFICs. If a U.S. holder makes a mark-to-market election for the ADSs or ordinary shares, such U.S. holder will generally include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of such U.S. holder’s taxable year over such U.S. holder’s adjusted tax basis in such ADSs or ordinary shares. The U.S. holder will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in the U.S. holder’s income for prior taxable years. Amounts included in a U.S. holder’s income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, will generally be taxed at ordinary income rates. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. A U.S. holder’s basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. A mark-to-market election will not apply to ADSs or ordinary shares held by a U.S. holder for any taxable year during which we are not a PFIC, but will remain in effect with respect to any subsequent taxable year in which we become a PFIC.

The mark-to-market election will only be available for “marketable stock” which is stock that is traded in more than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in applicable Treasury regulations. We expect that the ADSs will continue to be listed and regularly traded on the NASDAQ Global Select Market, which is a qualified exchange for these purposes, and, consequently, that the mark-to-market election would be available to U.S. holders of our ADSs if and when we are a PFIC. U.S. holders should consult their own tax advisors regarding the availability and tax consequences of a mark-to-market election with respect to our ADSs and ordinary shares.

Another alternative taxation regime that may be available to some United States investors in PFICs, known as qualified electing fund, or QEF, treatment, will not be available to U.S. holders of our ADSs or ordinary shares. This is because QEF treatment requires the PFIC to supply annually certain information to its U.S. holders of ADSs or ordinary shares, and we do not intend to supply such information.

A U.S. holder of ADSs or ordinary shares in any year in which we are a PFIC will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares. In addition, if we are a PFIC for a taxable year in which we pay a dividend, or for the prior taxable year, the lower rate on “qualified dividend income” discussed below with respect to dividends paid to certain non-corporate U.S. holders would not apply.

U.S. holders and prospective holders of our ADSs and ordinary shares are urged to consult their own tax advisors regarding the application of the PFIC rules to an investment in ADSs or ordinary shares.

Taxation of Dividends and Other Distributions on ADSs or Ordinary Shares

Subject to the PFIC rules discussed above, the gross amount of our distributions to a U.S. holder with respect to ADSs or ordinary shares (including any amount withheld in respect of PRC taxes) generally will be included in a U.S. holder’s gross income as foreign source dividend income on the date of receipt by the depository, in the case of ADSs, or by the U.S. holder, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under United States federal income tax principles). To the extent, if any, that the amount of any such distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of the U.S. holder’s tax basis in the ADSs or the ordinary shares (thereby increasing the amount of any gain or decreasing the amount of any loss realized on the subsequent sale or disposition of such ADSs or ordinary shares) and thereafter as capital gain. Further, any distributions treated as dividends generally will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other United States corporations.

[Table of Contents](#)

With respect to certain non-corporate U.S. holders, including individual U.S. holders, may be taxed on dividend payments at a special rate (the applicable capital gains rate) that is applicable to “qualified dividend income” provided that (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States, (2) we are not treated as a PFIC with respect to the U.S. holder (as discussed above) for our taxable year in which the dividend was paid and we were not a PFIC in the preceding taxable year, and (3) certain holding period requirements are met. Under Internal Revenue Service authority, our ordinary shares, or ADSs representing such shares, will be considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed (as our ADSs are currently) on the NASDAQ Global Select Market. U.S. holders should consult their own tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares. Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For foreign tax credit purposes, dividends paid on our ordinary shares will generally constitute “passive category income” but could, in the case of certain U.S. holders, constitute “general category income.”

If PRC withholding taxes apply to dividends paid to a U.S. holder with respect to our ADSs or ordinary shares, subject to certain conditions and limitations, such PRC withholding taxes will be treated as foreign taxes eligible for credit against the U.S. holder’s United States federal income tax liability. The rules governing foreign tax credits are complex, and U.S. holders should consult their tax advisors regarding the availability of a foreign tax credit in such U.S. holders’ particular circumstances.

Taxation of Disposition of Shares

Subject to the PFIC rules discussed above, a U.S. holder will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized for the ADS or ordinary share and the U.S. holder’s adjusted tax basis in the ADS or ordinary share. Such gain or loss will be capital gain or loss. A non-corporate U.S. holder, including an individual U.S. holder, who has held the ADS or ordinary share for more than one year will be eligible for reduced capital gains tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that a U.S. holder recognizes will be treated as United States source income (or loss, in the case of losses, subject to certain limitations) for foreign tax credit limitation purposes.

As described above under “Taxation -PRC Taxation,” any gain from the disposition of our ADSs or ordinary shares may be subject to PRC tax. In such event, a U.S. holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income for foreign tax credit purposes.

U.S. holders should consult their tax advisors regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and their ability to credit any PRC tax withheld in respect of a sale of our ADSs or ordinary shares against their United States federal income tax liability.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible United States backup withholding at a rate of 24% for taxable years beginning after December 31, 2017, and before January 1, 2026. Backup withholding will not apply, however, to a U.S. holder who furnishes a correct taxpayer identification number and makes any other required certifications or who is otherwise exempt from backup withholding and demonstrates such exemption if required. *U.S. holders who are required to establish their exempt status must provide such certification on Internal Revenue Service Form W-9. U.S. holders should consult their tax advisors regarding the application of the United States information reporting and backup withholding rules.*

Individual U.S. holders, and certain entities that are U.S. holders, that own “specified foreign financial assets” with an aggregate value in excess of \$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include our ADSs and ordinary shares) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in our ADSs and ordinary shares, including the application of the rules to their particular circumstances.

[Table of Contents](#)

Prospective purchasers of our ADSs or ordinary shares should consult their own tax advisor regarding the application of the United States federal income tax laws to their particular situations as well as any tax consequences resulting from purchasing, holding or disposing of our ADSs and Ordinary Shares, including the applicability and effect of the tax laws of any state, local or foreign jurisdiction and including estate, gift and inheritance laws.

Available Additional Information

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC.

Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information regarding the Washington, D.C. Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a Website at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

As permitted under NASDAQ Listing Rule 5250(d)(1)(C), we will post our annual reports filed with the SEC on our Web site at <http://investors.sohu.com>. We will not furnish hard copies of such reports to holders of our ADSs unless we are requested to do so in writing by a holder. Upon receipt of such a request, we will provide a hard copy of such reports to such requesting holder free of charge.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN CURRENCY EXCHANGE RATE RISK

While our reporting currency is the U.S. dollar, to date the majority of our revenues and costs are denominated in RMB and a significant portion of our assets and liabilities are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollar and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues and assets as expressed in our U.S. dollar financial statements will decline. For example, our revenues for 2020 were \$0.75 billion and our total assets as of December 31, 2020 were \$2.82 billion, representing revenue of RMB4.89 billion and total assets of RMB18.40 billion at the central parity rate of RMB6.5249 to \$1.00 on December 31, 2020. If the value of the RMB were to depreciate by approximately 10% to RMB7.1774 to \$1.00, the value of the same amount of RMB-denominated revenue and total assets in U.S. dollars would be \$0.68 billion and \$2.56 billion, respectively.

The RMB is currently freely convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment. In addition, commencing on July 21, 2005, China reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Under the managed floating exchange rate regime, the RMB is no longer pegged to the U.S. dollar, and the People’s Bank of China will announce the closing prices of foreign currencies such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each business day, and will make such prices the central parity for trading against the RMB on the following business day. On June 19, 2010, the People’s Bank of China announced that it had decided to proceed further with the reform of the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate and that emphasis would be placed on reflecting market supply and demand with reference to a basket of currencies. While so indicating its intention to make the RMB’s exchange rate more flexible, the People’s Bank of China ruled out any sharp fluctuations in the currency or a one-off adjustment. On March 17, 2014, the People’s Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market to 2%. In the long term, the RMB may appreciate or depreciate more significantly in value against the U.S. dollar or other foreign currencies, depending on the market supply and demand with reference to a basket of currencies.

[Table of Contents](#)

To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure. Accordingly, we may incur economic losses in the future due to foreign exchange rate fluctuations, which could have a negative impact on our financial condition and results of operations.

INFLATION RATE RISK

According to the National Bureau of Statistics of China, the consumer price index grew 2.5% in 2020, compared to an increase of 2.9% in 2019. There may be a further increase in the rate of inflation in the future, which could have an adverse effect on our business.

INTEREST RATE RISK

The basic objectives of our investment program are to protect the invested funds from excessive risk and to provide for liquidity that is sufficient to meet operating and investment cash requirements. Under the investment policy, our excess cash is invested in high-quality securities which are limited as to length of time to maturity and the amount of credit exposure.

Our exposure to interest rate risk primarily relates to the interest income generated from excess cash invested in demand deposits, and interest expense generated from loans to Changyou from Offshore banks. We have not used derivative financial instruments in our investment portfolio in order to reduce this risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

The following table summarizes the fees and charges that a holder of our ADSs may have to pay, directly or indirectly, pursuant to the Deposit Agreement and the types of services and the amount of the fees or charges paid therefore:

<i>Persons depositing or withdrawing shares or ADS holders must pay:</i>	<i>For:</i>
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none">• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
\$0.05 (or less) per ADS	<ul style="list-style-type: none">• Cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates• Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	<ul style="list-style-type: none">• Distribution of securities distributed to holders of deposited securities which are distributed by the depository to ADS holders
\$0.05 (or less) per ADSs per calendar year	<ul style="list-style-type: none">• Depository services
Registration or transfer fees	<ul style="list-style-type: none">• Transfer and registration of shares on our share register to or from the name of the depository or its agent when you deposit or withdraw shares

Table of Contents

Persons depositing or withdrawing shares or ADS holders must pay:

Expenses of the depositary

Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by the depositary or its agents for servicing the deposited securities

For:

- Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement)
- converting foreign currency to U.S. dollars
- As necessary

- As necessary

Pursuant to an agreement dated April 23, 2018, between us and the Bank of New York Mellon, the depositary for our ADSs, the depositary reimbursed us in cash for our expenses, including investor relations expenses, legal fees, accounting fees, NASDAQ listing application and listing fees, and related expenses, of \$nil, which figures are net of U.S. withholding tax, related to the establishment of an American depositary receipt facility.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

On May 31, 2018, effective at 4:30 PM Eastern Time (such date and time, the “Effective Time”), pursuant to a proposal (the “Liquidation Proposal”) for the dissolution of our predecessor Sohu.com Inc., a Delaware corporation, and adoption of a plan of complete liquidation and dissolution of Sohu.com Inc. that was approved by the stockholders of Sohu.com Inc. at a special meeting of stockholders held on May 29, 2018, Sohu.com Inc. was dissolved; all outstanding shares of the common stock of Sohu.com Inc. were cancelled; ADSs representing all our outstanding ordinary shares were distributed by Sohu.com Inc. on a share-for-share basis to the stockholders of Sohu.com Inc. as of immediately prior to the Effective Time.

The rights of a former stockholder of Sohu.com Inc. were governed by the Delaware General Corporation Law and the certificate of incorporation and bylaws of Sohu.com Inc. After the Effective Time, those stockholders became the holders of ADSs representing our ordinary shares, and the rights of our shareholders will be governed by the Companies Act of the Cayman Islands, our Memorandum and Articles of Association, and the Deposit Agreement. Many of the principal attributes of shares of Sohu.com Inc.’s common stock and our ordinary shares, including economic and voting rights, are similar. However, there are differences between rights under the Delaware General Corporation Law and under the Companies Act. In addition, there are differences between the certificate of incorporation and bylaws of Sohu.com Inc. and our Memorandum and Articles of Association. For a summary of certain material differences in the rights of a holder of shares of Sohu.com Inc. common stock and a holder of our ordinary shares, you may refer to the section titled “Comparison of Rights of Sohu Delaware Stockholders and Sohu Cayman Shareholders” in our Registration Statement on Form F-4 (File No. 333-224069) filed with the SEC on April 19, 2018 and in Sohu.com Inc.’s and our joint proxy statement/prospectus filed with the SEC on April 23, 2018, which section is incorporated herein by reference.

USE OF PROCEEDS

On July 17, 2000, our predecessor Sohu.com Inc. completed an underwritten IPO of shares of its common stock pursuant to a Registration Statement on Form S-1 (SEC file No. 333-96137) that became effective on July 10, 2000. There has been no change in the information regarding use of proceeds from the IPO that was included in our Annual Report on Form 20-F for the year ended December 31, 2019 that we filed with the SEC on April 21, 2020.

ITEM 15. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of the end of the period covered by this report (the “Evaluation Date”), have concluded that as of the Evaluation Date our disclosure controls and procedures were effective and designed to ensure that all material information relating to Sohu.com Limited required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

MANAGEMENT’S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2020.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The effectiveness of our internal control over financial reporting as of December 31, 2020 has been audited by PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm, as stated in their report which is included in this report on pages F-2.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have not been any changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the Company’s fiscal year ended December 31, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Dr. Dave Qi is an “audit committee financial expert” as defined under the applicable SEC rules and Rule 5605(c)(2) of the NASDAQ Listing Rules. Our Board of Directors has determined that all three members of our audit committee are “independent” under Rule 10A-3 under the Securities Exchange Act of 1934 and Rule 5605 of the NASDAQ Listing Rules.

ITEM 16B. CODE OF ETHICS

Our Board of Directors adopted a code of ethics and conduct that is applicable to all of our directors, officers and employees. A copy of our code of ethics and conduct is filed as an exhibit to this annual report, and is also posted on our Website at <http://investors.sohu.com>.

[Table of Contents](#)

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our principal external auditor, and its affiliates for the periods indicated below.

	For the year ended December 31,	
	2019	2020
Audit fees ⁽¹⁾	\$2,654	\$2,304
Tax fees ⁽²⁾	567	487
Audit related fees ⁽³⁾	142	67
All other fees	2	2
Total	\$3,365	\$2,860

- (1) “Audit fees” means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements and our internal controls over financial reporting.
- (2) “Tax fees” means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance and tax advice.
- (3) “Audit-related fees” means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditors related to the audit of our financial statements and our internal controls over financial reporting that are not reported under “Audit Fees” and consultation on accounting standards or transactions.

Audit Committee Pre-Approval Policies and Procedures

Our audit committee has adopted procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by PricewaterhouseCoopers Zhong Tian LLP before that firm is retained for such services. The pre-approval procedures are as follows:

- Any audit or non-audit service to be provided to us by the independent accountant must be submitted to the audit committee for review and approval, with a description of the services to be performed and the fees to be charged.
- The audit committee in its sole discretion then approves or disapproves the proposed services and documents such approval, if given, through written resolutions or in the minutes of meetings, as the case may be.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not Applicable.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

Not Applicable.

ITEM 16G. CORPORATE GOVERNANCE

Not Applicable.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

[Table of Contents](#)

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Sohu and its subsidiaries and VIEs are included at the end of this annual report.

Table of Contents

ITEM 19. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
1.1(1)	<u>Amended and Restated Memorandum and Articles of Association of the Registrant.</u>
2.1(22)	<u>Registrant's Specimen American Depositary Receipt (included in Exhibit 2.2).</u>
2.2(22)	<u>Amended and Restated Deposit Agreement, dated January 14, 2019, among the Registrant, the depository and all registered holders and beneficial owners of the American Depositary Shares.</u>
2.3(22)	<u>Shareholders' Rights Agreement, dated as of January 14, 2019, between the Registrant and The Bank of New York Mellon.</u>
4.1(2)	<u>Loan and Share Pledge Agreement dated November 19, 2001 among Sohu.com Inc., Dr. Charles Zhang, and Li Wei.</u>
4.2(3)	<u>Real Property Purchase Agreement between Sohu Era and Vision Hua Qing.</u>
4.3(4)	<u>Master Transaction Agreement, dated January 1, 2009, by and between Sohu.com Inc. and Changyou.com Limited.</u>
4.4(4)	<u>Project Cooperation Agreement, dated November 20, 2009, by and between Beijing Raycom Real Estate Development Co., Ltd. and Beijing Sohu Media.</u>
4.5(5)	<u>Amended and Restated Marketing Services Agreement, dated January 1, 2010, by and between Sohu.com Inc. and Changyou.com Limited.</u>
4.6(6)	<u>Changyou Project Cooperation Agreement dated August 23, 2010.</u>
4.7(6)	<u>Amended and Restated 2010 Stock Incentive Plan.</u>
4.8(6)	<u>Cooperation Agreement, dated September 30, 2010. (Portions of this exhibit have been omitted pursuant to rules of the SEC permitting a registrant to omit confidential information that is not material, the release of which could cause competitive harm to the registrant).</u>
4.9(7)	<u>Master Transaction Agreement, dated as of November 29, 2011, between Sohu.com Inc., Sohu Internet, Sohu Era, and Sohu Media, on the one hand, and Changyou.com Limited, Changyou.com HK, Gamespace, and Guanyou Gamespace, on the other hand.</u>
4.10(7)	<u>Amended and Restated Non-Competition Agreement, dated as of November 29, 2011, between Changyou.com Limited and Sohu.com Inc.</u>
4.11(7)	<u>Services Agreement, dated as of November 29, 2011, between Changyou Gamespace and Sohu Media.</u>
4.12(8)	<u>Sohu Video 2011 Share Incentive Plan.</u>
4.13(8)	<u>English Translation of Services and Maintenance Agreement, dated November 30, 2007, between AmazGame and Gamease.</u>
4.14(8)	<u>English Translation of Technology Support and Utilization Agreement, dated August 20, 2008, between AmazGame and Gamease.</u>
4.15(8)	<u>English Translation of Exclusive Technology Consulting and Services Agreement, dated September 26, 2010, between Sogou Technology and Sogou Information.</u>

Table of Contents

- 4.16(9) [English Translation of Loan Agreement, dated December 2, 2013, between Sogou Technology and Xiaochuan Wang.](#)
- 4.17(9) [English Translation of Share Pledge Agreement, dated December 2, 2013, among Sogou Technology, Sogou Information, and the shareholders of Sogou Information.](#)
- 4.18(9) [English Translation of Exclusive Equity Interest Purchase Rights Agreement, dated December 2, 2013, among Sogou Technology, Sogou Information, and the shareholders of Sogou Information.](#)
- 4.19(9) [English Translation of Business Operation Agreement, dated December 2, 2013, among Sogou Technology, Sogou Information, and the shareholders of Sogou Information.](#)
- 4.20(9) [English Translation of Power of Attorney, dated December 2, 2013, by the shareholders of Sogou Information in favor of Sogou Technology.](#)
- 4.21(9) [English Translation of Exclusive Technology Consulting and Services Agreement August 2, 2012, between Sohu Internet and Sohu Era.](#)
- 4.22(10) [2010 Share Incentive Plan of Sogou Inc. \(as amended and restated\)](#)
- 4.23(10) [2014 Share Incentive Plan of Changyou.com Limited.](#)
- 4.24(10) [English Translation of Loan Agreement, dated November 15, 2011, between Video Tianjin and Ye Deng, the shareholder of Tianjin Jinhua.](#)
- 4.25(10) [English Translation of Loan Agreement, dated December 4, 2013, between Video Tianjin and Xuemei Zhang, the shareholder of Tianjin Jinhua.](#)
- 4.26(10) [English Translation of Equity Pledge Agreement, dated November 15, 2011, between Video Tianjin and Ye Deng, the shareholder of Tianjin Jinhua.](#)
- 4.27(10) [English Translation of Equity Pledge Agreement, dated December 4, 2013, between Video Tianjin and Xuemei Zhang, the shareholder of Tianjin Jinhua.](#)
- 4.28(10) [English Translation of Exclusive Equity Interest Purchase Right Agreement, dated December 4, 2013, between Video Tianjin, Tianjin Jinhua and the shareholders of Tianjin Jinhua.](#)
- 4.29(10) [English Translation of Business Operation Agreement, dated December 4, 2013, among Video Tianjin, Tianjin Jinhua and the shareholders of Tianjin Jinhua.](#)
- 4.30(10) [English Translation of Powers of Attorney, dated December 4, 2013, by the shareholders of Tianjin Jinhua in favor of Video Tianjin.](#)
- 4.31(10) [English Translation of Exclusive Technology Consulting and Services Agreement, dated December 4, 2013, between Video Tianjin and Tianjin Jinhua.](#)
- 4.32(10) [Loan and Share Pledge Agreement, effective as of April 28, 2014, by and among Sohu.com Limited, Charles Zhang, and Wei Li. \(Portions of this exhibit have been omitted pursuant to rules of the SEC permitting a registrant to omit confidential information that is not material, the release of which could cause competitive harm to the registrant.\)](#)
- 4.33(11) [English Translation of Loan Agreement, dated April 15, 2015, between AmazGame and High Century.](#)

Table of Contents

- 4.34(11) [English Translation of Equity Interest Pledge Agreement, dated April 15, 2015 among AmazGame, Gamease and High Century.](#)
- 4.35(11) [English Translation of Equity Interest Purchase Right Agreement, dated April 15, 2015, between AmazGame, Gamease and High Century.](#)
- 4.36(11) [English Translation of Power of Attorney, dated April 15, 2015, by High Century in favor of AmazGame.](#)
- 4.37(11) [English Translation of Business Operation Agreement, dated April 15, 2015, among AmazGame, Gamease and High Century.](#)
- 4.38(12) [Loan and Share Pledge Agreement, dated July 1, 2015, among Sohu Media, Charles Zhang and Wei Li.](#)
- 4.39(12) [Loan and Share Pledge Agreement, dated July 1, 2015, among Focus HK, Charles Zhang and Wei Li.](#)
- 4.40(13) [English translation of Loan Agreement, dated July 6, 2015, between Gamespace and Changyou Star.](#)
- 4.41(13) [English translation of Equity Interest Purchase Right Agreement, dated July 6, 2015, among Gamespace, Guanyou Gamespace and Changyou Star.](#)
- 4.42(13) [English translation of Equity Pledge Agreements, dated July 6, 2015, among Gamespace, Guanyou Gamespace and Changyou Star.](#)
- 4.43(13) [English translation of Business Operation Agreement, dated July 6, 2015, among Gamespace, Guanyou Gamespace and Changyou Star.](#)
- 4.44(13) [English translation of Power of Attorney, dated July 6, 2015, executed by Changyou Star in favor of Gamespace.](#)
- 4.45(13) [English translation of Share Purchase Agreement, dated April 16, 2015, between Gamease and Shanghai Yong Chong.](#)
- 4.46(14) [English Translation of Loan Agreement, dated as of October 24, 2016, between AmazGame and Sohu Media.](#)
- 4.47(15) [English translation of Employment Agreement effective as of April 1, 2012, between Sohu Era and Joanna Lv.](#)
- 4.48(15) [English translation of Agreement Changing One Party to Employment Agreement effective as of April 1, 2013, among Sohu Era, Joanna Lv and Sohu Media.](#)
- 4.49(15) [English translation of Employment Agreement effective as of November 30, 2012, between Sogou Technology and Xiaochuan Wang.](#)
- 4.50(16) [English translation of Credit Agreement, dated May 19, 2017, between Ping An Bank and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.51(16) [English translation of Credit Agreement, dated May 19, 2017, between Ping An Bank and Fox Information Technology \(Tianjin\) Limited.](#)
- 4.52(16) [English translation of Credit Agreement, dated May 19, 2017, between Ping An Bank and Tianjin Jinhu Culture Development Co., Ltd.](#)
- 4.53(16) [English translation of Form of Loan Agreement.](#)
- 4.54(16) [English translation of Asset Pledge Agreement, dated May 19, 2017, between Ping An Bank and Beijing Sohu New Momentum Information Technology Co., Ltd.](#)

Table of Contents

- 4.55(16) [English translation of Asset Pledge Agreement, dated May 19, 2017, between Ping An Bank and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.56(16) [English translation of Asset Pledge Agreement, dated May 19, 2017, between Ping An Bank and Beijing Sohu New Era Information Technology Co., Ltd.](#)
- 4.57(16) [English translation of Guaranty Agreement, dated May 19, 2017, between Ping An Bank and Sohu.com \(Game\) Limited.](#)
- 4.58(16) [English translation of Commitment Letter, dated May 19, 2017, between Ping An Bank and Sohu.com Inc.](#)
- 4.59(16) [English translation of Strategic Cooperation Agreement, dated May 19, 2017, between Ping An Bank and Sohu.com Inc.](#)
- 4.60(17) [English translation of Amendment to the Original PAB Credit Agreements, dated September 1, 2017.](#)
- 4.61(17) [English translation of Credit Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Media Information Technology Co., Ltd., Fox Information Technology \(Tianjin\) Limited, and Beijing Sohu New Momentum Information Technology Co., Ltd.](#)
- 4.62(17) [English translation of Asset Pledge Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Momentum Information Technology Co., Ltd.](#)
- 4.63(17) [English translation of Asset Pledge Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.64(17) [English translation of Commitment Letter, dated September 7, 2017, between ICBC and Sohu.com Inc.](#)
- 4.65(18) [Voting Agreement dated September 16, 2013 among Sogou Inc., Sohu.com \(Search\) Limited, Photon, Xiaochuan Wang, and other members of Sogou Management, as amended as of August 11, 2017.](#)
- 4.66(18) [Voting Agreement dated as of August 11, 2017 among Sogou Inc., Sohu.com \(Search\) Limited, and THL A21 Limited.](#)
- 4.67(18) [Registration Rights Agreement dated as of August 11, 2017 among Sogou Inc., Sohu.com \(Search\) Limited, Photon and THL A21 Limited.](#)
- 4.68(18) [English Translation of Second Amended and Restated Mobile Browser Cooperation Agreement, dated September 25, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. \(Portions of this exhibit have been omitted pursuant to rules of the SEC permitting a registrant to omit confidential information that is not material, the release of which could cause competitive harm to the registrant.\)](#)
- 4.69(23) [English Translation of Cooperation Agreement between Weixin Official Platform and Sogou Search dated March 1, 2019, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Information.](#)
- 4.70(18) [English Translation of Amended and Restated Business Development and Resource Sharing Agreement, dated September 25, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information, Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. and Sohu.com Limited.](#)
- 4.70A(23) [English Translation of Supplemental Agreement to Amended and Restated Business Development and Resource Sharing Agreement, dated September 20, 2018, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information, Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. and Sohu.com Limited.](#)

Table of Contents

- 4.70B(23) [English Translation of Second Supplemental Agreement to Amended and Restated Business Development and Resource Sharing Agreement, dated October 24, 2019, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information, Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. and Sohu.com Limited.](#)
- 4.70C(26) [English Translation of Third Supplemental Agreement to Amended and Restated Business Development and Resource Sharing Agreement, dated February 14, 2021, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information, Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. and Sohu.com Limited.](#)
- 4.71(23) [English Translation of SOHU.COM Internet Plaza Office Building Lease, dated December 25, 2019, between Beijing Sohu New Era Information Technology Co., Ltd. and Beijing Sogou Network Technology Co., Ltd.](#)
- 4.72(23) [English Translation of SOHU.COM Internet Plaza Office Building Lease, dated December 25, 2019, between Beijing Sohu New Media Information Technology Co., Ltd. and Beijing Sogou Information Services Co., Ltd.](#)
- 4.73(23) [English Translation of SOHU.COM Internet Plaza Office Building Lease, dated December 25, 2019, between Beijing Sohu New Media Information Technology Co., Ltd. and Beijing Sogou Technology Development Co., Ltd.](#)
- 4.74(19) [Seventh Amended and Restated Memorandum of Association and Third Amended and Restated Articles of Association of Sogou Inc.](#)
- 4.75(19) [Sogou Inc. 2017 Share Incentive Plan, as amended and restated.](#)
- 4.76(22) [Employment Agreement effective as of May 1, 2018 between Sohu.com Limited and Joanna Lv.](#)
- 4.77(20) [English translation of Credit Facility Agreement, dated April 11, 2018, between CMB and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.78(20) [English translation of Asset Pledge Agreement, dated April 11, 2018, between CMB and Beijing Sohu New Era Information Technology Co., Ltd.](#)
- 4.79(20) [English translation of Asset Pledge Agreement, dated April 11, 2018, between CMB and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.80(20) [English translation of Commitment Letter, dated April 11, 2018, issued by the registrant to CMB.](#)
- 4.81(21) [Sohu.com Limited 2018 Share Incentive Plan.](#)
- 4.82(23) [Changyou.com Limited 2019 Share Incentive Plan.](#)
- 4.83(23) [Facility Agreement, dated April 3, 2020, among Sohu.com Limited, Sohu Game, and ICBC Tokyo.](#)
- 4.84(23) [Equitable Share Mortgage relating to shares in Sohu Game, dated April 3, 2020, between All Honest International Limited and ICBC Tokyo.](#)
- 4.85(23) [Equitable Share Mortgage relating to shares in Changyou, dated April 3, 2020, between Sohu Game and ICBC Tokyo.](#)
- 4.86(24) [Share Purchase Agreement, dated as of September 29, 2020, by and among Sohu.com Limited, Sohu.com \(Search\) Limited, and TitanSupernova Limited.](#)

Table of Contents

4.86A(25)	<u>Amendment No. 1 to Share Purchase Agreement, dated as of December 1, 2020, by and among Sohu.com Limited, Sohu.com (Search) Limited, and TitanSupernova Limited.</u>
4.87(24)	<u>Agreement and Plan of Merger, dated as of September 29, 2020, by and among Sogou Inc., THL A21 Limited, TitanSupernova Limited, and Tencent Mobility Limited.</u>
4.87A(25)	<u>Amendment No. 1 to Agreement and Plan of Merger, dated as of December 1, 2020, by and among Sogou Inc., THL A21 Limited, TitanSupernova Limited, and Tencent Mobility Limited.</u>
4.88(26)	<u>English Translation of Offshore Credit Agreement, dated December 4, 2020, between Changyou.com HK Limited and China Merchants Bank Co., Ltd.</u>
4.89(26)	<u>English Translation of Pledge Agreement, dated December 28, 2020, among Beijing AmazGame Age Internet Technology Co., Ltd. and Beijing Branch of China Merchants Bank Co., Ltd.</u>
4.90(26)	<u>English Translation of Pledge Agreement, dated January 15, 2021, among Beijing AmazGame Age Internet Technology Co., Ltd. and Beijing Branch of China Merchants Bank Co., Ltd.</u>
4.91(26)	<u>English Translation of Maximum Mortgage Agreement, December 10, 2020, among Beijing Sohu New Momentum Information Technology Co., Ltd. and Beijing Branch of China Merchants Bank Co., Ltd.</u>
4.92(26)	<u>English Translation of Maximum Mortgage Agreement, December 10, 2020, among Beijing Sohu New Media Information Technology Co., Ltd. and Beijing Branch of China Merchants Bank Co., Ltd.</u>
4.93(26)	<u>English Translation of Letter of Comfort, dated December 9, 2020, issued by Changyou.com Limited to Beijing Branch of China Merchants Bank Co., Ltd.</u>
4.94(26)	<u>English Translation of Statement of Undertaking, dated December 10, 2020, issued by Sohu.com Ltd to Beijing Branch of China Merchants Bank Co., Ltd.</u>
4.95(26)	<u>Employment Agreement effective as of January 1, 2021 between Changyou.com Limited and Dewen Chen.</u>
4.96(26)	<u>Employment Agreement effective as of January 1, 2021 between Sohu.com Limited and Charles Zhang.</u>
8.1(26)	<u>Principal Subsidiaries and VIEs of the Registrant.</u>
11.1(22)	<u>Code of Ethics and Conduct for Directors, Officers and Employees.</u>
12.1(26)	<u>Rule 13a-14(a)/15d-14(a) Certification of Dr. Charles Zhang.</u>
12.2(26)	<u>Rule 13a-14(a)/15d-14(a) Certification of Joanna Lv.</u>
13.1(26)	<u>Section 1350 Certification of Dr. Charles Zhang.</u>
13.2(26)	<u>Section 1350 Certification of Joanna Lv.</u>
15.1(26)	<u>Consent of Independent Registered Public Accounting Firm.</u>
15.2(26)	<u>Consent of Haiwen & Partners, PRC Counsel.</u>
101.INS(26)	Inline XBRL Instance Document—this instance document does not appear in the Interactive Data File because its XBRL tags embedded within the Inline XBRL document
101.SCH(26)	Inline XBRL Taxonomy Extension Schema Document
101.CAL(26)	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEI(26)	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB(26)	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE(26)	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104(26)	Cover Page Interactive Data File (embedded within the Inline XBRL document)

(1) Incorporated herein by reference to Sohu.com Limited's Registration Statement on Form F-4 (File No. 333-224069) filed with the SEC on April 19, 2018.

Table of Contents

- (2) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on March 15, 2002.
- (3) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2007.
- (4) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 26, 2010.
- (5) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on May 7, 2010.
- (6) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on November 8, 2010.
- (7) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on December 1, 2011.
- (8) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 28, 2013.
- (9) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 28, 2014.
- (10) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on March 2, 2015.
- (11) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on August 7, 2015.
- (12) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on November 6, 2015.
- (13) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 26, 2016.
- (14) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on October 24, 2016.
- (15) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 27, 2017.
- (16) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on May 19, 2017.
- (17) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on September 7, 2017.
- (18) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on November 3, 2017.
- (19) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 28, 2018.
- (20) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on April 16, 2018.
- (21) Incorporated herein by reference to Sohu.com Limited's Registration Statement on Form S-8 POS filed on June 1, 2018.
- (22) Incorporated herein by reference to Sohu.com Limited's Annual Report on Form 20-F filed on March 28, 2019.
- (23) Incorporated herein by reference to Sohu.com Limited's Annual Report on Form 20-F filed on April 21, 2020.
- (24) Incorporated herein by reference to Sohu.com Limited's Report of Foreign Private Issuer on Form 6-K furnished to the SEC on September 29, 2020.
- (25) Incorporated herein by reference to Amendment No. 1 to Schedule 13E-3 filed by Sogou Inc., Tencent Holdings Limited, THL A21 Limited, TitanSupernova Limited, Tencent Mobility Limited, Sohu.com Limited and Sohu.com (Search) Limited on December 1, 2020.
- (26) Filed herewith.

SOHU.COM LIMITED
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS:	Page
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2019 and 2020	F-5
Consolidated Statements of Comprehensive Income/(Loss) for the Years Ended December 31, 2018, 2019 and 2020	F-7
Consolidated Statements of Cash Flows for the Years Ended December 31, 2018, 2019 and 2020	F-9
Consolidated Statements of Changes in Equity for the Years Ended December 31, 2018, 2019 and 2020	F-11
Notes to Consolidated Financial Statements	F-14

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Sohu.com Limited

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Sohu.com Limited and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of comprehensive income/(loss), of cash flows and of changes in equity for each of the three years in the period ended December 31, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Changes in Accounting Principles

As discussed in Notes 2, 11 and 10 to the consolidated financial statements, the Company changed the manner in which it accounts for credit losses on certain financial instruments in 2020; the manner in which it accounts for leases in 2019; and the manner in which it accounts for financial instruments in 2018, respectively.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management’s Annual Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

[Table of Contents](#)

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Goodwill Impairment Assessment – Brand Advertising Reporting Unit

As described in Notes 2 and 13 to the consolidated financial statements, the Company's consolidated goodwill balance was \$48.4 million as of December 31, 2020, and the goodwill balance associated with the brand advertising reporting unit was \$38.2 million. Management conducts an impairment test as of October 1 of each year, or more frequently if events or circumstances indicate an impairment may exist. The impairment test for goodwill determines the fair value of the reporting unit and compares it to the reporting unit's carrying value. Fair value is estimated by management using the income approach and the market approach. Under the income approach, the fair value of the brand advertising reporting unit was based on the present value of the estimated future cash flows that the reporting unit is expected to generate over its remaining life. Cash flow projections were based on management's estimates of revenue growth rates, profitability, and the discount rate. The market approach considered earnings multipliers based on market data of other comparable companies engaged in similar business. Determining the fair value of a reporting unit involves the use of significant estimates and assumptions. Based on the operating results of the brand advertising business as of October 1, 2020, management determined that the estimated fair value of the reporting unit exceeded its carrying value and therefore, no impairment was recorded.

The principal considerations for our determination that performing procedures relating to the goodwill impairment assessment of the brand advertising reporting unit is a critical audit matter are (i) the significant judgment by management when developing the fair value measurement of the reporting unit; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's significant assumptions related to revenue growth rates, profitability, the discount rate, and comparable companies' earnings multipliers; and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's goodwill impairment assessment, including controls over the development of the significant assumptions related to the valuation of the Company's reporting units. These procedures also included, among others, (i) testing management's process for developing the fair value estimate of the brand advertising reporting unit; (ii) evaluating the appropriateness of management's income and market approaches; (iii) testing the completeness, accuracy and relevance of underlying data used in the models; and (iv) evaluating the reasonableness of significant assumptions used by management related to the revenue growth rates, profitability, the discount rate, and comparable companies' earnings multipliers. Evaluating management's assumptions related to the revenue growth rates, profitability, the discount rate and comparable companies' earnings multipliers involved evaluating whether the assumptions used by management were reasonable considering (i) the current and past performance of the reporting unit; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit. Professionals with specialized skill and knowledge were used to assist in the evaluation of management's models and certain significant assumptions, including the discount rate and comparable companies' earnings multipliers.

Allowance for Credit Losses of the Financing Receivables Classified as Assets Held for Sale

As described in Note 2 to the consolidated financial statements, in 2020, Sohu entered into a Share Purchase Agreement with TitanSupernova Limited ("Buyer") under which Sohu agreed to sell all of its shares and voting rights in Sogou Inc. ("Sogou") to the Buyer. Management has reflected the results of Sogou segment as discontinued operations and classified the assets and liabilities of Sogou segment as assets and liabilities held for sale in the consolidated financial statements for all periods presented. As of December 31, 2020, the assets held for sale included the financing receivables of \$41.9 million, which are subject to credit losses. The Company adopted the new accounting standard on credit losses on January 1, 2020 using the modified retrospective approach and recorded a \$2.5 million increase to the allowance for credit losses of the Financing Receivables based on the current portfolios of such receivables and forecasts of future macroeconomic conditions. As of December 31, 2020, allowance for credit losses related to financing receivables classified as assets held for sale was \$6.4 million. The allowance for credit losses represents management's estimate of the lifetime expected credit losses inherent in the finance receivables as of the balance sheet date. For financing receivables that share similar risk characteristics, mainly based on delinquency levels, the estimate of the lifetime expected credit losses is made on a collective assessment basis using measurement models and management judgment. The significant assumptions used in the process of estimating the allowance for credit losses include portfolio composition, loan delinquencies, loss severity and recoveries, and application of macroeconomic forecasts.

[Table of Contents](#)

The principal considerations for our determination that performing procedures relating to the allowance for credit losses of the financing receivables classified as assets held for sale is a critical audit matter are (i) the significant judgments by management in the determination of the expected loss rates for the financing receivables classified as assets held for sale; (ii) a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit evidence relating to management's determination of allowance for credit losses of financing receivables classified as assets held for sale, and (iii) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls relating to management's determination of allowance for credit losses of the financing receivables classified as assets held for sale. These procedures also included, among others, (i) testing management's process for estimating the allowance for credit losses; (ii) evaluating the appropriateness of the models and methodology used; (iii) testing the completeness, accuracy and relevance of underlying data used in the models, including historical data and current data in estimating the expected loss rates at the date of the consolidated financial statements, and (iv) evaluating the reasonableness of significant assumptions used by management related to portfolio composition, loan delinquencies, loss severity and recoveries, and application of macroeconomic forecasts. Evaluating management's assumptions related to the expected loss rates involved evaluating whether the significant assumptions used by management were reasonable considering (i) the historical default rates with the appropriateness of historical period selection, historical credit loss experience and current status of the loans, lifetime recovery information and other relevant data; and (ii) application of macroeconomic forecasts with the consideration of changes in future economics and market environment. Professionals with specialized skill and knowledge were used to assist in evaluating the appropriateness of management's methodology and significant assumptions related to the expected credit loss rates.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
March 18, 2021

We have served as the Company's auditor since 1999.

SOHU.COM LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands)

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 162,662	\$ 217,057
Restricted cash	3,290	330,791
Short-term investments	321,483	100,745
Accounts receivable, net (including \$2,006 and \$2,096, respectively, due from a related party as of December 31, 2019 and 2020)	126,081	87,521
Prepaid and other current assets (including \$33,329 and \$34,123, respectively, due from a related party as of December 31, 2019 and 2020)	97,531	106,590
Assets held for sale (current)	1,304,621	1,412,168
Total current assets	<u>2,015,668</u>	<u>2,254,872</u>
Fixed assets, net	337,682	337,674
Goodwill	47,390	48,434
Long-term investments, net	30,987	31,634
Intangible assets, net	9,922	4,842
Restricted time deposits	240	101,519
Prepaid non-current assets	1,882	1,006
Other assets	30,413	42,140
Assets held for sale (non-current)	217,680	0
Total assets	<u>\$2,691,864</u>	<u>\$2,822,121</u>
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (“VIEs”) without recourse to the Company of \$8,595 and \$11,145, respectively, as of December 31, 2019 and 2020)	\$ 121,318	\$ 107,611
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$50,913 and \$46,888, respectively, as of December 31, 2019 and 2020)	157,861	157,513
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$38,754 and \$43,076, respectively, as of December 31, 2019 and 2020)	50,321	52,055
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$6,420 and \$7,698, respectively, as of December 31, 2019 and 2020)	86,666	100,826
Tax payables (including tax payables of consolidated VIEs without recourse to the Company of \$3,666 and \$4,422, respectively, as of December 31, 2019 and 2020)	25,997	28,006
Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2019 and 2020)	114,528	315,550

Table of Contents

Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of \$21,598 and \$25,028, respectively, as of December 31, 2019 and 2020, and due to a related party of \$33,536 and \$34,123, respectively, as of December 31, 2019 and 2020.)	91,065	106,171
Liabilities held for sale (current) (including liabilities held for sale (current) of consolidated VIEs without recourse to the Company of \$138,303 and \$187,712, respectively, as of December 31, 2019 and 2020)	453,111	416,998
Total current liabilities	1,100,867	1,284,730
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of nil as of both December 31, 2019 and 2020)	767	3,202
Long-term bank loans (including long-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2019 and 2020)	0	92,000
Long-term tax liabilities (including long-term tax liabilities of consolidated VIEs without recourse to the Company of \$13,220 and \$14,134, respectively, as of December 31, 2019 and 2020)	181,640	188,760
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$1,998 and \$2,014, respectively, as of December 31, 2019 and 2020)	95,904	217,593
Other long-term liabilities (including other long-term liabilities of consolidated VIEs without recourse to the Company of nil and \$286, respectively, as of December 31, 2019 and 2020)	83	3,855
Liabilities held for sale (non-current) (including liabilities held for sale (non-current) of consolidated VIEs without recourse to the Company of \$1,130 and nil, respectively, as of December 31, 2019 and 2020)	5,686	0
Total long-term liabilities	284,080	505,410
Total liabilities	\$1,384,947	\$1,790,140
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Sohu.com Limited shareholders' equity:		
Ordinary Shares: \$0.001 par value per share (75,400 shares authorized; 39,269 shares and 39,306 shares, respectively, issued and outstanding as of December 31, 2019 and 2020)	\$ 39	\$ 39
Additional paid-in capital	948,201	952,733
Accumulated other comprehensive income	24,351	29,189
Accumulated deficit	(544,137)	(634,592)
Total Sohu.com Limited shareholders' equity	428,454	347,369
Noncontrolling interest	878,463	684,612
Total shareholders' equity	1,306,917	1,031,981
Total liabilities and shareholders' equity	\$2,691,864	\$2,822,121

The accompanying notes are an integral part of these consolidated financial statements.

SOHU.COM LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)
(In thousands, except per share data)

	Year Ended December 31,		
	2018	2019	2020
Revenues:			
Brand advertising (including revenues generated from a related party of \$224, \$174 and \$227, respectively, for 2018, 2019 and 2020)	\$ 232,339	\$ 175,056	\$ 146,526
Online games	389,788	440,902	536,684
Others (including revenues generated from a related party of \$2,187, \$3,796 and \$3,752, respectively, for 2018, 2019 and 2020)	68,048	57,845	66,680
Total revenues	<u>690,175</u>	<u>673,803</u>	<u>749,890</u>
Cost of revenues:			
Brand advertising	184,473	126,406	105,604
Online games	60,981	88,992	91,526
Others (including cost generated from a related party of \$237, \$57 and nil respectively, for 2018, 2019 and 2020)	43,562	28,249	20,307
Total cost of revenues	<u>289,016</u>	<u>243,647</u>	<u>217,437</u>
Gross profit	<u>401,159</u>	<u>430,156</u>	<u>532,453</u>
Operating expenses:			
Product development	246,155	234,852	241,941
Sales and marketing	236,898	204,665	159,787
General and administrative	70,129	54,591	57,354
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	16,369	7,245	0
Total operating expenses	<u>569,551</u>	<u>501,353</u>	<u>459,082</u>
Operating profit/(loss)	<u>(168,392)</u>	<u>(71,197)</u>	<u>73,371</u>
Other income, net	30,701	7,963	25,993
Interest income (including interest income generated from a related party of \$1,051, \$1,015 and \$810, respectively, for 2018, 2019 and 2020)	16,036	6,103	7,369
Interest expense (including interest expense generated from a related party of \$519, \$818, and \$588, respectively, for 2018, 2019 and 2020)	(17,538)	(14,370)	(6,234)
Exchange difference	3,301	1,430	(3,800)
Income/(loss) before income tax expense /(benefit)	<u>(135,892)</u>	<u>(70,071)</u>	<u>96,699</u>
Income tax expense /(benefit)	(14,586)	28,428	133,226
Net loss from continuing operations	<u>(121,306)</u>	<u>(98,499)</u>	<u>(36,527)</u>
Net income/(loss) from discontinued operations, net of tax	53,947	55,108	(91,793)
Net loss	<u>(67,359)</u>	<u>(43,391)</u>	<u>(128,320)</u>
Less: Net income from continuing operations attributable to the noncontrolling interest shareholders	41,732	58,223	18,448
Less: Net income/(loss) from discontinued operations attributable to the noncontrolling interest shareholders	50,991	47,722	(60,656)
Net loss from continuing operations attributable to Sohu.com Limited	<u>(163,038)</u>	<u>(156,722)</u>	<u>(54,975)</u>
Net income/(loss) from discontinued operations attributable to Sohu.com Limited	2,956	7,386	(31,137)
Net loss attributable to Sohu.com Limited	<u><u>\$(160,082)</u></u>	<u><u>\$(149,336)</u></u>	<u><u>\$ (86,112)</u></u>

[Table of Contents](#)

Net loss	\$ (67,359)	\$ (43,391)	\$(128,320)
Foreign currency translation adjustments	<u>(37,339)</u>	<u>(13,069)</u>	<u>11,972</u>
Other comprehensive income/(loss)	<u>(37,339)</u>	<u>(13,069)</u>	<u>11,972</u>
Comprehensive loss	<u>(104,698)</u>	<u>(56,460)</u>	<u>(116,348)</u>
Less: Comprehensive income/(loss) attributable to noncontrolling interest shareholders	61,376	93,244	(35,074)
Comprehensive loss attributable to Sohu.com Limited	<u>(166,074)</u>	<u>(149,704)</u>	<u>(81,274)</u>
Basic net (loss)/income per share attributable to Sohu.com Limited			
Continuing operations	\$ (4.18)	\$ (3.99)	\$ (1.39)
Discontinued operations	<u>0.07</u>	<u>0.19</u>	<u>(0.79)</u>
Net loss per share	<u>(4.11)</u>	<u>(3.80)</u>	<u>(2.18)</u>
Shares used in computing basic net (loss)/income per share attributable to Sohu.com Limited	<u>38,959</u>	<u>39,249</u>	<u>39,452</u>
Diluted net (loss)/income per share attributable to Sohu.com Limited			
Continuing operations	\$ (4.20)	\$ (4.01)	\$ (1.40)
Discontinued operations	<u>0.07</u>	<u>0.18</u>	<u>(0.79)</u>
Net loss per share	<u>(4.13)</u>	<u>(3.83)</u>	<u>(2.19)</u>
Shares used in computing diluted net (loss)/income per share attributable to Sohu.com Limited	<u>38,959</u>	<u>39,249</u>	<u>39,452</u>

The accompanying notes are an integral part of these consolidated financial statements.

SOHU.COM LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2018	2019	2020
Cash flows from operating activities:			
Net loss	\$ (67,359)	\$ (43,391)	\$ (128,320)
Net income/(loss) from discontinued operations, net of tax	53,947	55,108	(91,793)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of intangible assets and purchased video content in prepaid expense	58,064	38,842	14,386
Depreciation	32,109	28,225	25,466
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	16,369	7,245	0
Share-based compensation expense	(12,108)	2,350	14,480
Impairment of long-term investment	0	23,154	384
Impairment of other intangible assets and other assets	10,797	5,903	4,156
Research and development expense allocation	(671)	0	0
Investment loss/(gain) from equity investments	3,968	(2,960)	465
Allowance for credit losses	5,449	4,725	4,884
Gain from sale of equity investments	(134)	0	0
Change in fair value of financial instruments	11,201	(1,185)	1,784
Others	152	(786)	(390)
Changes in assets and liabilities:			
Accounts receivable	10,998	(13,152)	39,979
Prepaid and other assets	5,758	5,574	(10,276)
Accounts payable	(1,628)	(160)	(3,358)
Receipts in advance and deferred revenue	(524)	(3,689)	(96)
Tax liabilities	(79,238)	(2,253)	8,683
Deferred tax	43,194	11,202	102,626
Accrued liabilities and other short-term liabilities	(34,593)	(22,803)	(3,252)
Net cash provided by/(used in) continuing operating activities	<u>(52,143)</u>	<u>(18,267)</u>	<u>163,394</u>
Net cash provided by/(used in) discontinued operating activities	<u>136,168</u>	<u>228,857</u>	<u>(68,187)</u>
Net cash provided by operating activities	84,025	210,590	95,207
Cash flows from investing activities:			
Purchase of fixed assets	(25,217)	(15,081)	(6,339)
Purchase of intangible and other assets	(96,317)	(50,583)	(27,441)
Purchase of long-term investments	(727)	(12,290)	(114)
Return of funds from a third party	5,264	0	0
Proceeds from financial instruments	1,783,772	883,991	1,423,600
Purchase of financial instruments	(1,499,491)	(1,022,049)	(1,206,777)
Proceeds received from sale of equity investment	12,073	0	0
Other cash proceeds related to investing activities	789	1,198	1,464
Net cash provided by/(used in) continuing investing activities	<u>180,146</u>	<u>(214,814)</u>	<u>184,393</u>
Net cash provided by/(used in) discontinued investing activities	<u>(639,390)</u>	<u>(228,406)</u>	<u>235,374</u>

[Table of Contents](#)

Net cash provided by/(used in) investing activities	(459,244)	(443,220)	419,767
Cash flows from financing activities:			
Proceeds from long-term bank loans	251,738	0	92,000
Proceeds from short-term bank loans	74,056	58,035	315,550
Exercise of share-based awards in subsidiaries	11	7	0
Repayments of loans from banks	(67,011)	(371,973)	(113,952)
Acquisition of noncontrolling interests in Changyou Merger	0	0	(191,803)
Distribution of Changyou dividend to noncontrolling interest shareholders	(162,461)	(165,817)	0
Net cash provided by/(used in) continuing financing activities	96,333	(479,748)	101,795
Net cash provided by/(used in) discontinued financing activities	1	(33,415)	(8,209)
Net cash provided by/(used in) financing activities	96,334	(513,163)	93,586
Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted time deposits	(19,544)	(10,047)	36,984
Net increase/(decrease) in cash, cash equivalents, restricted cash, and restricted time deposits	(298,429)	(755,840)	645,544
Cash, cash equivalents, restricted cash and restricted time deposits at beginning of year	1,368,295	1,069,866	314,026
Cash, cash equivalents, restricted cash and restricted time deposits at end of year	<u>\$1,069,866</u>	<u>\$ 314,026</u>	<u>\$ 959,570</u>
Less: Cash, cash equivalents, restricted cash and restricted time deposits of discontinued operations, end of year	187,867	147,834	310,203
Cash, cash equivalents, restricted cash and restricted time deposits of continuing operations, end of year	<u>881,999</u>	<u>166,192</u>	<u>649,367</u>
Supplemental cash flow disclosures from continuing operations:			
Cash paid for income taxes	(38,737)	(27,781)	(35,705)
Cash paid for interest expense	(12,563)	(12,947)	(3,778)
Barter transactions	6,587	4,357	4,039
Supplemental schedule of non-cash investing activity from continuing operations:			
Changes in payables and other liabilities related to fixed assets and intangible assets additions	(31,406)	(24,568)	(20,964)

The accompanying notes are an integral part of these consolidated financial statements.

SOHU.COM LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended December 31, 2018
(In thousands)

	<u>Sohu.com Limited Shareholders' Equity</u>						
	<u>Total</u>	<u>Ordinary Shares</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Accumulated Deficit</u>	<u>Noncontrolling Interest</u>
Beginning balance	\$1,817,237	45	1,098,455	(143,858)	38,212	(242,220)	1,066,603
Impact of adoption of new accounting standards*	0	0	0	0	(7,501)	7,501	0
Share-based compensation expense	2,095	0	(5,559)	0	0	0	7,654
Settlement/Adjustment of share-based awards in subsidiary	1,811	0	9,839	0	0	0	(8,028)
Distribution of Changyou dividend to noncontrolling interest shareholders	(162,461)	0	0	0	0	0	(162,461)
Disposal of a majority-owned subsidiary	(2,113)	0	0	0	0	0	(2,113)
Liquidation of Sohu.com Inc.	0	(6)	(143,852)	143,858	0	0	0
Net income/(loss) attributable to Sohu.com Limited and noncontrolling interest shareholders	(67,359)	0	0	0	0	(160,082)	92,723
Accumulated other comprehensive loss	(37,339)	0	0	0	(5,992)	0	(31,347)
Others	1,080	0	0	0	0	0	1,080
Ending balance	<u>\$1,552,951</u>	<u>39</u>	<u>958,883</u>	<u>0</u>	<u>24,719</u>	<u>(394,801)</u>	<u>964,111</u>

* For details see Note 10 - Fair Value Measurements - Financial Instruments Measured at Fair Value - Equity Investments.

The accompanying notes are an integral part of these consolidated financial statements.

SOHU.COM LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended December 31, 2019
(In thousands)

	<u>Sohu.com Limited Shareholders' Equity</u>						
	<u>Total</u>	<u>Ordinary Shares</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Accumulated Deficit</u>	<u>Noncontrolling Interest</u>
Beginning balance	\$1,552,951	39	958,883	0	24,719	(394,801)	964,111
Share-based compensation expense	18,251	0	1,045	0	0	0	17,206
Settlement/Adjustment of share-based awards in subsidiary	698	0	2,555	0	0	0	(1,857)
Distribution of Changyou dividend to noncontrolling interest shareholders	(166,507)	0	0	0	0	0	(166,507)
Net income/(loss) attributable to Sohu.com Limited and noncontrolling interest shareholders	(43,391)	0	0	0	0	(149,336)	105,945
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(42,016)	0	(14,282)	0	0	0	(27,734)
Accumulated other comprehensive loss	(13,069)	0	0	0	(368)	0	(12,701)
Ending balance	<u>\$1,306,917</u>	<u>39</u>	<u>948,201</u>	<u>0</u>	<u>24,351</u>	<u>(544,137)</u>	<u>878,463</u>

The accompanying notes are an integral part of these consolidated financial statements.

SOHU.COM LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended December 31, 2020
(In thousands)

	Sohu.com Limited Shareholders' Equity						
	Total	Ordinary Shares	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Noncontrolling Interest
Beginning balance	\$1,306,917	39	948,201	0	24,351	(544,137)	878,463
Share-based compensation expense	18,115	0	1,935	0	0	0	16,180
Settlement/Adjustment of share-based awards in subsidiary	1,862	0	2,476	0	0	0	(614)
Modification of share-based awards in Changyou	(10,506)	0	0	0	0	0	(10,506)
Net loss attributable to Sohu.com Limited and noncontrolling interest shareholders	(128,320)	0	0	0	0	(86,112)	(42,208)
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(8,301)	0	(2,847)	0	0	0	(5,454)
Acquisition of a partially-held subsidiary	642	0	31	0	0	0	611
Impact of adoption of new accounting standards*	(6,656)	0	0	0	0	(4,343)	(2,313)
Acquisition of noncontrolling interests in Changyou Merger	(191,803)	0	2,937	0	(38,059)	0	(156,681)
Accumulated other comprehensive loss	50,031	0	0	0	42,897	0	7,134
Ending balance	\$1,031,981	39	952,733	0	29,189	(634,592)	684,612

* For details see Note 2 – Summary of Significant Accounting Policies – Accounts Receivable, Net – Allowance of credit losses.

The accompanying notes are an integral part of these consolidated financial statements.

SOHU.COM LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY AND NATURE OF OPERATIONS

Nature of Operations and Organization

Sohu.com Limited was incorporated in the Cayman Islands on May 30, 2003 as a direct wholly-owned subsidiary of Sohu.com Inc., which was incorporated in Delaware in August 1996 and was the ultimate parent company of the Sohu Group (as defined below) until its dissolution on May 31, 2018. On July 17, 2000, Sohu.com Inc. completed an initial public offering (“IPO”) of shares of its common stock on NASDAQ trading under the symbol “SOHU.” On May 31, 2018, pursuant to a proposal for the dissolution of Sohu.com Inc. and adoption of a plan of complete liquidation and dissolution of Sohu.com Inc. that was approved by the stockholders of Sohu.com Inc. at a special meeting of stockholders held on May 29, 2018, Sohu.com Inc. was dissolved, all outstanding shares of the common stock of Sohu.com Inc. were delisted and cancelled, and American Depositary Shares (“ADSs”) representing all outstanding ordinary shares of Sohu.com Limited were distributed on a share-for-share basis to the stockholders of Sohu.com Inc. On June 1, 2018 Sohu.com Limited’s ADSs began trading on the NASDAQ Global Select Market under the same “SOHU” symbol in place of the common stock of Sohu.com Inc. As a result, Sohu.com Limited replaced Sohu.com Inc. as the top-tier, publicly-traded holding company of the Sohu Group (as defined below). Sohu.com Limited (or its predecessor Sohu.com Inc., as applicable), together with its subsidiaries and consolidated VIEs, are collectively referred to herein as the “Sohu Group,” the “Group” or the “Company.”

The Sohu Group is a leading Chinese online media, game and search service group providing comprehensive online products and services on PCs and mobile devices in China. The Sohu Group, which consists of “Sohu,” which when referred to in this report, unless the context requires otherwise, excludes the businesses and the corresponding subsidiaries and VIEs of Changyou.com Limited (“Changyou”) and Sogou Inc. (“Sogou”), Changyou and Sogou. Changyou and Sogou are the indirect controlled subsidiaries of the Company. Sohu is a leading Chinese language online media content and services provider; Changyou is a leading online game developer and operator in China that engages primarily in the development, operation and licensing of online games for PCs and mobile devices; and Sogou is an innovator in search and a leader in China’s Internet industry. Most of the Sohu Group’s operations are conducted through the Group’s China-based subsidiaries and VIEs.

Changyou completed its IPO on NASDAQ in April 2009, trading under the symbol “CYOU.” On April 17, 2020, Sohu acquired all outstanding shares of Changyou that it did not already beneficially own pursuant to the merger (the “Changyou Merger”) of an indirect newly-formed wholly-owned subsidiary (“Changyou Merger Co.”) with and into Changyou, with Changyou being the company surviving the Changyou Merger, and resulting in Changyou being delisted from NASDAQ and continuing as a privately-held company wholly-owned directly and indirectly by Sohu.

Because prior to the completion of Changyou Merger, Sohu.com Limited, or its predecessor Sohu.com Inc., was the controlling shareholder of Changyou, Sohu.com Limited consolidated Changyou in its consolidated financial statements, and recognized noncontrolling interests reflecting economic interests in Changyou held by Changyou’s former shareholders or beneficial owners other than Sohu.com Limited. As a result of the completion of Sohu’s acquisition of the noncontrolling interests in Changyou on April 17, 2020, Sohu.com Limited holds 100% of the combined total of Changyou’s outstanding ordinary shares and 100% of the total voting power in Changyou and consolidates Changyou in its consolidated financial statements with no noncontrolling interests being recognized except for noncontrolling interests reflecting economic interests in Changyou’s subsidiaries.

Sogou completed its IPO on the New York Stock Exchange (the “NYSE”) in November 2017 trading under the symbol “SOGO.” On September 29, 2020, Sogou entered into a definitive agreement and plan of merger (as amended on December 1, 2020, the “Sogou Merger Agreement”) with THL A21 Limited (“THL”), TitanSupernova Limited (“Tencent Merger Sub”), and Tencent Mobility Limited (“TML”), each of which is a direct or indirect wholly-owned subsidiary of Tencent Holdings Limited (“Tencent”), which contemplates that Tencent Merger Sub will be merged with and into Sogou in an all-cash going-private transaction (the “Sogou Merger”). Also on September 29, 2020, Sohu and its indirect wholly-owned subsidiary Sohu.com (Search) Limited (“Sohu Search”) entered into a share purchase agreement with Tencent Merger Sub (as amended on December 1, 2020, the “Tencent/Sohu Sogou Share Purchase Agreement”), pursuant to which Sohu agreed to sell all of the Sogou Class A Ordinary Shares and Sogou Class B Ordinary Shares owned by Sohu to Tencent, shortly before the effectiveness of the Sogou Merger (the “Tencent/Sohu Sogou Share Purchase”). If the Tencent/Sohu Sogou Share Purchase and the Sogou Merger are completed, Sohu will no longer have any beneficial ownership interest in Sogou, and Sogou will become an indirect wholly-owned subsidiary of Tencent and will no longer be listed on the NYSE.

As Sohu.com Limited, or its predecessor Sohu.com Inc., is the controlling shareholder of Sogou, Sohu.com Limited consolidates Sogou in its consolidated financial statements as discontinued operations, and recognizes noncontrolling interests reflecting economic interests in Sogou held by shareholders or beneficial owners other than Sohu.com Limited (the “Sogou noncontrolling shareholders”).

[Table of Contents](#)

The consolidated financial statements of Sohu.com Limited represent the continuation of the financial statements of Sohu.com Inc., reflecting the assets and liabilities, accumulated deficit and other equity balances of Sohu.com Inc. immediately before Sohu.com Inc.'s dissolution on May 31, 2018.

Through the operation of Sohu and Changyou, the Sohu Group generates brand advertising revenues, online game revenues, and other revenues. Brand advertising and online games are the Sohu Group's core businesses. The Sohu Group also generates search and search-related advertising revenues through the discontinued operations of Sogou.

The principal subsidiaries and VIEs through which the Group conducts its business operations as of December 31, 2020 are described below:

<u>Name of Entity</u>	<u>Date of Incorporation/Acquisition</u>	<u>Place of Incorporation/Acquisition</u>	<u>Effective Interest held</u>
Subsidiaries:			
For Sohu:			
Sohu.com (Hong Kong) Limited ("Sohu HK")	Incorporated on April 19, 2000	Hong Kong	100%
Beijing Sohu New Era Information Technology Co., Ltd. ("Sohu Era")	Incorporated on July 25, 2003	People's Republic of China	100%
Sohu.com (Search) Limited ("Sohu Search")	Incorporated on October 28, 2005	Cayman Islands	100%
Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media")	Incorporated on June 19, 2006	People's Republic of China	100%
Sohu.com (Game) Limited ("Sohu Game")	Incorporated on February 11, 2008	Cayman Islands	100%
Beijing Sohu New Momentum Information Technology Co., Ltd. ("Sohu New Momentum")	Incorporated on May 31, 2010	People's Republic of China	100%
Fox Video Limited ("Sohu Video")	Incorporated on July 26, 2011	Cayman Islands	100%
Fox Information Technology (Tianjin) Limited ("Video Tianjin")	Incorporated on November 17, 2011	People's Republic of China	100%
Sohu Focus Limited ("Sohu Focus")	Incorporated on July 11, 2013	Cayman Islands	100%
For Changyou:			
Changyou.com Limited ("Changyou")	Incorporated on August 6, 2007	Cayman Islands	100%
Changyou.com (HK) Limited ("Changyou HK")	Incorporated on August 13, 2007	Hong Kong	100%
Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame")	Incorporated on September 26, 2007	People's Republic of China	100%
Beijing Changyou Gamespace Software Technology Co., Ltd. ("Gamespace")	Incorporated on October 29, 2009	People's Republic of China	100%
Changyou.com Korea LLC ("Changyou Korea")	Incorporated on January 7, 2010	Korea	100%
Beijing Changyou Chuangxiang Software Technology Co., Ltd. ("Changyou Chuangxiang")	Incorporated on November 8, 2016	People's Republic of China	100%
For Sogou:			
Sogou Inc. ("Sogou")	Incorporated on December 23, 2005	Cayman Islands	34%
Sogou (BVI) Limited ("Sogou BVI")	Incorporated on December 23, 2005	British Virgin Islands	34%
Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology")	Incorporated on February 8, 2006	People's Republic of China	34%
Sogou Hong Kong Limited ("Sogou HK")	Incorporated on December 12, 2007	Hong Kong	34%
Vast Creation Advertising Media Services Limited ("Vast Creation")	Acquired on November 30, 2011	Hong Kong	34%
Beijing Sogou Network Technology Co., Ltd ("Sogou Network")	Incorporated on March 29, 2012	People's Republic of China	34%

Table of Contents

Sogou (Shantou) Internet Microcredit Co., Ltd. (“Sogou Microcredit”)	Incorporated on November 22, 2017	People’s Republic of China	34%
Sogou (Hangzhou) Intelligent Technology Co., Ltd. (“Sogou Hangzhou”)	Incorporated on April 28, 2018	People’s Republic of China	34%
Shantou Ying Zhong Bai Fu Financing Guarantee Co., Ltd. (“Sogou Financing Guarantee”)	Incorporated on July 24, 2019	People’s Republic of China	34%

VIEs:

For Sohu:

Beijing Century High-Tech Investment Co., Ltd. (“High Century”)	Incorporated on December 28, 2001	People’s Republic of China	100%
Beijing Heng Da Yi Tong Information Technology Co., Ltd. (“Heng Da Yi Tong”)	Incorporated on February 7, 2002	People’s Republic of China	100%
Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”)	Incorporated on July 31, 2003	People’s Republic of China	100%
Beijing Sohu Donglin Advertising Co., Ltd. (“Donglin”)	Incorporated on May 17, 2010	People’s Republic of China	100%
Tianjin Jinhua Culture Development Co., Ltd (“Tianjin Jinhua”)	Incorporated on November 24, 2011	People’s Republic of China	100%
Beijing Focus Interactive Information Service Co., Ltd. (“Focus Interactive”)	Incorporated on July 15, 2014	People’s Republic of China	100%

For Changyou:

Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”)	Incorporated on August 23, 2007	People’s Republic of China	100%
Shanghai ICE Information Technology Co., Ltd. (“Shanghai ICE”)	Acquired on May 28, 2010	People’s Republic of China	100%
Beijing Guanyou Gamespace Digital Technology Co., Ltd. (“Guanyou Gamespace”)	Incorporated on August 5, 2010	People’s Republic of China	100%

For Sogou:

Beijing Sogou Information Service Co., Ltd. (“Sogou Information”)	Incorporated on December 28, 2005	People’s Republic of China	34%
Chengdu Easypay Technology Co., Ltd. (“Chengdu Easypay”)	Incorporated on January 19, 2015	People’s Republic of China	34%

Sohu’s Business

Brand Advertising Business

Sohu’s main business is the brand advertising business, which offers to users, over Sohu’s matrices of Chinese language online media, various content, products and services across multiple Internet-enabled devices such as mobile phones, tablets and PCs. The majority of Sohu’s products and services are provided in China through Sohu Media Portal, Sohu Video and Focus.

- **Sohu Media Portal.** Sohu Media Portal is a leading online news and information provider in China. It provides users with access to comprehensive content through the mobile phone application Sohu News APP, the mobile portal m.sohu.com and www.sohu.com for PCs;
- **Sohu Video.** Sohu Video is an online video content and service provider in China through the mobile phone application Sohu Video APP, tv.sohu.com and the PC video application ifox for PCs; and
- **Focus.** Focus (www.focus.cn) is an online real estate information and services provider in China.

Revenues generated by the brand advertising business are classified as brand advertising revenues in the Sohu Group’s consolidated statements of comprehensive income.

[Table of Contents](#)

Other Sohu Business

Sohu also engages in the other business, which consists primarily of paid subscription services, interactive broadcasting services, and sub-licensing of purchased video content to third parties. Revenues generated by Sohu from the other business are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Changyou's Business

Changyou's business lines consist of the online game business and the platform channel business, which consists primarily of online advertising and mobile game distribution services. Before ceasing its operations in August 2019, Changyou also operated a cinema advertising business, which consisted primarily of the acquisition from operators of movie theaters, and the sale to advertisers, of pre-film advertising slots.

Online Game Business

Changyou's online game business offers PC games and mobile games to game players. All of Changyou's games are operated under the item-based revenue model, meaning that game players can play the games for free, but may choose to pay for virtual items, which are non-physical items that game players can purchase and use within a game, such as gems, pets, fashion items, magic medicine, riding animals, hierograms, skill books and fireworks. Revenues derived from the operation of online games are classified as online game revenues in the Sohu Group's consolidated statements of comprehensive income.

PC Games

PC games are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used. Changyou's dominant game is Tian Long Ba Bu ("TLBB"), a PC based client-end game. For the year ended December 31, 2020, revenues from TLBB were \$309.7 million, accounting for approximately 58% of Changyou's online game revenues, approximately 56% of Changyou's total revenues and approximately 41% of the Sohu Group's total revenues.

Mobile Games

Mobile games are played on mobile devices and require an Internet connection. In the second quarter of 2017, Changyou launched a mobile game, Legacy TLBB ("Legacy TLBB Mobile"), which is operated by Tencent under license from Changyou. For the year ended December 31, 2020, revenues from Legacy TLBB Mobile were \$88.3 million, accounting for approximately 16% of Changyou's online game revenues, approximately 16% of Changyou's total revenues, and approximately 12% of the Sohu Group's total revenues.

Platform Channel Business

Changyou's platform channel business consists primarily of the operation of the 17173.com Website. Prior to RaidCall's ceasing operations in March 2019 and the sale of MoboTap Inc. ("MoboTap") in March 2018, Changyou's platform channel business also included RaidCall and MoboTap.

17173.com Website

The 17173.com Website provides news, electronic forums, online videos, and other online game information services to game players, as well as mobile game distribution services. Changyou generates online advertising revenues from providing advertising services to third-party advertisers on the 17173.com Website and online game revenues from mobile game distribution services.

RaidCall

Prior to ceasing operations in March 2019, RaidCall provided online music and entertainment services, primarily in Taiwan. IVAS revenues that were generated by RaidCall are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Cinema Advertising Business (Discontinued)

Prior to ceasing its operations in August 2019, Changyou also operated a cinema advertising business, which consisted primarily of the acquisition from operators of movie theaters, and the sale to advertisers, of pre-film advertising slots. Revenues that were generated by Changyou's cinema advertising business are reflected as discontinued operations in the Sohu Group's consolidated statements of comprehensive income.

Changyou's Share Structure

As a result of the completion of the Changyou Merger on April 17, 2020, Sohu held, and continues to hold, 100% of the combined total of Changyou's outstanding ordinary shares and 100% of the total voting power in Changyou. Sohu consolidates Changyou in its consolidated financial statements and, prior to the completion of the Changyou Merger on April 17, 2020, also provided for noncontrolling interests reflecting ordinary shares in Changyou held by shareholders other than the Company ("Changyou noncontrolling shareholders").

Sogou's Business (Discontinued)

On September 29, 2020, Sohu, Sohu Search, and Tencent Merger Sub entered into the Tencent/Sohu Sogou Share Purchase Agreement. Upon the signing of the Tencent/Sohu Sogou Share Purchase Agreement, Sogou met the criteria for discontinued operations. Accordingly, the results of operations for Sogou's search and search-related business and other business have been excluded from Sohu's results from continuing operations. Revenues that were generated by Sogou's search and search-related business and other business are reflected as discontinued operations in the Sohu Group's consolidated statements of comprehensive income.

Search and Search-related Business

The search and search-related business consists primarily of search and search-related advertising services offered by Sogou. Search and search-related advertising services enable advertisers' promotional links to be displayed on Sogou's search results pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. Sogou's advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. The search and search-related business benefits from Sogou's collaboration with Tencent Holdings Limited (together with its subsidiaries, "Tencent"), which provides Sogou access to traffic and content generated from products and services provided by Tencent.

Other Sogou Business

Sogou also offers IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, and offers other products and services, including smart hardware products and online lending and microcredit services.

Initial Public Offering of Sogou

On November 13, 2017, Sogou completed its IPO on the NYSE, trading under the symbol "SOGO." Proceeds to Sogou from the IPO were approximately \$622.1 million, after deducting underwriting discounts and commissions and offering expenses. Following the completion of Sogou's IPO, pursuant to the Voting Agreement among Sohu, Tencent, and Sogou (the "Voting Agreement") that took effect upon the completion of Sogou's IPO, Sohu has the right to appoint a majority of Sogou's Board of Directors, and Sohu continues to consolidate Sogou in Sohu's financial statements and provide for noncontrolling interests reflecting ordinary shares in Sogou held by shareholders other than Sohu. In the fourth quarter of 2017, Sohu recognized a one-time credit to additional paid-in capital of \$278.4 million in shareholders' equity in Sohu's consolidated balance sheets to reflect the increase in the value of Sohu's equity in Sogou that resulted from the completion of Sogou's IPO.

Sogou's Share Structure

Sogou's Ordinary Shares are divided into Sogou Class A Ordinary Shares and Sogou Class B Ordinary Shares. Holders of Sogou Class A Ordinary Shares and holders of Sogou Class B Ordinary Shares have identical rights with the exception of voting and conversion rights. Each Sogou Class A Ordinary Share is entitled to one vote per share and is not convertible. Each Sogou Class B Ordinary Share is entitled to ten votes per share and is convertible into one Sogou Class A Ordinary Share at any time.

As of December 31, 2020, Sogou had a combined total of 387,590,916 Sogou Class A Ordinary Shares and Sogou Class B Ordinary Shares issued and outstanding, consisting of:

- (i) Sohu: 127,200,000 Sogou Class B Ordinary Shares held by Sohu for its own account, and 3,717,250 Sogou Class A Ordinary Shares held by Sohu for the purpose of issuance upon the exercise of outstanding share-based awards and future share-based awards;

Table of Contents

- (ii) Tencent: 151,557,875 Sogou Class B Ordinary Shares;
- (iii) Photon: 24,686,863 Sogou Class A Ordinary Shares; and
- (iv) Shareholders other than Sohu, Tencent, and Photon: 80,428,928 Sogou Class A Ordinary Shares, including Sogou Class A Ordinary Shares represented by Sogou ADSs.

The total number of Sogou outstanding shares listed above include 1,899,000 Sogou Class A Ordinary Shares that are outstanding for legal purposes, but have been determined to be Sogou treasury stock for accounting purposes.

Voting Agreement between Sohu, Tencent and Sogou

Pursuant to the Voting Agreement, Sohu and Tencent agreed that, subject to certain exceptions, (1) within three years following the completion of Sogou's IPO, Sohu will vote all Sogou Class B Ordinary Shares and any Sogou Class A Ordinary Shares held by it and Tencent will vote 45,578,896 of its Sogou Class B Ordinary Shares to elect a Board of Directors consisting of seven directors, four of whom will be appointed by Sohu, two of whom will be appointed by Tencent, and the seventh of whom will be Sogou's then chief executive officer, and (2) after three years following the completion of Sogou's IPO, Sohu will be entitled to choose to change the size and composition of Sogou's Board of Directors, subject to Tencent's right to appoint at least one director. The effect of these provisions is to give Sohu the power to appoint a majority of Sogou's Board of Directors, and to give Tencent the power to appoint two directors within three years following the completion of Sogou's IPO and at least one director after three years after the completion of Sogou's IPO. The Voting Agreement also provides that, subject to certain conditions, for so long as Sohu and Tencent together hold more than 50% of the total voting power of the Sogou Class A Ordinary Shares and the Sogou Class B Ordinary Shares, Sohu or Tencent may remove and replace any director appointed by it. These provisions of the Voting Agreement are also reflected in Sogou's Third Amended and Restated Memorandum of Association ("Sogou's Amended and Restated Memorandum of Association") and Seventh Amended and Restated Articles of Association ("Sogou's Amended and Restated Articles of Association").

Due to the additional voting power of the Sogou Class B Ordinary Shares held by Sohu and Tencent, as of the date of this report Sohu holds approximately 34% of the total of Sogou's outstanding Class A and Class B Ordinary Shares and controls approximately 44% of the total voting power of the combined total of Sogou's outstanding Class A and Class B Ordinary Shares; Tencent has an indirect shareholding of approximately 39% of the total of Sogou's outstanding Class A and Class B Ordinary Shares and controls approximately 52% of the total voting power of the combined total of Sogou's outstanding Class A and Class B Ordinary Shares; and Sohu and Tencent together have the power to decide all matters that may be brought to a vote of Sogou's shareholders.

The Voting Agreement and Sogou's Amended and Restated Articles of Association also specify that for so long as Sohu or Tencent holds not less than 15% of Sogou's issued shares (calculated on a fully diluted basis), consent from the holder of 15% or more (either or both of Sohu or Tencent, as the case may be) will be required (1) to amend Sogou's Amended and Restated Memorandum of Association or Amended and Restated Articles of Association, (2) to make material changes in Sogou's principal lines of business, (3) to issue any additional Sogou Class B Ordinary Shares, (4) to create any new class or series of shares that is pari passu with or senior to the Sogou Class A Ordinary Shares, (5) for Sogou to approve a liquidation, dissolution or winding up of Sogou, or a merger or consolidation resulting in a change in control, or any disposition of all or substantially all of Sogou's assets, or (6) for Sogou to enter into any transactions with affiliates of Sohu, other than in the ordinary course of business. Of these corporate actions that are subject to consent of Sohu or Tencent (as applicable), shareholder approval is required under the Companies Law of the Cayman Islands for any amendment of Sogou's Amended and Restated Memorandum of Association or Amended and Restated Articles of Association, any winding-up of Sogou Inc., or any merger or consolidation with a third-party entity. The Voting Agreement and Sogou's Amended and Restated Articles of Association further provide that if Sogou's shareholders have voted in favor of any of these actions requiring the approval of Sogou's shareholders but consent from Sohu or Tencent (as applicable) has not been obtained, then the holders of all classes of Sogou's shares who have voted against such action will be deemed to have such number of votes as are equal to the aggregate number of votes cast in favor of such actions plus one additional vote. Under these provisions of the Voting Agreement and Sogou's Amended and Restated Articles of Association, if an action is proposed for which the consent of either Tencent or Sohu is required, the failure to obtain the consent of Tencent or Sohu will have the effect of the proposed action's not being approved, even if Sogou's other shareholders approve it.

The Voting Agreement and Sogou's Amended and Restated Articles of Association also specify that if at any time Sohu alone holds more than 50% of the total voting power of the Sogou Class A Ordinary Shares and the Sogou Class B Ordinary Shares, the voting arrangements with respect to the size and composition of Sogou's Board of Directors will be automatically suspended until such time within five years after the completion of Sogou's IPO as Sohu's voting power again drops to 50% or less, in which case the original voting arrangements will be reinstated, provided that Tencent will only be required to vote the lower of 45,578,896 Sogou Class B Ordinary Shares held by it or such number as would give Sohu combined voting power of 50.1%. If such a suspension continues after the fifth anniversary of the completion of Sogou's IPO, the voting arrangements with respect to the size and composition of Sogou's Board of Directors will terminate.

[Table of Contents](#)

All of the Sogou Class B Ordinary Shares held by Sohu will be converted into Sogou Class A Ordinary Shares if there is a transaction resulting in change of control of Sohu that was not approved by Sohu's board of directors, if specified competitors of Tencent control Sohu, or if a majority of Sohu's board of directors consist of nominees of specified competitors of Tencent. The provisions with respect to the size and composition of Sogou's Board of Directors set out in the Voting Agreement and Sogou's Amended and Restated Articles of Association will terminate upon occurrence of any such event. Such arrangements will also terminate (1) if Dr. Charles Zhang, the chairman of the board of directors of Sohu and the chief executive officer, both ceases being the chairman of the board of directors of Sohu and ceases being the single largest beneficial owner of Sohu's outstanding shares; (2) if Sohu transfers 30% or more of the Sogou Class B Ordinary Shares that Sohu held upon the completion of Sogou's IPO; (3) if Sogou fails to provide irrevocable instructions to the person maintaining Sogou's register of members to accept instructions from Tencent, under certain circumstances, with respect to the conversion of Sogou Class B Ordinary Shares held by Sohu; (4) or Sogou changes, without Tencent's consent, the person that maintains Sogou's register of members; (5) or if Tencent ceases to own any Sogou Class B Ordinary Shares.

Under the Voting Agreement, Sohu and Tencent are subject to certain restrictions on transfer of their Sogou Class A and Class B Ordinary Shares. In particular, a transfer of Sogou Class B Ordinary Shares by either Sohu or Tencent, respectively, to any person or entity that is not a direct or indirect wholly-owned subsidiary of Sohu or Tencent, respectively, will cause such Sogou Class B Ordinary Shares to be converted into Sogou Class A Ordinary Shares.

Voting Agreement between Sohu, Photon and Sogou Management

Sohu may be deemed to have beneficial ownership attributable to shared voting power of Sogou Class A Ordinary Shares beneficially owned by Photon Group Limited ("Photon"), an investment vehicle of the Company's Chairman and Chief Executive Officer Charles Zhang, Sogou's chief executive officer Xiaochuan Wang, and certain other members of the Sogou management, as a result of a voting agreement by and among Sohu, Photon, Mr. Wang and the other members of Sogou management, pursuant to which Photon, Mr. Wang, and the other members of Sogou Management have agreed to vote their Sogou Class A Ordinary Shares (not including shares acquired by Mr. Wang in the public market following Sogou's IPO) to elect Sohu's designees to Sogou's Board of Directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Discontinued operations

A component of a reporting entity or a group of components of a reporting entity that are disposed of or meet the criteria to be classified as held for sale should be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is classified as held for disposal or has been disposed of, if the component either (1) represents a strategic shift or (2) has a major impact on an entity's financial results and operations. In the statement of financial position, the assets and liabilities of the discontinued operation are presented separately in the asset and liability sections, respectively, of the statement of financial position and prior periods are presented on a comparative basis. In the consolidated statements of comprehensive income, results from discontinued operations are reported separately from the income and expenses from continuing operations and prior periods are presented on a comparative basis. Cash flows for discontinued operations are presented separately in the consolidated statements of cash flows. In order to present the financial effects of the continuing operations and discontinued operations, revenues and expenses arising from intra-group transactions are eliminated except for those revenues and expenses that are considered to continue after the disposal of the discontinued operations.

Accounting Standards

The consolidated financial statements have been prepared in accordance with United States of America generally accepted accounting principles ("U.S. GAAP") to reflect the financial position and results of operations of the Sohu Group.

Use of Estimates

The preparation of these financial statements requires the Sohu Group to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an on-going basis, the Group evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Identified below are the accounting policies that reflect the Group's most significant estimates and judgments, and those that the Group believes are the most critical to fully understanding and evaluating its consolidated financial statements.

Basis of Consolidation and Recognition of Noncontrolling Interest

The Sohu Group's consolidated financial statements include the accounts of the Company and its subsidiaries and consolidated VIEs. All intra-Group transactions are eliminated except for revenues and expenses arising from intra-group transactions that are considered to continue after the disposal of the discontinued operations.

VIE Consolidation

The Sohu Group's VIEs are wholly or partially owned by certain employees of the Group as nominee shareholders. For consolidated VIEs, management made evaluations of the relationships between the Sohu Group and the VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, the Group controls the shareholders' voting interests in these VIEs. As a result of such evaluation, management concluded that the Sohu Group is the primary beneficiary of its consolidated VIEs.

Noncontrolling Interest Recognition

Noncontrolling interests are recognized to reflect the portion of the equity of subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholders. Currently, the noncontrolling interests in the Sohu Group's consolidated financial statements primarily consist of noncontrolling interests for Changyou and Sogou.

Noncontrolling Interest for Changyou

Prior to the completion of the Changyou Merger on April 17, 2020, Sohu consolidated Changyou in its consolidated financial statements, and also recognized noncontrolling interest reflecting the economic interest in Changyou held by Changyou noncontrolling shareholders. Changyou's net income/(loss) attributable to the Changyou noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income, based on the noncontrolling shareholders' share of the economic interest in Changyou. Changyou's cumulative results of operations attributable to the Changyou noncontrolling shareholders, along with changes in shareholders' equity, adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and adjustment for changes in the Company's ownership in Changyou, are recorded as noncontrolling interest in the Sohu Group's consolidated balance sheets. As a result of the completion of Sohu's acquisition of the noncontrolling interests in Changyou on April 17, 2020, Sohu holds 100% of the combined total of Changyou's outstanding ordinary shares and 100% of the total voting power in Changyou. Sohu consolidates Changyou in its consolidated financial statements, and no noncontrolling interests are recognized except for noncontrolling interests reflecting economic interests in Changyou's subsidiaries held by shareholders other than Changyou.

Noncontrolling Interest for Sogou

Prior to the completion of Sogou's IPO in November 2017, the Company controlled the election of a majority of the Board of Directors of Sogou pursuant to a shareholders' agreement that expired upon the completion of the IPO. Following the completion of Sogou's IPO, pursuant to the Voting Agreement and Sogou's Amended and Restated Articles of Association, the Company still has the right to appoint a majority of Sogou's Board of Directors.

As Sogou's controlling shareholder, the Company consolidates Sogou in its consolidated financial statements as discontinued operations, and recognizes noncontrolling interest reflecting economic interests in Sogou held by Sogou noncontrolling shareholders. Sogou's net income/(loss) attributable to the Sogou noncontrolling interest shareholders is recorded as net income/(loss) from discontinued operations attributable to the noncontrolling interest shareholders in the Company's consolidated statements of comprehensive income.

Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, based on their share of the economic interest in Sogou, along with changes in shareholders' equity and adjustment for share-based compensation expense in relation to share-based awards that are unvested and vested but not yet settled and adjustment for changes in the Sohu Group's ownership percentage in Sogou, are recorded as noncontrolling interest in the Sohu Group's consolidated balance sheets.

[Table of Contents](#)

Segment Reporting

The Sohu Group's segments are business units that offer different services and are reviewed separately by the chief operating decision maker (the "CODM"), or the decision-making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is the Company's Chief Executive Officer.

Revenue Recognition

Impact of Adoption of ASC 606

On January 1, 2018, the Sohu Group adopted ASC 606, applying the modified retrospective method to contracts that were not completed as of January 1, 2018. The adoption of ASC 606 did not have a material impact on the Company's accumulated deficit as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior-period amounts are not adjusted and continue to be reported in accordance with the Group's historic accounting under ASC 605.

Under ASC 605, advertising-for-advertising barter transactions for which the fair value of the advertising services was not determinable were recorded at the carrying amount of the advertising surrendered, since the Group did not settle such barter transactions with the counterparties in cash. As ASC 605 has been superseded by ASC 606 on this subject, advertising-for-advertising barter transactions are to be recorded at the fair value of the advertising received by reference to the fair value of advertising services provided to other customers.

Under ASC 606, revenues are recognized when control of the promised goods or services is transferred to the Group's customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services. The recognition of revenues involves certain management judgments, including estimated lives of virtual items purchased by game players, the estimation of the fair value of an advertising-for-advertising barter transaction, allocation of upfront license fees for licensed-out games between license and post-sale services, and volume sales rebates. The Group does not believe that significant management judgments are involved in revenue recognition, but the amount and timing of the Group's revenues could be different for any period if management made different judgments or utilized different estimates.

The following table presents the Group's revenues disaggregated by products and services:

	Year Ended December 31, 2018 (in thousands)		
	Sohu	Changyou	Total
Brand advertising:			
Sohu Media Portal	\$127,612	0	127,612
Sohu Video	53,886	0	53,886
Focus	31,144	0	31,144
17173.com Website	0	19,697	19,697
Online games:			
PC games	0	236,743	236,743
Mobile games	0	151,737	151,737
Other games	0	1,308	1,308
Others	61,974	6,074	68,048
Total	<u>\$274,616</u>	<u>415,559</u>	<u>690,175</u>

	Year Ended December 31, 2019 (in thousands)		
	Sohu	Changyou	Total
Brand advertising:			
Sohu Media Portal	\$ 94,692	0	94,692
Sohu Video	34,529	0	34,529
Focus	32,120	0	32,120
17173.com Website	0	13,715	13,715
Online games:			
PC games	0	267,752	267,752
Mobile games	0	172,718	172,718
Other games	0	432	432
Others	57,082	763	57,845
Total	<u>\$218,423</u>	<u>455,380</u>	<u>673,803</u>

[Table of Contents](#)

	Year Ended December 31, 2020 (in thousands)		
	Sohu	Changyou	Total
Brand advertising:			
Sohu Media Portal	\$ 86,293	0	86,293
Sohu Video	25,312	0	25,312
Focus	23,281	0	23,281
17173.com Website	0	11,640	11,640
Online games:			
PC games	0	353,737	353,737
Mobile games	0	182,947	182,947
Other games	0	0	0
Others	66,658	22	66,680
Total	<u>\$ 201,544</u>	<u>548,346</u>	<u>749,890</u>

Brand Advertising Revenues

Brand advertising revenues are generated from brand advertising services. Certain customers may receive sales rebates, which are accounted for as variable consideration. The Group estimates the annual expected revenue volume from each agent with reference to its historical results. Sales rebates will reduce revenues recognized. The Group recognizes revenue for the amount of fees it receives from its advertisers, after deducting sales rebates and net of value-added tax (“VAT”). There have not been any significant changes, and the Group believes that there will not be significant changes, to its estimates of variable consideration.

Brand Advertising Revenues***Revenue Recognition of Multiple Performance Obligations***

The Group’s contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenues to each performance obligation based on its relative standalone selling price. The Group generally determines the standalone selling price of each distinct performance obligation based on the prices charged to customers when sold on a standalone basis. Where a standalone selling price is not directly observable, the Group generally estimates the selling price based on the prices at which performance obligations of a similar nature and geography are charged to customers. Most of such contracts have all performance obligations completed within the same quarter.

Pricing Model

Through mobile devices and PCs, the Group provides advertisement placements to its advertisers on different Internet platforms and in different formats, which include banners, links, logos, buttons, full screen, pre-roll, mid-roll, post-roll video screens, pause video screens, loading page ads, news feed ads, in-feed video infomercial ads and other formats.

Table of Contents

Currently the Group has three main types of pricing models, consisting of the Fixed Price model, the Cost Per Impression (“CPM”) model and the Cost Per Click (“CPC”) model.

(i) Fixed Price model

Under the Fixed Price model, a contract is signed to establish a fixed price for the advertising services to be provided. Given that the advertisers benefit from displayed advertisements evenly over the period the advertisements are displayed, the Group recognizes revenue on a straight-line basis over the period of display, provided all revenue recognition criteria have been met.

(ii) CPM model

Under the CPM model, the unit price for each qualifying display is fixed and stated in the contract with the advertiser. A qualifying display is defined as the appearance of an advertisement, where the advertisement meets criteria specified in the contract. Given that the fees are priced consistently throughout the contract and the unit prices are fixed in accordance with the Group’s pricing practices for similar advertisers, the Group recognizes revenue based on the fixed unit prices and the number of qualifying displays upon their occurrence, provided all revenue recognition criteria have been met.

(iii) CPC model

Under the CPC model, there is no fixed price for advertising services stated in the contract with the advertiser and the unit price for each click is auction-based. The Group charges advertisers on a per-click basis, when the users click on the advertisements. Given that the fees are priced consistently throughout the contract and the unit prices are fixed in accordance with the Group’s pricing practices for similar advertisers, the Group recognizes revenue based on qualifying clicks and unit price upon the occurrence of the clicks, provided all revenue recognition criteria have been met.

Online Game Revenues

Changyou’s online game revenues are generated primarily from its self-operated and licensed-out PC games and mobile games. Prior to the sale of the MoboTap business in 2018, Changyou also generated a small amount of revenues from online card and board games. All of Changyou’s games are operated under the item-based revenue model, where the basic game play functions are free of charge and players are charged for purchases of in-game virtual items, including those with a predetermined expiration time and perpetual virtual items.

Changyou is the principal of its self-operated games. Changyou hosts the games on its own servers and is responsible for the sale and marketing of the games as well as customer service. Accordingly, revenues are recorded gross of revenue sharing-payments to third-party developers and/or mobile APP stores, but net of VAT and discounts to game card distributors where applicable. Changyou obtains revenues from the sale of in-game virtual items. Revenues are recognized over time for virtual items with estimated lives and upon use for items that are consumed immediately. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues would be impacted.

PC Games

Proceeds from Changyou’s self-operated PC games are collected from players and third-party game card distributors through sales of Changyou’s game points on its online payment platform and prepaid game cards.

Changyou’s self-operated PC games are either developed in house or licensed from third-party developers. For licensed PC games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance, pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are recorded in Changyou’s cost of revenues.

Mobile Games

Self-operated Mobile Games

For self-operated mobile games, Changyou sells game points to its game players via third-party mobile APP stores. The mobile APP stores in turn pay Changyou proceeds after deducting their share of pre-agreed revenue-sharing amounts.

Changyou’s self-operated mobile games are either developed in house or licensed from or jointly developed with third-party developers. For licensed and jointly-developed mobile games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance, pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to mobile application stores and third-party developers are included in Changyou’s cost of revenues.

[Table of Contents](#)

Licensed Out Mobile Games

Changyou also authorizes third parties to operate its mobile games. Licensed out games include mobile games developed in house, such as Changyou's mobile game Legacy TLBB Mobile, and mobile games jointly developed with third-party developers. Changyou receives monthly revenue-based royalty payments from the third-party licensee operators. Changyou receives additional up-front license fees from certain third-party licensee operators who are entitled to an exclusive right to operate Changyou's games in specified geographic areas. Since Changyou is obligated to provide post-sale services ("PCS"), the initial license fees are allocated between the license and PCS based on relative standalone selling prices. The amount allocated to the license is recognized as revenue upon the commencement of the license period, given that Changyou's intellectual property rights subject to the license are considered to be functional and the licensee has the right to use such intellectual property rights as they exist at the point when the license is granted, and the amount allocated to PCS is recognized as revenue ratably over the license period. Monthly revenue-based royalty payments are recognized when the relevant services are delivered, provided that collectability is reasonably assured. Changyou views the third-party licensee operators as Changyou's customers and recognizes revenues on a net basis, as Changyou does not have the primary responsibility for fulfillment and acceptability of the game services. Changyou remits to the third-party developers a pre-agreed percentage of revenues and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are included in Changyou's cost of revenues or product development expenses.

Other Revenues

Sohu

Other revenues attributable to Sohu consist primarily of revenues from paid subscription services, interactive broadcasting services, and sub-licensing of purchased video content to third parties.

Changyou

Other revenues attributable to Changyou are primarily from IVAS.

Revenues generated from Changyou's IVAS were derived primarily from software applications for PCs and mobile devices offered by RaidCall, which ceased operations in March 2019. Prior to March 2018, IVAS revenues also included revenues generated from the Dolphin Browser operated by MoboTap. Revenues from IVAS are recognized during the period the services are rendered or items are consumed under the gross method, as Changyou is the principal obligor for provision of the services.

As of August 12, 2019, the Sohu Group ceased consolidating Changyou's cinema advertising business in its consolidated financial statements and, accordingly, the financial results of the cinema advertising business are excluded from the Sohu Group's results from continuing operations and are presented in separate line items as discontinued operations in the consolidated financial statements, and retrospective adjustments to the Sohu Group's historical audited consolidated financial statements have been made in order to provide a consistent basis of comparison.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenue recognized prior to invoicing, when the Group has satisfied its performance obligations and has the unconditional right to payment. The allowance for credit losses is estimated based upon the Group's assessment of various factors, including past collection experience and consideration of current and future economic conditions and other factors that may affect the Group's customers' ability to pay. Contract assets as of December 31, 2020 were not material. The allowance for credit losses was \$7.0 million and \$4.0 million, respectively, as of December 31, 2020 and December 31, 2019.

Receipts in advance and deferred revenue relate to unsatisfied performance obligations at the end of the period and primarily consist of fees received from game players in the online game business and from advertisers in the brand advertising business. Due to the generally short-term duration of the contracts, the majority of the performance obligations are satisfied in the following reporting period. The amount of revenue recognized that was included in the receipts in advance and deferred revenue balance at the beginning of the period was \$42.6 million for the year ended December 31, 2020.

There was no significant change in the contract assets and contract liability balances during 2020.

[Table of Contents](#)

Revenue recognized in 2020 from performance obligations related to prior years was not material.

Practical Expedients

The Group has used the following practical expedients as allowed under ASC 606:

- (i) The transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied has not been disclosed, as substantially all of the Group's contracts have a duration of one year or less.
- (ii) Payment terms and conditions vary by contract type, although terms generally include a requirement of prepayment or payment within one year or less. In instances where the timing of revenue recognition differs from the timing of invoicing, the Group has determined that its contracts generally do not include a significant financing component.
- (iii) The Group applied the portfolio approach in determining the commencement date of consumption and the estimated lives of virtual items for the recognition of games revenue, given that the effect of applying a portfolio approach to a group game players' behaviors would not differ materially from considering each one of them individually.
- (iv) The Group generally expenses sales commissions when incurred because the amortization period would be one year or less. These costs are recorded within sales and marketing expenses.

Cost of Revenues

Cost of Brand Advertising Revenues

Cost of brand advertising revenues mainly consists of content and license costs, salary and benefits expenses, and bandwidth service costs. For self-developed video content, production costs incurred in excess of the amount of revenue contracted for are expensed as incurred.

Cost of Online Game Revenues

Cost of online game revenues mainly consists of revenue-sharing payments, salary and benefits expenses, bandwidth service costs, tax surcharges, depreciation and amortization expenses, content and license costs, and other direct costs.

Cost of Other Revenues

Cost of other revenues mainly consists of revenue-sharing payments related to interactive broadcasting services, content and license costs related to paid subscription services, revenue-sharing payments related to paid subscription services.

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, content and license costs, depreciation and amortization expenses, professional fees, share-based compensation, and facilities expenses. These expenses are incurred for the enhancement and maintenance of the Sohu Group's Internet platforms as well as for its products and services. The development costs of online games are expensed as incurred, including the development costs of online games prior to the establishment of technological feasibility and maintenance costs after the online games are available for marketing.

Sales and Marketing Expenses

Sales and marketing expenses mainly consist of advertising and promotional expenses, salary and benefits expenses, travel and entertainment expenses, and facilities expenses. Advertising and promotional expenses generally represent the expenses of promotions to create or stimulate a positive image of the Sohu Group or a desire to subscribe for the Group's products and services. Advertising and promotional expenses are expensed as incurred.

General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses, professional fees, share-based compensation, bad debts, travel and entertainment expenses, and facilities expenses.

Share-based Compensation Expense

Sohu (excluding Sohu Video), Changyou, Sogou, and Sohu Video have incentive plans for the granting of share-based awards, including share options and restricted share units, to members of the boards of directors, management and other key employees.

For share-based awards for which a grant date has occurred, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates. For share-based awards for which the service inception date precedes the grant date, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income beginning on the service inception date and is re-measured on each subsequent reporting date before the grant date, based on the estimated fair value of the related share-based awards. Share-based compensation expense is charged to the shareholders' equity or noncontrolling interest section in the consolidated balance sheets. The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. If factors change or different assumptions are used, the Group's share-based compensation expense could be materially different for any period. Moreover, the estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards.

After the completion of the Changyou Merger, the board of directors of Sohu (the "Sohu Board") approved a modification plan for the granted but unvested share options under the Changyou 2014 Share Incentive Plan and the Changyou 2019 Share Incentive Plan (the "Changyou Plans' Modification"). After the Changyou Plans' Modification, liability will be accrued over the service period based on a fixed price of \$5.39 per Changyou Class A ordinary share, which equals the Changyou Merger consideration of \$5.40 per Changyou Class A ordinary share minus the per-share exercise price of \$0.01 of such options. No subsequent fair value re-measurement will be made given the award is an obligation based on a fixed amount underlying such vested share options.

Sohu (excluding Sohu Video), Changyou, and Sogou Share-based Awards

Sohu (excluding Sohu Video) Share-based Awards

In determining the fair value of share options granted by Sohu (excluding Sohu Video) as share-based awards, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied. In determining the fair value of restricted share units granted, the public market price of the underlying shares on the grant dates was applied.

Upon the dissolution of Sohu.com Inc. on May 31, 2018, Sohu.com Limited assumed all then existing obligations of Sohu.com Inc. with respect to equity incentive awards that had been granted under Sohu.com Inc.'s Amended and Restated 2010 Stock Incentive Plan (the "Sohu 2010 Stock Incentive Plan") and remained outstanding, and such awards were converted into the right to receive upon exercise or settlement Sohu.com Limited's ordinary shares under the Sohu.com Limited 2018 Share Incentive Plan (the "Sohu 2018 Share Incentive Plan") rather than shares of the common stock of Sohu.com Inc., subject to the other terms of such outstanding awards. Options for the purchase of Sohu.com Limited's ordinary shares, including options converted from those contractually granted under the Sohu 2010 Stock Incentive Plan, are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets.

Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Sohu and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimate of the awards' fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair value at the grant date.

Changyou Share-based Awards

Options for the purchase of Changyou Class A ordinary shares contractually granted under the Changyou 2014 Share Incentive Plan and the Changyou 2019 Share Incentive Plan are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets. Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Changyou and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimates of the awards' fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair values at the grant date. In determining the fair values of Changyou share options granted, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

[Table of Contents](#)

After the Changyou Plans' Modification, a portion of the share options previously granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger were settled by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share, which equals the Changyou Merger consideration of \$5.40 per Changyou Class A ordinary share minus the per-share exercise price of \$0.01 of such options. None of the remaining share options granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger or that become vested in the future, and none of the share options granted under the Changyou 2019 Share Incentive Plan, will be exercisable, but can only be repurchased by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share underlying such vested share options upon termination of the option holders' employment or upon approval of the Chairman of the Sohu Board. As a result of the Changyou Plans' Modification, share-based compensation expense will be accrued over the service period based on the fixed price of \$5.39 per Changyou Class A ordinary share. No subsequent fair value re-measurement will be made, given that the award is an obligation based on a fixed amount of \$5.39 per Changyou Class A ordinary share.

As of December 31, 2020, 4,210,000 of these Changyou share options had been granted and had become vested on their respective vesting dates, as a mutual understanding of the subjective performance targets had been reached between Changyou and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. Cumulative share-based compensation expense of \$15.7 million was accrued based on the fixed price of \$5.39 per Changyou Class A ordinary share.

Sogou Share-based Awards

In determining the fair value of share options granted by Sogou as share-based awards, a binomial valuation model was applied. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions regarding a number of complex and subjective variables, including risk-free interest rates, exercise multiples, expected forfeiture rates, expected share price volatility rates, and expected dividends. The fair values of the ordinary shares were determined based on the trading price of Sogou ADSs in the public market.

Before Sogou's adoption of ASU 2018-07 "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," effective for fiscal years beginning after December 15, 2018, share-based compensation expense for share options granted to non-employees was measured at fair value at the earlier of the performance commitment date or the date service was completed and recognized over the period during which the service was provided. Sogou applied the guidance in ASC 505-50 to measure share options granted to non-employees based on the then-current fair value at each reporting date until the service was provided and the performance targets were met. After Sogou's adoption of ASU 2018-07, share-based compensation expense for share options granted to non-employees is recognized in accordance with the requirements of ASC 718 for employee share-based compensation awards.

Compensation Expense Recognition

For options and restricted share units granted with respect to Sohu (excluding Sohu Video) and Changyou shares, compensation expense is recognized on an accelerated basis upon the requisite service period and certain subjective performance targets being met. For share options granted with respect to Sogou shares, compensation expense is recognized over the estimated period during which the service period requirement and performance target will be met, which is usually within one year, or, after the performance target of Sogou's completion of an IPO was met upon the completion of Sogou's IPO on November 13, 2017, on an accelerated basis over the requisite service period, or, for options with only service period requirement, on an accelerated basis over the requisite service period. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses, compensation expense is recognized by Sogou on an accelerated basis over the requisite service period, and the fair value of the share-based compensation is re-measured at each reporting date until the service has been provided. Compensation expense recognized by Sogou is reflected as discontinued operations in the Sohu Group's consolidated statements of comprehensive income. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and no compensation expense is recorded for the number of awards so estimated.

Sohu Video Share-based Awards

On January 4, 2012, Sohu Video, the holding entity of Sohu's video division, adopted a 2011 Share Incentive Plan (the "Sohu Video Share Incentive Plan") which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video (representing approximately 10% of the outstanding Sohu Video shares on a fully-diluted basis) to management and key employees of the video division and to Sohu management. As of December 31, 2020, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made, of which options for the purchase of 4,972,800 ordinary shares were vested.

For purposes of ASC 718-10-25, as of December 31, 2020, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. Therefore the fair value of the awards was not determinable and could not be accounted for. In accordance with ASC 718-10-55, the Group's management determined that the service inception date with respect to vested option awards for the purchase of 4,972,800 shares had preceded the grant date. Therefore, the Group recognized compensation expense for these vested Sohu Video share-based awards and re-measured, and will re-measure, the compensation expense on each subsequent reporting date based on the then-current fair values of these vested awards until the grant date is established.

Taxation

PRC Corporate Income Tax

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Group's financial statements or tax returns. Deferred income taxes are determined based on the differences between the accounting basis and the tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Deferred tax assets are reduced by a valuation allowance, if based on available evidence, it is considered that it is more likely than not that some portion of or all of the deferred tax assets will not be realized. In making such determination, the Group considers factors including future reversals of existing taxable temporary differences, future profitability, and tax planning strategies. If events were to occur in the future that would allow the Group to realize more of its deferred tax assets than the presently recorded net amount, an adjustment would be made to the deferred tax assets that would increase income for the period when those events occurred. If events were to occur in the future that would require the Group to realize less of its deferred tax assets than the presently recorded net amount, an adjustment would be made to the valuation allowance against deferred tax assets that would decrease income for the period when those events occurred. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities.

The Group's deferred tax assets are related to net operating losses and temporary differences between accounting basis and tax basis for its China-based Subsidiaries and VIEs, which are subject to corporate income tax in the PRC under the PRC Corporate Income Tax Law (the "CIT Law").

PRC Withholding Tax on Dividends

The CIT Law imposes a 10% withholding income tax on dividends distributed by foreign invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the "Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income," if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to a withholding tax rate of 10%.

PRC Value Added Tax

On May 1, 2016, the transition from the imposition of PRC business tax to the imposition of VAT was expanded to all industries in China, and all of the Sohu Group's revenues have been subject to VAT since that date. To record VAT payable, the Group adopted the net presentation method, which presents the difference between the output VAT (at rates of 6% or 17% for the period from January 1, 2018 to April 30, 2018, at rates of 6% or 16% for the period from May 1, 2018 to March 31, 2019, and at rates of 6% or 13% after April 1, 2019) and the available input VAT amount (at the rate applicable to the supplier).

U.S. Corporate Income Tax

Sohu.com Inc., which was formerly the top-tier publicly-traded parent company of the Sohu Group, was dissolved and liquidated on May 31, 2018. Sohu.com Inc. was a Delaware corporation that was subject to U.S. federal corporate income tax on its taxable income at a rate of 21% for taxable years beginning after December 31, 2017 and of up to 35% for prior tax years. U.S. federal tax legislation signed into law on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act (the "U.S. TCJA"), significantly modified the U.S. Internal Revenue Code by, among other things, reducing the maximum statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a partial territorial tax system with a one-time transition tax (the "Toll Charge") on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings.

[Table of Contents](#)

Certain activities conducted in the PRC resulted in U.S. corporate income taxes being imposed on Sohu.com Inc. when its subsidiaries that were controlled foreign corporations (“CFCs”) generated income that was subject to Subpart F of the U.S. Internal Revenue Code (“Subpart F”). Generally, passive income, such as rents, royalties, interest, dividends, and gains from disposal of the company’s investments, is among the types of income subject to taxation under Subpart F. Any income taxable under Subpart F was taxable in the U.S. at the applicable federal corporate income tax rate. Subpart F income also included certain income from intra-Group transactions between Sohu.com Inc.’s non-U.S. subsidiaries and VIEs and Changyou’s non-U.S. subsidiaries and VIEs or Sogou’s non-U.S. subsidiaries and VIEs, or where Sohu.com Inc.’s non-U.S. subsidiaries or VIEs made an “investment in U.S. property,” such as holding stock in, or making a loan to, a U.S. corporation. Under a provision of the U.S. tax code commonly referred to as the CFC look-through rule, Sohu.com Inc. did not have to treat dividends received by its CFC subsidiaries as Subpart F income includible in Sohu.com Inc.’s taxable income in the U.S.

To the extent that portions of Sohu.com Inc.’s U.S. taxable income, such as Subpart F income or global intangible low-taxed income (“GILTI”), as applicable, had been determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may have been entitled to claim foreign tax credits to offset its U.S. income tax liabilities. Following the enactment of the U.S. TCJA, if dividends that Sohu.com Inc. received from its subsidiaries after January 1, 2018 were determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. would generally not have been required to pay U.S. corporate income tax on those dividends. Liabilities for U.S. corporate income tax were accrued in the Company’s consolidated statements of comprehensive income and estimated tax payments were made when required by U.S. law.

Treatment of Toll Charge Related to the U.S. TCJA

Beginning in the fourth quarter of 2017, the Sohu Group had recognized a provisional amount of income tax expense for the Toll Charge of \$219 million, which represented management’s estimate of the amount of the Toll Charge that would have been payable by Sohu.com Inc. based on the deemed repatriation to the United States of its share of previously deferred earnings of certain of its non-U.S. subsidiaries, offset by a reduction of \$4 million in liability for deferred U.S. income tax, as a result of the U.S. TCJA. The Sohu Group included the provisional amount of the Toll Charge of \$219 million in its interim financial statements through the quarter ended September 30, 2018, in reliance on Staff Accounting Bulletin No. 118 (“SAB 118”).

For the fourth quarter of 2018, the Sohu Group’s management re-evaluated the impact on the Sohu Group of the Toll Charge under the U.S. TCJA. Management determined that it was more likely than not, based on the technical merits, that the tax position that the Sohu Group had no Toll Charge liability would be sustained. The Group recognized a tax benefit in the amount of \$77 million, which was the largest amount that management determined to be greater than 50% likely to be realized upon settlement with the U.S. IRS. As a result, as of December 31, 2018, the Sohu Group had an unrecognized tax benefit in the amount of \$142 million, which represented the difference between the tax benefit recognized in the fourth quarter of 2018 and management’s previous estimate of the Toll Charge. The estimate remained unchanged as of December 31, 2019 and December 31, 2020. In addition, the Sohu Group accrued \$8 million and \$6 million, respectively, in interest on the unrecognized tax benefit for the years of 2019 and 2020.

The tax benefit recognized and the unrecognized tax benefit in relation to the Toll Charge may be subject to further adjustment in subsequent periods based on facts and circumstances that arose after December 31, 2020, such as any IRS assessments upon audit and management’s further judgment and estimates.

Uncertain Tax Positions

The Sohu Group is subject to various taxes in different jurisdictions, but primarily the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to the Group’s income and transactions. In order to assess uncertain tax positions, the Group applies a more likely than not threshold and a two-step approach for tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

Net Income/(Loss) per Share

Basic net income/(loss) per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net income/(loss) per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potential ordinary shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income/(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income/(loss) per share.

Additionally, for purposes of calculating the numerator of diluted net income/(loss) per share, the net income/(loss) attributable to the Sohu Group is calculated as discussed below. The adjustment will not be made if there is an anti-dilutive effect.

Changyou's net income/(loss) attributable to Sohu

Prior to the completion of the Changyou Merger on April 17, 2020, Changyou's net income/(loss) attributable to Sohu was determined using the percentage that the weighted average number of Changyou shares held by Sohu represented of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Changyou, which was used for the calculation of basic net income per share. After the completion of the Changyou Merger, Sohu holds 100% of the combined total of Changyou's outstanding ordinary shares, so Changyou's net income/(loss) is wholly attributable to Sohu.

As a result of the Changyou Plans' Modification, a portion of the share options previously granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger were settled by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share, which equals the Changyou Merger consideration of \$5.40 per Changyou Class A ordinary share minus the per-share exercise price of \$0.01 of such options. None of the remaining share options granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger or that become vested in the future, and none of the share options granted under the Changyou 2019 Share Incentive Plan, will be exercisable, but can only be repurchased by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share underlying such vested share options upon termination of the option holders' employment or upon approval of the Chairman of the Sohu Board. As a result of the Changyou Plans' Modification, share-based compensation expense will be accrued over the service period based on the fixed price of \$5.39 per Changyou Class A ordinary share. No subsequent fair value re-measurement will be made, given that the award is an obligation based on a fixed amount of \$5.39 per Changyou Class A ordinary share.

In the calculation of Sohu's diluted net income/(loss) per share, before the Changyou Plans' Modification, a dilutive effect should be assumed. All of Changyou's existing unvested restricted share units and share options, and vested restricted share units and share options that have not yet been settled or exercised, are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu in Changyou to decrease. As a result, Changyou's net income/(loss) attributable to Sohu on a diluted basis decreased accordingly. Assuming an anti-dilutive effect, all of these Changyou restricted share units and share options are excluded from the calculation of Sohu's diluted net income/(loss) per share. As a result, Changyou's net income/(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income/(loss) per share.

As a result of the Changyou Plans' Modification, all of Changyou's previously granted share-based awards have been reclassified as obligation-based awards. Accordingly, all of those Changyou awards are excluded from the calculation of Sohu's diluted net income/(loss) per share. Changyou's net income/(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basis net income/(loss) per share. There have been no diluted effects resulting from Changyou's existing unvested share options.

Sogou's net income/(loss) attributable to Sohu (Discontinued)

Sogou's net income/(loss) attributable to Sohu is determined using the percentage that the weighted average number of Sogou shares held by Sohu represents of the weighted average number of Sogou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Sogou, which is used for the calculation of basic net income per share. Sogou's net income/(loss) attributable to Sohu is reflected as discontinued operations in the Sohu Group's consolidated statements of comprehensive income.

In the calculation of Sohu's diluted net income/(loss) per share, assuming a dilutive effect, the percentage of Sohu's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested Sogou share options with the performance targets achieved as well as vested but unexercised Sogou share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of Sohu's diluted income/(loss) per share. As a result, Sogou's net income/(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income/(loss) per share.

[Table of Contents](#)

Fair Value of Financial Instruments

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1 - observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - include other inputs that are directly or indirectly observable in the market place.

Level 3 - unobservable inputs which are supported by little or no market activity.

The Sohu Group's financial instruments consist primarily of cash equivalents, restricted cash, short-term investments, accounts receivable, prepaid and other current assets, long-term investments, restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term bank loans, and long-term accounts payable.

Cash Equivalents

The Sohu Group's cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash.

Short-term Investments

For investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, the Sohu Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive income.

Accounts Receivable, Net

The carrying value of accounts receivable is reduced by an allowance that reflects the Sohu Group's best estimate of the amounts that will not be collected. The Group makes estimations of the collectability of accounts receivable. Many factors are considered in estimating the general allowance, including reviewing delinquent accounts receivable, performing a customer credit analysis, and analyzing historical bad debt records and current and future economic trends.

Accounts receivable are measured at amortized cost and reported on the consolidated balance sheets at the outstanding principals adjusted for any write-offs and any allowance for credit losses.

Allowance for credit losses

Effective on January 1, 2020, the Sohu Group adopted Accounting Standards Update (ASU) 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13") under a modified retrospective transition. This guidance replaces the existing "incurred loss" methodology, and introduces an expected loss approach using macroeconomic forecasts, referred to as a current expected credit losses ("CECL") methodology. Under the incurred loss methodology, credit losses are only recognized when the losses are probable of having been incurred. The CECL methodology requires that the full amount of expected credit losses for the lifetime of the financial instrument be recorded at the time it is originated or acquired, considering relevant historical experience, current conditions and reasonable and supportable macroeconomic forecasts that affect the collectability of financial assets, and adjusted for changes in expected lifetime credit losses subsequently, which may require earlier recognition of credit losses.

The Sohu Group adopted ASU 2016-13 using the modified retrospective transition approach and recognized a cumulative-effect adjustment to the opening balance of accumulated deficit in the consolidated financial statements. Results for reporting periods beginning after January 1, 2020 are presented using the CECL methodology while comparative information continues to be reported in accordance with the incurred loss methodology in effect for prior periods.

[Table of Contents](#)

The following table shows the overall adjustments recognized for each individual line item (in thousands).

	<u>December 31, 2019</u>	<u>ASU 2016-13 adjustment</u>	<u>January 1, 2020</u>
Allowance for credit losses			
Accounts receivable, net	\$ 126,081	\$ (3,383)	\$ 122,698
Accounts receivable and financing receivables, net classified as assets held for sale (1)	134,635	(3,273)	131,362
Total assets	<u>2,691,864</u>	<u>(6,656)</u>	<u>2,685,208</u>
Shareholders' equity			
Accumulated deficit	(544,137)	(6,656)	(550,793)

Note (1): Of the total adjustment of \$3.3 million, \$2.5 million was related to financing receivables.

Accounts receivable, net

The allowance for credit losses reflects the Sohu Group's estimated expected losses. The Sohu Group estimates the allowance for credit losses, mainly based on past collection experience as well as consideration of current and future economic conditions and changes in the Sohu Group's collection trends. The Sohu Group estimates the expected credit losses for accounts receivable with similar risk characteristics on a pool basis. For each pool, the Sohu Group first estimates its recovery period based on relevant historical accounts receivable collection information. Then the Sohu Group estimates the credit allowances based on the recovery period, the historical distribution of each aging bucket, and the impact of macroeconomic factors.

Accounts receivable are written off when there is no reasonable expectation of recovery. Allowance for credit losses is presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Accounts receivable, net, as of December 31, 2019 and 2020 consisted of the following (in thousands):

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
Accounts receivable, net		
Accounts receivable	\$ 130,037	\$ 94,528
Less: Allowance for credit losses	(3,956)	(7,007)
	<u>\$ 126,081</u>	<u>\$ 87,521</u>

The following table presents the aging analysis of accounts receivable as of December 31, 2019 and 2020 (in thousands):

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
Less than 179 days	\$ 113,173	\$ 78,805
180-359 days	6,516	7,569
360 days and greater	10,348	8,154
Total	<u>130,037</u>	<u>94,528</u>

Table of Contents

The movement of allowance for credit losses for the years ended December 31, 2018, 2019 and 2020 was as follows (in thousands):

	For the year ended December 31,		
	2018	2019	2020
Balance at the beginning of year	\$ 4,487	\$ 7,574	\$ 3,956
Changes on initial application of ASU 2016-13 (1)	0	0	3,383
Additional allowance for credit losses, net of recoveries	5,449	4,724	2,419
Write-offs	(1,940)	(8,237)	(3,231)
Exchange difference	(422)	(105)	480
Balance at the end of year	7,574	3,956	7,007

Note (1): The Company adopted ASU 2016-13 using the modified retrospective transition approach. The adjustments arising from the new CECL model are recognized in the opening Consolidated Balance Sheet on January 1, 2020.

Accounts Receivable and Financing Receivables, Net classified as assets held for sale

Financing receivables, net, classified as assets held for sale consist primarily of small consumer loans that Sogou makes to individual borrowers. Sogou funds such loans either through its own capital or through a trust which was jointly established by Sogou and a third-party investor, and is administered by a third-party trust company. As the trust only invests in loans facilitated by Sogou, Sogou has power to direct the activities of the trust. Sogou also has the obligation to absorb losses and the right to receive benefits from the trust that could potentially be significant to the trust. As a result, Sogou is considered the primary beneficiary of the trust and the trust is considered a consolidated VIE (the "Consolidated Trust") under ASC 810.

The financing receivables, net, classified as assets held for sale are recorded at the principal amount and interest accrued, net of allowance for credit losses that reflects Sogou's best estimate of the amounts that will not be collected. Interest on loans is accrued based on the contractual interest rates of the loans when earned. The loan periods granted by Sogou to the borrowers related to the small consumer loans are generally within one year.

Sogou estimates its credit losses of the financing receivables collectively, using a pool basis within applicable credit risk classification levels of the underlying customers, mainly based on delinquency levels. The significant assumptions used in the process of estimating the allowance for credit losses include portfolio composition, loan delinquencies, loss severity and recoveries, and application of macroeconomic forecasts. The lifetime CECL allowance is measured as the product of the ending balance and two key parameters, the lifetime Probability of Default ("PD") and Loss Given Default ("LGD"). PD represents the expected probability of payment and time to default of small consumer loans made by Sogou. LGD represents the percentage of the expected balance due at default that is not recoverable. The calibration of PD and LGD starts with the Sogou's historical information, with PD considering vintage, recent performance, and macroeconomic factors and LGD being assessed based on portfolio delinquencies, loss severity, and future recoveries default. The estimated credit losses are further adjusted to incorporate the impact of macroeconomic conditions. To incorporate the impact based on Sogou's macroeconomic forecasts, quantitative adjustments are applied to key parameters such as PD and LGD on a collective basis. Macroeconomic factors used in models include variables such as consumer price index and total retail sales of consumer goods.

Financing receivables are written off when there is no reasonable expectation of recovery. Allowance for credit losses is presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The accounts receivable and financing receivables, net, classified as assets held for sale as of December 31, 2019 and 2020 consisted of the following (in thousands):

	As of December 31,	
	2019	2020
Accounts receivable	\$ 77,210	\$35,975
Financing receivables	66,858	41,911
Less: Allowance for credit losses (1)	(12,255)	(6,700)
	\$131,813	\$71,186

Note (1): The allowance for credit losses related to financing receivables was \$6.4 million as of December 31, 2020.

Table of Contents

The following table summarizes the past-due status of the principle of financing receivables classified as assets held for sale as of December 31, 2019 and 2020 (in thousands):

	1 - 30 Days Past Due	31 - 60 Days Past Due	61 - 90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total
December 31, 2019							
Financing receivables by origination year							
2018	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,744	\$ 1,744
2019	10,606	1,635	1,176	1,709	15,126	49,988	65,114
Total	10,606	1,635	1,176	1,709	15,126	51,732	66,858
December 31, 2020							
Financing receivables by origination year							
2018	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 1,081	\$ 1,081
2019	1	1	2	0	4	182	186
2020	7,037	576	548	501	8,662	31,982	40,644
Total	\$ 7,038	\$ 577	\$ 550	\$ 501	\$ 8,666	\$33,245	\$41,911

The movement of allowance for credit losses for the years ended December 31, 2018, 2019 and 2020 was as follows (in thousands):

	For the year ended December 31,		
	2018	2019	2020
Beginning balance	\$ 384	\$ 7,511	\$ 12,255
Change on initial application of ASU 2016-13 (1)	0	0	3,273
Additional allowance for credit losses, net of recoveries	9,119	15,620	3,049
Write-offs	(1,908)	(11,741)	(12,517)
Exchange difference	(84)	865	640
Balance at the end of year	\$ 7,511	\$ 12,255	\$ 6,700

Note (1): The Group adopted ASU 2016-13 using the modified retrospective transition approach. The adjustments arising from the new CECL model are recognized in the opening consolidated balance sheet on January 1, 2020.

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are initially recognized on the date a foreign exchange forward contract is entered into and are subsequently measured at fair value.

Restricted Cash and Restricted Time Deposits

Restricted cash and restricted time deposits are valued based on the prevailing interest rates in the market using the discounted cash flow method.

Equity Investments

Investments in entities are recorded as equity investments under long-term investments. For investments in common stock or in-substance common stock of entities over which the Group can exercise significant influence but does not own a majority equity interest or control, the equity method is applied, and the Group adjusts the carrying amount of an investment and recognizes investment income or loss for the Group's share of the earnings or loss of the investee after the date of investment. For those equity investments accounted for other than under the equity method or those that result in consolidation, the fair value method is applied. However, for equity investments that do not have readily determinable fair values, the Group chooses to account for them at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. If this measurement alternative is elected, changes in the carrying value of the equity investments will be required to be made whenever there are observable price changes in transactions for identical or similar investments of the same issuer. The implementation guidance notes that an entity should make a "reasonable effort" to identify price changes that are known or that can reasonably be known.

[Table of Contents](#)

The Group assesses investments for impairment by considering factors including, but not limited to, current economic and market conditions, operating performance of the companies, including current earnings trends and undiscounted cash flows, and other company-specific information, such as recent financing rounds. The fair value determination, particularly for investments in privately-held companies whose revenue model is still unclear, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments. If the assessment indicates that an impairment exists, the Group estimates the fair value of the investment and writes down the asset to its fair value, taking the corresponding charge to the consolidated statements of comprehensive income/(loss).

Long-Lived Assets

Long-lived assets include fixed assets and intangible assets.

Fixed Assets

Fixed assets mainly comprise office buildings, leasehold improvements, building improvements, vehicles, office furniture and computer equipment, and hardware. Fixed assets are recorded at cost less accumulated depreciation with no residual value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Fixed Assets	Estimated Useful Lives (years)
Office buildings	36-47
Leasehold improvements	Lesser of term of the lease or the estimated useful lives of the assets
Vehicles	4-10
Office furniture	5
Computer equipment and hardware	2-5

Expenditure for maintenance and repairs is expensed as incurred.

The gain or loss on the disposal of fixed assets is the difference between the net sale proceeds and the carrying value of the relevant assets and is recognized in operating expenses in the consolidated statements of comprehensive income.

Intangible Assets

Intangible assets mainly comprise purchased video content, operating rights for licensed games, domain names and trademarks, computer software, and developed technologies. Intangible assets are recorded at cost less accumulated amortization with no residual value. Amortization of intangible assets other than purchased video content is computed using the straight-line method over their estimated useful lives. Amortization of purchased video content is computed based on the trend in viewership accumulation over the shorter of the applicable license period or two years.

The estimated useful lives of the Group's intangible assets are listed below:

Intangible Assets	Estimated Useful Lives (years)
Purchased video content	1 month to 2 years
Computer software	1-5
Developed technologies	3-10
Domain names and trademarks	4-30
Operating rights for licensed games	over the contract terms

[Table of Contents](#)

Sohu Video enters into nonmonetary transactions to exchange online broadcasting rights for purchased video content with other online video broadcasting companies. Under ASC 845, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain the acquired nonmonetary asset, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if the fair value of the asset received is more reliable than the fair value of the asset surrendered. The Sohu Group records these nonmonetary exchanges at the fair values of the online broadcasting rights for purchased video content and recognize any net gain or loss from such exchange transactions.

Impairment of Long-lived Assets Other Than Purchased Video Content

In accordance with ASC 360-10-35, the Sohu Group reviews the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows independent of other assets. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of the long-lived assets is not recoverable, the carrying amount of such assets is reduced to fair value. The estimation of future cash flows requires significant management judgment based on the Group's historical results and anticipated results and is subject to many factors. The discount rate that is commensurate with the risk inherent in the Group's business model is determined by its management.

Impairment of Purchased Video Content

Purchased video content is stated at the lower of cost less accumulated amortization, or fair value.

In accordance with ASC 920-350-35, if management's expectations of the programming usefulness of a program, series, package, or program segment are revised downward, it may be necessary to write off to the income statement the amount by which the unamortized capitalized costs exceed fair value. A write-off from unamortized cost to fair value establishes a new cost basis. Accordingly, the Group measures the video content's impairment loss by comparing the content's carrying value to its fair value. An impairment loss will be recorded if the carrying value of video content is higher than its fair value. The impairment to be recognized is measured by the amount by which the carrying value of video content exceeds its fair value.

Lease

The Sohu Group adopted ASU No. 2016-02, Leases (Topic 842), at the beginning of the first quarter of 2019 using the modified retrospective method, and did not restate comparable periods. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with the Sohu Group's historical accounting under Topic 840.

The Sohu Group elected the package of practical expedients permitted under the transition guidance, which allowed the Sohu Group to carry forward the historical lease classification, the assessment on whether an existing or expired contract contains a lease, and the treatment of initial direct costs. The Sohu Group also elected to keep leases with an initial term of 12 months or less off the balance sheet.

Under the new lease guidance, the Sohu Group determines if an arrangement is or contains a lease at inception. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of remaining lease payments over the lease terms. The Sohu Group only considers payments that are fixed and determinable at the time of lease commencement. The adoption of the new lease guidance resulted in recognition of \$7.4 million of right-of-use assets, \$6.7 million of lease liabilities, \$17.9 million of right-of-use assets on assets held for sale, and \$16.2 million of lease liabilities on liabilities held for sale as of January 1, 2019.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Sohu Group's acquisitions of interests in its subsidiaries and consolidated VIEs. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. If a measurement period adjustment is identified, the Group recognizes the adjustment as part of the acquisition accounting. The Sohu Group increases or decreases the provisional amounts of identifiable assets or liabilities by means of increases or decreases in goodwill for measurement period adjustments.

[Table of Contents](#)

In accordance with ASC 350, the Group does not amortize goodwill, but tests it for impairment. The Group tests goodwill for impairment at the reporting unit level on an annual basis as of October 1, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. The Group adopted ASU No. 2017-04, Intangibles — Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, and in accordance with the FASB, pursuant to which the Group has the option to choose whether it will apply a qualitative assessment first and then a quantitative assessment, if necessary, or to apply a quantitative assessment directly. For reporting units applying a qualitative assessment first, the Group starts the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of the reporting unit with its carrying value, including goodwill. If the carrying value of each reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, but limited to the total amount of goodwill allocated to that reporting unit.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The Group estimates fair value using the income approach and the market approach. The judgment in estimating the fair value of reporting units includes revenue growth rates and profitability in estimating future cash flows; determining appropriate discount rates and earnings multipliers based on market data of comparable companies engaged in a similar business under the market approach; and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Comprehensive Income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on the Sohu Group's consolidated balance sheets, consists of the Sohu Group's cumulative foreign currency translation adjustment.

Functional Currency and Foreign Currency Translation

An entity's functional currency is the currency of the primary economic environment in which it operates, normally that is the currency of the environment in which the entity primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and intra-Group transactions and arrangements. The functional currency of Sohu.com Limited, and its predecessor Sohu.com Inc., is the U.S. dollar. The functional currency of the Sohu Group's subsidiaries in the U.S., the Cayman Islands, the British Virgin Islands and Hong Kong is the U.S. dollar. The functional currencies of the Sohu Group's subsidiaries and VIEs in other countries are the national currencies of those countries, rather than the U.S. dollar.

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency re-measurement are included in the consolidated statements of comprehensive income.

Financial statements of entities with a functional currency other than the U.S. dollar are translated into U.S. dollars, which is the reporting currency. Assets and liabilities are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average of the exchange rates in effect during the reporting period. Shareholders' equity accounts are translated using the historical exchange rates at the date the entry to shareholders' equity was recorded, except for the change in retained earnings during the year, which is translated using the historical exchange rates used to translate each period's income statement. Differences resulting from translating a foreign currency to the reporting currency are recorded in accumulated other comprehensive income in the consolidated balance sheets.

Impact of Recently Issued Accounting Pronouncements

Financial Instruments-Credit Losses (Topic 326). In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. The Sohu Group adopted ASU 2016-13 at the beginning of the first quarter of 2020, using the modified retrospective approach. The Sohu Group recorded an increase of approximately \$3.4 million to allowance for credit losses on accounts receivable and \$3.3 million to allowance for credit losses on assets held for sale on ASU 2016-13's adoption date of January 1, 2020. Please see "Summary of Significant Accounting Policies" above.

Simplifying the Test for Goodwill Impairment (Topic 350). In January 2017, the FASB issued ASU No. 2017-04, "*Simplifying the Test for Goodwill Impairment*." The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. The Sohu Group adopted this guidance on January 1, 2020 and applied the revised impairment model for all goodwill impairment tests within that fiscal year. The adoption of ASU 2017-04 did not have a material impact on the Sohu Group's consolidated financial statements.

Cloud computing. In 2018, the FASB issued new guidance on a customer's accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor (i.e., a service contract). Under the new guidance, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The guidance is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those fiscal years. The adoption of this standard did not have a material impact on the Sohu Group's consolidated financial statements.

Other accounting standards adopted beginning January 1, 2020 do not have a significant impact on the Sohu Group's consolidated financial statements.

Impact of Recently Issued Accounting Pronouncements not Yet Adopted

Simplifying the accounting for income taxes (Topic 740). In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes*. ASU No. 2019-12 removes certain exceptions to the general principles in Topic 740 and provides for consistent application of and simplifies generally accepted accounting principles for other areas of Topic 740 by clarifying and amending existing guidance. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The method of adoption varies depending on the component of the new rule that is being adopted. Early application is permitted. The Sohu Group does not expect to adopt ASU 2019-12 early and is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Investments—Equity securities (Topic 321), Investments—Equity method and joint ventures (Topic 323), and Derivatives and hedging (Topic 815)—Clarifying the interactions between Topic 321, Topic 323, and Topic 815. In January 2020, the FASB issued ASU No. 2020-01, *Investments—Equity securities (Topic 321), Investments—Equity method and joint ventures (Topic 323), and Derivatives and hedging (Topic 815)—Clarifying the interactions between Topic 321, Topic 323, and Topic 815*. The amendments clarify the interaction of the accounting for equity investments under Topic 321 and investments accounted for under the equity method of accounting in Topic 323 and the accounting for certain forward contracts and purchased options accounted for under Topic 815. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020, with early adoption permitted. The Sohu Group does not expect to adopt ASU 2020-01 early and is currently evaluating the impact of adopting this standard on its consolidated financial statements.

3. DISCONTINUED OPERATIONS

Discontinued Operation of Sogou

Upon the signing of the Tencent/Sohu Sogou Share Purchase Agreement on September 29, 2020, Sogou met the criteria for discontinued operations. Accordingly, the results of operations for Sogou's business have been excluded from Sohu's results from continuing operations in the Sogou Group's consolidated statements of comprehensive income and are presented in separate line items as discontinued operations. Retrospective adjustments to the historical statements have been made in order to provide a consistent basis of comparison. Additionally, as of December 31, 2019 and December 31, 2020, the related assets and liabilities associated with the discontinued operations with respect to Sogou were classified as assets held for sale and liabilities held for sale associated with discontinued operations in the consolidated balance sheets to provide comparable financial information.

[Table of Contents](#)

The following tables set forth the assets, liabilities, results of operations and cash flows of discontinued operations with respect to Sogou, that were included in the Sohu Group's consolidated financial statements (in thousands):

	As of December 31, 2019	As of December 31, 2020
ASSETS		
Cash and cash equivalents	\$ 142,464	\$ 287,185
Restricted cash	5,370	23,018
Short-term investments	995,350	774,618
Account and financing receivables, net	134,635	73,656
Prepaid and other current assets	26,802	28,946
Long-term investments, net	63,345	74,004
Fixed assets, net	110,006	89,089
Goodwill	5,534	6,527
Intangible assets, net	1,514	1,446
Other assets	37,281	53,679
Total assets associated with discontinued operations	\$ 1,522,301	\$ 1,412,168
LIABILITIES		
Accounts payable	\$ 132,085	\$ 122,695
Accrued liabilities	91,949	68,582
Receipts in advance	67,902	64,414
Accrued salary and benefits	24,167	25,350
Taxes payable	76,688	64,082
Other short-term liabilities	60,320	61,154
Long-term liabilities	5,686	10,721
Total liabilities associated with discontinued operations	\$ 458,797	\$ 416,998

	Year Ended December 31,		
	2018	2019	2020
Revenues	\$1,124,158	\$1,172,252	\$ 924,664
Cost of revenues	693,470	738,454	722,614
Gross profit	430,688	433,798	202,050
Operating expenses:			
Research and development (1)	201,739	190,402	193,376
Sales and marketing (1)	146,194	138,291	102,523
General and administrative (1)	38,072	40,670	29,271
Total operating expenses	386,005	369,363	325,170
Operating profit/(loss)	44,683	64,435	(123,120)
Interest income	8,037	4,443	2,807
Foreign currency exchange gain/(loss)	5,725	1,849	(7,767)
Other income, net (1)	41,490	21,127	38,633
Income/(loss) before income tax expense	99,935	91,854	(89,447)
Income tax expense	1,153	2,748	2,346
Net income/(loss) from discontinued operations, net of tax	98,782	89,106	(91,793)

- (1) Expenses generated from marketing services among the Sohu and Sogou, and leasing expenses generated from a building that Sohu leases to Sogou are not eliminated because those expenses are considered to continue after the disposal of the discontinued operations.

[Table of Contents](#)

	Year Ended December 31,		
	2018	2019	2020
Net cash provided by/(used in) discontinued operating activities	\$ 132,746	\$ 219,516	\$ (68,187)
Net cash provided by/(used in) discontinued investing activities	(638,672)	(217,598)	235,374
Net cash provided by/(used in) discontinued financing activities	1	(33,415)	(8,209)

Discontinued Operation of Shanghai Jingmao

In May 2010, Changyou acquired 50% of the equity interests in Shanghai Jingmao Culture Communication Co., Ltd. (“Shanghai Jingmao”) and an affiliate of Shanghai Jingmao, which were primarily engaged in the cinema advertising business. In January 2011, Changyou acquired the remaining 50% of the equity interests in Shanghai Jingmao and its affiliate for total consideration of approximately \$3.0 million. In the fourth quarter of 2011, a full impairment loss of \$5.2 million on goodwill was recognized for the cinema advertising business.

During the second quarter of 2019, after assessing the collectability of the assets of the cinema advertising business, including receivables and prepayments, Changyou recognized a \$17.0 million asset impairment charge for the cinema advertising business.

Changyou ceased operating the cinema advertising business and wound down the business in August 2019 as a result of a Chinese court in Shanghai having granted a petition by Shanghai Jingmao for bankruptcy relief on August 12, 2019. Accordingly, the results of operations for Changyou’s cinema advertising business have been excluded from Changyou’s results from continuing operations in the consolidated statements of comprehensive income and are presented in separate line items as discontinued operations. Retrospective adjustments to the historical statements have been made in order to provide a consistent basis of comparison. Additionally, as of December 31, 2018, the related assets and liabilities associated with the discontinued operations were classified as assets/liabilities associated with discontinued operations in the consolidated balance sheets to provide comparable financial information. Changyou recognized nil disposal gain/loss for the years ended December 31, 2019 and 2020. However, Changyou may recognize disposal gain/loss in the future, depending on developments in the bankruptcy proceedings in the Chinese court.

The following tables set forth the results of operations and cash flows of discontinued operations with respect to Changyou’s cinema advertising business, that were included in the Group’s consolidated financial statements (in thousands):

	Year Ended December 31,	
	2018	2019 ⁽¹⁾
Revenues	\$ 70,202	\$ 37,323
Cost of revenues	89,233	43,857
Gross loss	(19,031)	(6,534)
Operating expenses:		
Sales and marketing	20,288	8,807
General and administrative	4,965	18,583
Total operating expenses	25,253	27,390
Operating loss	(44,284)	(33,924)
Interest income	6	7
Other income/(expense), net	(557)	61
Loss before income tax expense	(44,835)	(33,856)
Income tax expense	0	142
Net loss from discontinued operations, net of tax	(44,835)	(33,998)

[Table of Contents](#)

	Year Ended December 31,	
	2018	2019 ⁽¹⁾
Net cash provided by discontinued operating activities	\$ 3,422	\$ 9,341
Net cash used in discontinued investing activities	(718)	(10,808)
Net cash provided by/(used in) discontinued financing activities	0	0

Note (1): Includes the financial results of the discontinued operations from January 1, 2019 to August 12, 2019.

4. SEGMENT INFORMATION

The Sohu Group's segments are business units that offer different services and are reviewed separately by the CODM, or the decision making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is the Company's Chief Executive Officer. There are two segments in the Group, consisting of the Sohu segment, and the Changyou segment.

The following tables present summary information by segment (in thousands):

	Year Ended December 31, 2018			Consolidated
	Sohu	Changyou	Eliminations	
Revenues	\$ 274,670	\$ 415,561	\$ (56)	\$ 690,175
Segment cost of revenues	(218,184)	(71,626)	56	(289,754)
Segment gross profit	56,486	343,935	0	400,421
SBC (1) in cost of revenues	707	31	0	738
Gross profit	57,193	343,966	0	401,159
Operating expenses:				
Product development	(123,743)	(126,593)	(1)	(250,337)
Sales and marketing	(203,307)	(34,512)	(1)	(237,820)
General and administrative	(47,738)	(28,657)	0	(76,395)
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	(16,369)	0	(16,369)
SBC (1) in operating expenses	4,940	6,430	0	11,370
Total operating expenses	(369,848)	(199,701)	(2)	(569,551)
Operating profit/(loss)	(312,655)	144,265	(2)	(168,392)
Other income				30,701
Interest income				16,036
Interest expense				(17,538)
Exchange difference				3,301
Loss before income tax expense				(135,892)
Income tax benefit				14,586
Net loss from continuing operations				(121,306)
Net income from discontinued operations				53,947
Net loss				\$ (67,359)

Note (1): "SBC" stands for share-based compensation expense.

[Table of Contents](#)

	Year Ended December 31, 2019			
	Sohu	Changyou	Eliminations	Consolidated
Revenues	\$ 218,442	\$ 455,380	\$ (19)	\$ 673,803
Segment cost of revenues	(148,258)	(95,268)	21	(243,505)
Segment gross profit	70,184	360,112	2	430,298
SBC (1) in cost of revenues	(23)	(120)	1	(142)
Gross profit	70,161	359,992	3	430,156
Operating expenses:				
Product development	(113,761)	(119,726)	0	(233,487)
Sales and marketing	(155,226)	(49,768)	2	(204,992)
General and administrative	(31,330)	(22,074)	(17)	(53,421)
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	(7,245)	0	0	(7,245)
SBC (1) in operating expenses	(1,023)	(1,185)	0	(2,208)
Total operating expenses	(308,585)	(192,753)	(15)	(501,353)
Operating profit/(loss)	(238,424)	167,239	(12)	(71,197)
Other income				7,963
Interest income				6,103
Interest expense				(14,370)
Exchange difference				1,430
Loss before income tax expense				(70,071)
Income tax expense				(28,428)
Net loss from continuing operations				(98,499)
Net income from discontinued operations				55,108
Net loss				\$ (43,391)

Note (1): "SBC" stands for share-based compensation expense.

	Year Ended December 31, 2020			
	Sohu	Changyou	Eliminations	Consolidated
Revenues	\$ 201,544	\$ 548,346	\$ 0	\$ 749,890
Segment cost of revenues	(122,362)	(94,362)	7	(216,717)
Segment gross profit	79,182	453,984	7	533,173
SBC (1) in cost of revenues	(177)	(543)	0	(720)
Gross profit	79,005	453,441	7	532,453
Operating expenses:				
Product development	(97,681)	(136,934)	0	(234,615)
Sales and marketing	(106,057)	(53,272)	0	(159,329)
General and administrative	(25,861)	(25,517)	0	(51,378)
SBC (1) in operating expenses	(1,759)	(12,001)	0	(13,760)
Total operating expenses	(231,358)	(227,724)	0	(459,082)
Operating profit/(loss)	(152,353)	225,717	7	73,371
Other income				25,993
Interest income				7,369
Interest expense				(6,234)
Exchange difference				(3,800)
Income before income tax expense				96,699
Income tax expense				(133,226)
Net loss from continuing operations				(36,527)
Net loss from discontinued operations				(91,793)
Net loss				\$ (128,320)

Note (1): "SBC" stands for share-based compensation expense.

[Table of Contents](#)

	As of December 31, 2019			
	Sohu	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 68,229	\$ 94,433	\$ 0	\$ 162,662
Accounts receivable, net	70,252	55,829	0	126,081
Fixed assets, net	177,978	159,713	(9)	337,682
Total assets (1)	\$1,721,801	\$1,871,685	\$(2,423,923)	\$1,169,563

Note (1): The elimination for segment assets mainly consists of elimination of intra-Group loans between Sohu and Changyou, and elimination of long-term investments in subsidiaries and consolidated VIEs.

	As of December 31, 2020			
	Sohu	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 56,977	\$ 160,080	\$ 0	\$ 217,057
Accounts receivable, net	60,886	26,635	0	87,521
Fixed assets, net	174,700	162,976	(2)	337,674
Total assets (1)	\$1,632,736	\$2,478,705	\$(2,701,488)	\$1,409,953

Note (1): The elimination for segment assets mainly consists of elimination of intra-Group loans between Sohu and Changyou, and elimination of long-term investments in subsidiaries and consolidated VIEs.

5. SHARE-BASED COMPENSATION EXPENSE

Sohu (excluding Sohu Video), Changyou, and Sohu Video have incentive plans for the granting of share-based awards, including share options and restricted share units, to members of the boards of directors, management and other key employees.

Share-based compensation expense was recognized in costs and expenses for the years ended December 31, 2018, 2019 and 2020 as follows (in thousands):

Share-based compensation expense	Year Ended December 31,		
	2018	2019	2020
Cost of revenues	\$ (739)	\$ 142	\$ 720
Product development expenses	(4,182)	1,364	7,325
Sales and marketing expenses	(920)	(326)	460
General and administrative expenses	(6,267)	1,170	5,975
	<u>\$(12,108)</u>	<u>\$2,350</u>	<u>\$14,480</u>

[Table of Contents](#)

Share-based compensation expense was recognized for share awards of Sohu (excluding Sohu Video), Changyou and Sohu Video as follows (in thousands):

Share-based compensation expense	Year Ended December 31,		
	2018	2019	2020
For Sohu (excluding Sohu Video) share-based awards	\$ (5,100)	\$ 1,940	\$ 2,633
For Changyou share-based awards	(6,461)	1,305	12,545
For Sohu Video share-based awards	(547)	(895)	(698)
	<u>\$ (12,108)</u>	<u>\$ 2,350</u>	<u>\$ 14,480</u>

The negative amounts in the tables above resulted from re-measured compensation expense based on the then-current fair value of the awards on the reporting date.

There was no capitalized share-based compensation expense for the years ended December 31, 2020, 2019 and 2018.

6. ADVERTISING AND PROMOTIONAL EXPENSES, INCLUDED IN SALES AND MARKETING EXPENSES

Advertising and promotional expenses are included in sales and marketing expenses, and generally represent the expenses of promotions to create or stimulate a positive image of the Sohu Group or a desire to subscribe for the Group's products and services. Advertising expenses are expensed as incurred. For the years ended December 31, 2020, 2019 and 2018, advertising and promotional expenses recognized in the consolidated statements of comprehensive income were \$84.7 million, \$124.6 million and \$137.6 million, respectively.

7. OTHER INCOME, NET

The following table summarizes the Sohu Group's other income/(expense) (in thousands):

	Year Ended December 31,		
	2018	2019	2020
Rental income from Sogou (1)	8,392	8,029	9,793
Individual tax refund and additional deduction of PRC value-added tax (2)	0	907	6,169
Government grant	5,342	5,763	5,928
Gain from the changes in fair value of financial instruments (3)	17,999	11,113	4,303
Write-off of unpaid long-term accounts payable	0	0	47
Investment income/(expense)	(3,448)	3,004	3
Impairment loss on equity investments (4)	0	(23,154)	(384)
Donations	0	(283)	(1,460)
Others	2,416	2,584	1,594
	<u>\$ 30,701</u>	<u>\$ 7,963</u>	<u>\$ 25,993</u>

Note (1): Sogou currently leases from Sohu, on an arms-length basis, office space at Sohu.com Internet Plaza under a lease that expires on December 31, 2022 and may be renewed subject to terms to be agreed to by Sohu and Sogou. Rental income consisted solely of the income from this lease. The cash receipts from this lease within operating activities for 2020, 2019 and 2018 were \$12.1 million, \$8.4 million and \$8.0 million, respectively.

Note (2): The increase for 2020 compared to 2019 mainly consisted of an individual tax refund of \$2.6 million and an additional deduction of PRC value-added tax of \$2.1 million.

Note (3): The decrease for 2020 compared to 2019 and the decrease for 2019 compared to 2018 were mainly due to a decrease in income earned from investments in financial instruments.

Note (4): In the fourth quarter of 2019, the Sohu Group recognized impairment losses of \$23.2 million for equity investments.

8. BALANCE SHEET COMPONENTS (IN THOUSANDS)

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
Accounts receivable, net		
Accounts receivable	\$130,037	94,528
Allowance for credit losses	(3,956)	(7,007)
	<u>\$126,081</u>	<u>87,521</u>

The following table presents the movement of allowances for credit losses for the years of 2018, 2019 and 2020:

	<u>Balance at the beginning of year</u>	<u>Changes on initial application of ASU 2016-13</u>	<u>Additional allowance for credit losses, net of recoveries</u>	<u>Write-offs</u>	<u>Exchange difference</u>	<u>Balance at the end of year</u>
2018	4,487	0	5,449	(1,940)	(422)	7,574
2019	7,574	0	4,724	(8,237)	(105)	3,956
2020	3,956	3,383	2,419	(3,231)	480	7,007

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
Prepaid and other current assets		
Matching loan due from a related party (See Note 9)	\$33,329	\$ 34,123
Prepaid taxes	26,274	25,043
Prepaid content and license	12,964	11,029
Prepaid cost of revenue	7,175	10,120
Receivables from third party payment platforms	3,435	5,488
Interest receivable from bank deposits with original maturities of three months or less	1,012	3,875
Prepaid professional fees	610	2,365
Prepaid rental deposit	2,891	2,310
Prepaid office rent and facilities expenses	601	696
Employee advances	1,249	587
Others	7,991	10,954
	<u>\$97,531</u>	<u>\$106,590</u>
Prepaid non-current assets		
Prepaid PRC income tax for the sale of assets associated with 17173.com by Sohu to Changyou	\$ 1,882	\$ 1,006
	<u>\$ 1,882</u>	<u>\$ 1,006</u>
Other short-term liabilities		
Matching loans due to a related party (See Note 9)	33,536	34,123
Contingent liability related to Shanghai Jingmao liquidation (1)	23,900	23,900
Deposits related to Focus	19,101	21,936
Share-based awards in Changyou	0	13,292
Contract deposits from advertisers	3,060	3,036
Lease liabilities	2,510	1,107
Consideration payable for equity investment	740	751
Others	8,218	8,026
	<u>\$91,065</u>	<u>\$106,171</u>

Note (1): The contingent liability represents the aggregate of estimated potential payments to third parties in connection with the liquidation of Shanghai Jingmao. The stated amount of the contingent liability reflects Changyou's best estimate as of December 31, 2019 and 2020 pursuant to ASC 450-20. Changyou may revise this estimate in the future based on developments in PRC bankruptcy court proceedings regarding Shanghai Jingmao.

Receipts in advance and deferred revenue

Receipts in advance relating to:		
brand advertising business	\$ 7,097	\$ 5,214
online game business	5,524	7,869
other business	6,490	6,029
Total receipts in advance	19,111	19,112
Deferred revenue	31,210	32,943
	<u>\$50,321</u>	<u>\$52,055</u>

9. RELATED PARTY TRANSACTIONS

Under an agreement between Sohu and Fox Financial Technology Group Limited (“Fox Financial,” formerly known as “SoEasy Internet Finance Group Limited”) entered into in August 2014, Sohu invested \$4.8 million and \$16.1 million, respectively, in Fox Financial in August 2014 and April 2015. In February 2016, Sohu invested an additional \$10.5 million in Fox Financial.

Changyou’s Loan Arrangements with Fox Financial

Commencing in April 2015, certain subsidiaries of Changyou and certain subsidiaries of Fox Financial entered into a series of loan agreements pursuant to which the subsidiaries of Changyou were entitled to draw down HK dollar-denominated or U.S. dollar-denominated loans from the Fox Financial subsidiaries and the Fox Financial subsidiaries were entitled to draw down equivalent RMB-denominated loans from the subsidiaries of Changyou, to facilitate each other’s business operations. All of the loans carry a fixed rate of interest which approximates the current market interest rate.

In December 2018 and 2019, Changyou entered into supplemental agreements with Fox Financial pursuant to which all accrued and unpaid interest on the loans as of December 31, 2018 and December 31, 2019 was added to the principal of the corresponding loans.

In December 2019, Changyou entered into a supplemental agreement with Fox Financial which states that Fox Financial undertakes and agrees to provide to Changyou a guaranty of the repayment obligation of Fox Financial and to deposit an amount equal to the US dollar denominated loan principal and corresponding interest owed by Changyou to Fox Financial as a security deposit. If Fox Financial fails to repay the RMB-denominated loan principal and corresponding interest based on RMB owed to Changyou, then the security deposit will be applied to repayment of the loan principal and corresponding interest owed to Changyou. The security deposit will be required to be replenished by Fox Financial if it is insufficient to repay the loan principal and corresponding interest of the RMB-denominated loan owed to Changyou, and any remaining surplus after the repayment of the RMB-denominated loan principal and interest will be returned to Fox Financial. The parties entered into an additional supplemental agreement, in which Changyou undertakes and agrees to provide to Fox Financial a guaranty of Changyou’s repayment obligation and to deposit an amount equal to the RMB-denominated loan principal and corresponding interest owed by Fox Financial to Changyou as a security deposit. If Changyou fails to repay the loan principal and corresponding interest, then the security deposit will be applied to repayment of the loan principal and corresponding interest owed to Fox Financial. The security deposit will be required to be replenished by Changyou if it is insufficient to repay the loan principal and corresponding interest to Fox Financial, and the remaining security deposit (if any) will be returned to Changyou if there is any surplus after the repayment of the US dollar denominated loan principal and interest.

As of December 31, 2020, the loan arrangements had expired and no new supplemental agreements were signed. Under supplemental agreements of guaranty between Changyou and Fox Financial entered into in December 2019, if Fox Financial failed to repay the RMB-denominated loan principle and corresponding interest, Changyou could apply the amount of the security deposit, consisting of the US dollar-denominated loan principal and corresponding interest owed by Changyou to Fox Financial, to repay the RMB-denominated loan principle and corresponding interest owed to Changyou. As of the date of this report, the loan arrangements have not been settled, and a settlement plan is under discussion. Changyou performed an assessment as of December 31, 2020 of expected credit losses for the RMB-denominated loans receivable from Fox Financial, and accrued an expected credit loss of \$2.4 million based on its estimate of the remaining exposure in excess of the security deposit and the lack of solvency of Fox Financial.

As of December 31, 2019 and December 31, 2020, Changyou had U.S. dollar-denominated loans payable to Fox Financial in a total amount of approximately \$33.5 million and \$34.1 million, respectively, and RMB-denominated loans receivable from Fox Financial in a total amount of approximately \$33.3 million and \$34.1 million, respectively. For the year ended December 31, 2019 and 2020, Changyou incurred interest expense of \$0.8 million and \$0.6 million, respectively, in connection with the loans payable and earned interest income of \$1.0 million and \$0.8 million, respectively, in connection with the loans receivable.

10. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1 - observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - include other inputs that are directly or indirectly observable in the market place.

Level 3 - unobservable inputs which are supported by little or no market activity.

The Sohu Group's financial instruments consist primarily of cash equivalents, restricted cash, short-term investments, accounts receivable, financing receivables, prepaid and other current assets, long-term investments, restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term bank loans and long-term accounts payable.

Financial Instruments Measured at Fair Value

The following table sets forth the financial instruments, measured at fair value by level within the fair value hierarchy, as of December 31, 2019 (in thousands):

Items	As of December 31, 2019	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 112,349	\$ 0	\$ 112,349	\$ 0
Restricted cash	3,290	0	3,290	0
Restricted time deposits	240	0	240	0
Short-term investments	321,483	0	321,483	0
Equity investments with readily determinable fair values	9,320	9,320	0	0

The following table sets forth the financial instruments, measured at fair value by level within the fair value hierarchy, as of December 31, 2020 (in thousands):

Items	As of December 31, 2020	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 173,655	\$ 0	\$ 173,655	\$ 0
Restricted cash	330,791	0	330,791	0
Restricted time deposits	101,519	0	101,519	0
Short-term investments	100,745	0	100,745	0
Equity investments with readily determinable fair values	9,457	9,457	0	0

Cash Equivalents

The Sohu Group's cash equivalents mainly consist of time deposits with original maturities of three months or less, notice deposits, and highly liquid investments that are readily convertible to known amounts of cash. The fair values of cash equivalents are determined based on the pervasive interest rates in the market. The Group classifies the valuation techniques that use the pervasive interest rates input as Level 2 of fair value measurements. Generally, there are no quoted prices in active markets for identical cash equivalents at the reporting date. In order to determine the fair value, the Group must use the discounted cash flow method and observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Restricted Cash and Restricted Time Deposits

Restricted cash and restricted time deposits are valued based on the prevailing interest rates in the market using the discounted cash flow method. The Sohu Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

Changyou Loans from Offshore Banks, Secured by Time Deposits

In 2018, Changyou drew down loans from the Hong Kong branches of PRC banks, which were secured by an equivalent or greater amount of RMB deposits by Changyou in the PRC branches of the banks. The loans from the Hong Kong branches of the lending banks were repaid in April 2019 by Changyou and the RMB deposits in the PRC branches of the banks were released.

In the fourth quarter of 2020, Changyou drew down from an offshore branch of a PRC bank a loan of \$215.6 million that was secured by an equivalent amount of RMB deposits by Changyou in the PRC branch of the bank and a mortgage on a building owned by Sohu. The loan carries a floating rate of interest based on the London Inter-Bank Offered Rate (“LIBOR”). The loan from the offshore branch of the lending bank was classified as short-term bank loan based on its payment term. The RMB deposits in the PRC securing the offshore loan are treated as restricted cash on our consolidated balance sheets.

For the years ended December 31, 2020 and 2019, interest income from the restricted time deposits securing the loans were \$0.1 million and \$0.5 million, respectively, and expense for interest on the loans was \$0.1 million and \$2.1 million, respectively.

In the second quarter of 2020, Changyou pledged deposit certificates in connection with the Sohu Group’s financing of the Changyou Merger. As of December 31, 2020, Changyou had pledged deposit certificates in the amount of \$212 million in the aggregate, of which \$110 million was recorded as restricted cash and \$102 million was recorded as restricted time deposits. Upon the effectiveness of such pledge, Sohu’s previous guarantee, and all the previous share pledges or mortgages over the outstanding equity interests in Changyou, to secure the loans from ICBC Tokyo (as defined below) were released and discharged.

Short-term Investments

In accordance with ASC 825, for investments in financial instruments with a variable interest rate indexed to performance of underlying assets, the Sohu Group elected the fair value method at the date of initial recognition and carried these investments at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive income as other income/(expense). To estimate fair value, the Group refers to the quoted rate of return provided by banks at the end of each period using the discounted cash flow method. The Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

As of December 31, 2020 and December 31, 2019, the Sohu Group’s investment in these financial instruments was \$100.7 million and \$321.5 million, respectively. The investment instruments were issued by commercial banks in China, and have a variable interest rate indexed to performance of underlying assets. Since these investments’ maturity dates are within one year, they are classified as short-term investments. For the years ended December 31, 2020 and 2019, the Sohu Group recorded gains from changes in the fair value of short-term investments in the amounts of \$4.3 million and \$11.1 million, respectively, in the consolidated statements of comprehensive income.

Equity Investments

ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The main provisions require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value through earnings, unless they qualify for a measurement alternative. The new guidance required modified retrospective application to all outstanding instruments beginning January 1, 2018, with a cumulative effect adjustment recorded to opening accumulated deficit as of the beginning of the first period in which the guidance becomes effective. However, changes to the accounting for equity securities without a readily determinable fair value will be applied prospectively.

The Group measures equity investments under the equity method and equity investments without readily determinable fair values at fair value on a non-recurring basis when an impairment charge is to be recognized. As of December 31, 2019 and 2020, certain investments were measured using significant unobservable inputs (Level 3) and written down from their respective carrying values to their fair values, considering the stage of development, the business plan, the financial condition, the sufficiency of funding and the operating performance of the investee companies, with impairment charges incurred and recorded in other income for the years then ended. The Group recognized impairment losses of \$23.2 million and \$0.4 million, respectively, for investments without readily determinable fair values and equity method investments in 2019 and 2020.

[Table of Contents](#)

Equity Investments Accounted for Using the Equity Method

For investments in common stock or in-substance common stock of entities over which the Group can exercise significant influence but does not own a majority equity interest or control, the equity method is applied, and the Group adjusts the carrying amount of an investment and recognizes investment income or loss for the Group's share of the earnings or loss of the investee after the date of investment. The Group measures equity investments under the equity method at fair value on a non-recurring basis only if an impairment charge is to be recognized. The Group classifies these non-recurring fair value measurements as Level 3 of fair value measurement.

Equity Investments with Readily Determinable Fair Values

Effective as of January 1, 2018, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification (changes in fair value previously reported in other comprehensive income) for equity securities with readily determinable fair values.

Equity investments with readily determinable fair values are valued using the market approach based on the quoted prices in active markets at the reporting date. The Group classifies the valuation techniques that use these inputs as Level 1 of fair value measurements.

Equity Investments without Readily Determinable Fair Values

Based on ASU 2016-01, an entity will be able to elect to record equity investments without readily determinable fair values and not accounted for by the equity method at cost, less impairment, adjusted for subsequent observable price changes. Entities that elect this measurement alternative will report changes in the carrying value of the equity investments in current earnings.

If this measurement alternative is elected, changes in the carrying value of the equity investment will be required to be made whenever there are observable price changes in transactions for identical or similar investments of the same issuer. The implementation guidance notes that an entity should make a "reasonable effort" to identify price changes that are known or that can reasonably be known. When observable price changes were identified, the Group used the back-solve method to re-measure the fair value of the investments and to determine the amount that should be recorded as upward or downward adjustments. The back-solve method requires considering the rights and preferences of each classes of equity and solving for the total equity value that is consistent with a recent transaction of the subject company's securities. This method requires making assumptions on future outcomes available to the subject company, the probability of each scenario, expected time to liquidity events, volatility and risk-free rate. The Group classifies this non-recurring fair value measurement as Level 3 of fair value measurement.

Short-term Receivables and Payables

Accounts receivable and prepaid and other current assets are financial assets with carrying values that approximate fair value due to their short-term nature. Short-term accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans and other short-term liabilities are financial liabilities with carrying values that approximate fair value due to their short-term nature. For short-term receivables and payables, the Group estimated fair values using the discounted cash flow method. The Group classifies the valuation technique as Level 2 of fair value measurements.

Short-term Bank Loans

For short-term bank loans, the rates of interest under the agreements with the lending banks were determined based on the prevailing interest rates in the market. The Sohu Group estimated fair values using the discounted cash flow method and classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

- Factoring contract with recourse with HongKong and Shanghai Banking Corporation Limited ("HSBC")

[Table of Contents](#)

In May 2017, Sohu entered into a factoring contract with recourse with HSBC, pursuant to which Sohu may borrow from HSBC from time to time up to a combined aggregate of RMB180.0 million (or \$26.2 million), which is the upper limit reviewed by HSBC at least annually. The loan is secured by up to RMB198.0 million (or \$28.8 million) of Sohu's accounts receivable and guaranteed by Sohu Media. Interest accrues on the principal amounts of the loans outstanding at an annual rate agreed to by HSBC and Sohu upon drawdown. In June 2019, Sohu terminated the factoring contract with recourse with HSBC, and the accounts receivable of Sohu was released from the pledge. As of both December 31, 2020 and December 31, 2019, the total outstanding balance of the loan was nil.

- Credit agreements with Industrial and Commercial Bank of China Limited ("ICBC")

In September 2017, Sohu entered into credit agreements with ICBC pursuant to which Sohu was entitled to borrow from ICBC from time to time until March 31, 2018 up to a combined aggregate of RMB800 million (or \$116.6 million). The loan is secured by the pledge of Sohu's building which serves as Sohu's corporate headquarters in Beijing ("Sohu's headquarters"). Interest accrues on the principal amounts of the loans outstanding at an annual rate equal to the Loan Prime Rate ("LPR") published by the National Interbank Funding Center, plus 1.2%. The outstanding principal amount of the loan will be payable in four equal installments, with the first installment payable 18 months after the drawdown and the other three installments payable semi-annually at the end of each of the three successive six-month periods after the first installment payment.

In July 2020, Sohu repaid all of the outstanding balance under the loan arrangements with ICBC and Sohu's headquarters were released from the pledge. As of December 31, 2020 and December 31, 2019, the total outstanding balance of the loan was nil and RMB400 million (or \$57.3 million), respectively.

- Credit agreements with the China Merchants Bank Co., Ltd. ("CMB")

In April 2018, Sohu entered into credit agreements with CMB pursuant to which Sohu was entitled to borrow from CMB from time to time until March 22, 2021 up to an aggregate of RMB700 million (or approximately \$102.0 million) (the "CMB Loan").

In April 2018, Sohu made an initial drawdown under the CMB Loan with a term of 12 months in the amount of RMB400 million (or \$58.3 million) (the "First Drawdown"). The proceeds of the First Drawdown were used to repay in full the outstanding balance and all accrued and unpaid interest under credit agreements between Sohu and Ping An Bank. The CMB Loan was secured by a pledge of Sohu's building, which was released from the pledge after Ping An Bank received such repayment. Interest accrued on the outstanding principal balance at a rate of 6% per year. In April 2019, the outstanding principal amount of the First Drawdown was repaid in full.

In June 2018, Sohu made a drawdown under the CMB Loan with a term of 24 months in the amount of RMB300 million (or approximately \$43.7 million) (the "Subsequent Drawdown"). Interest accrued on the outstanding principal balance at a rate of 6% per year. The outstanding principal amount of the Subsequent Drawdown was payable in four installments. The first installment of RMB45 million (or \$6.7 million) was paid in December 2018; the second and third installments of RMB90 million (or \$13.1 million) in the aggregate were paid early in June 2019; and the fourth installment of RMB165 million (or \$23.3million) was paid early in July 2019.

In April 2019 and May 2019, Sohu made drawdowns under the CMB Loan with a term of 12 months in the aggregate amount of RMB399 million (\$59.3 million). Interest accrues on the outstanding principal balances at a rate of 5.1% per year. The outstanding principal amount of each drawdown will be due and payable 12 months after such drawdown.

In May 2020, Sohu repaid all of the outstanding balance under the loan arrangements with CMB and the pledge of Sohu's building was released. As of December 31, 2020 and December 31, 2019, the total outstanding balance of the CMB loan was nil and RMB399 million (or \$57.2 million), respectively.

- Credit agreement with Industrial and Commercial Bank of China Limited, Tokyo Branch ("ICBC Tokyo")

On April 3, 2020, the Company's indirect wholly-owned subsidiary Sohu.com (Game) Limited ("Sohu Game"), as borrower, and Sohu.com Limited, as guarantor, entered into a facility agreement (the "Facility Agreement") with ICBC Tokyo pursuant to which ICBC Tokyo agreed to provide a term loan facility of up to \$250 million (the "Term Facility"), subject to customary conditions, to be used to finance the consummation of the Changyou Merger and the related transactions and to pay related fees and expenses associated with the Changyou Merger. The Term Facility consisted of (i) a one-year term facility for term loans of up to \$100 million (the "One-Year Facility") and (ii) a four-year term facility for term loans of up to \$150 million (the "Four-Year Facility"). The outstanding principal amount of the loans under the One-Year Facility is due in full on the one-year anniversary of the date of the first utilization of the One-Year Facility. The outstanding principal amount of the loans under the Four-Year Facility is due in installments, with \$7.5 million due and payable at the end of each of the second and third calendar years during the term of the Four-Year Facility and the remaining outstanding principal amount is due and payable on the fourth anniversary of the date of the first utilization of the One-Year Facility. The Term Facility bears interest at a rate of Three Month LIBOR plus a margin of 1.75%, with LIBOR to be determined by ICBC on the basis of the London InterBank Offered Rate published two business days before the first day of each three calendar month interest period. Accrued interest is to be paid every three calendar months on the first day after the end of each such three-month interest period.

[Table of Contents](#)

The obligations of Sohu Game as borrower under the Term Facility were initially fully guaranteed by Sohu.com Limited, and were initially secured by first priority share pledges over 97.9% of the outstanding equity interests in Changyou. In the second quarter of 2020, Changyou pledged deposit certificates evidencing an RMB deposit in the amount of \$192 million in the aggregate at an exchange rate of RMB7.20 to \$1.00, equivalent to the Facility Agreement amount. Upon the effectiveness of such additional pledge, Sohu's previous guarantee, and all the previous share pledges or mortgages over the outstanding equity interests in Changyou, to secure the loans from ICBC Tokyo were released and discharged.

Long-term Payables

Long-term payables mainly consist of long-term accounts payable, long-term bank loans, long-term tax liabilities and deferred tax liabilities (see Note 15).

After the Changyou Plans' Modification, long term payables also include liabilities accrued over the option holders' service periods with a fixed price of \$5.39 per Changyou Class A ordinary share.

Long-term accounts payable are financial liabilities with carrying values that approximate fair value due to any changes in fair value, after considering the discount rate, being immaterial. For long-term accounts payable, the Group estimated fair values using the discounted cash flow method. The Sohu Group classifies the valuation technique as Level 2 of fair value measurements.

Assets Measured at Fair Value on a Nonrecurring Basis

The following table sets forth assets measured at fair value on a nonrecurring basis by level within the fair value hierarchy as of December 31, 2019 and 2020 (in thousands)

Items	As of December 31, 2019	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Purchased video content recorded in prepaid and other assets	\$ 3,115	\$ 0	\$ 0	\$ 3,115
Intangible assets, net	9,922	0	0	9,922
Goodwill	47,390	0	0	47,390

Items	As of December 31, 2020	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Purchased video content recorded in prepaid and other assets	\$ 2,585	\$ 0	\$ 0	\$ 2,585
Intangible assets, net	4,842	0	0	4,842
Goodwill	48,434	0	0	48,434

[Table of Contents](#)

Purchased Video Content Recorded in Prepaid and Other Assets

The impairment losses recognized in prepaid and other assets were mainly due to impairment losses for Sohu Video's purchased video content. See Note 14 - Intangible Assets, Net.

Intangible Assets

Intangible assets mainly comprise purchased video content, operating rights for licensed games, domain names and trademarks, computer software, and developed technologies. The impairment losses recognized for intangible assets were mainly due to impairment losses for the domain name related to the 56.com Website and Sohu Video's purchased video content. See Note 14 - Intangible Assets, Net.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Group's acquisitions of interests in its subsidiaries and consolidated VIEs. See Note 13 - Goodwill.

11. LEASE

The Group has entered into operating lease agreements, primarily for offices in China with lease periods expiring between 2020 and 2025. The determination of whether an arrangement is or contains a lease is made at the inception of the lease by evaluating whether the arrangement conveys the right to use an identified asset and whether the Group obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. Operating lease assets and liabilities are included on the Group's consolidated balance sheets beginning January 1, 2019. The right-of-use assets are included in other assets, while the current portion of the operating lease liabilities is included in other short-term liabilities and the long-term portion is included in other long-term liabilities. The Group has elected to not recognize lease assets and lease liabilities for leases with a term of twelve months or less on the consolidated balance sheets.

Operating lease assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The Group uses its incremental borrowing rate in determining the present value of the future lease payments, because the interest rate implicit in most of the leases is not readily determinable. The Group estimates its incremental borrowing rate for each leased asset based on the interest rate the Group would incur to borrow an amount equal to the lease payments on a collateralized basis over a similar term in a similar economic environment.

Certain lease agreements contain an option for the Group to renew a lease for a term agreed to by the Group and the lessor or an option to terminate a lease earlier than the maturity date. The Group considers these options, which may be elected at the Group's sole discretion, in determining the lease term on a lease-by-lease basis. The Group's lease agreements generally do not contain any residual value guarantees or material restrictive covenants. Certain of the Group's leases contain free or escalating rent payment terms. Operating lease expense is recognized on a straight-line basis over the lease term.

The Group's lease agreements generally contain lease and non-lease components. Non-lease components consist primarily of payments for maintenance and utilities. The Group has identified separate lease and non-lease components, allocated the contractual considerations between components based on the terms specified in the lease agreements, and accounted for the lease components separately from the non-lease components. Payments under the lease arrangements are primarily fixed with no variable payments.

Components of operating lease expense are as follows (in thousands):

	Year ended December 31,	
	2019	2020
Operating lease expense	\$ 4,858	\$ 3,985
Short-term lease expense	244	297
Total operating lease expense	\$ 5,102	\$ 4,282

Supplemental cash flow information related to leases are as follows (in thousands):

	Year ended December 31,	
	2019	2020
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 5,013	\$ 3,206

[Table of Contents](#)

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2020</u>
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	\$ 134	\$ 5,351

The following table presents supplemental balance sheet information related to the operating leases (in thousands):

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2020</u>
Assets:		
Operating lease right-of-use assets	\$ 3,323	\$ 4,998
Liabilities:		
Current lease liabilities	2,510	1,107
Non-current lease liabilities	83	3,855
Total operating lease liabilities	\$ 2,593	\$ 4,962

Maturities of lease liabilities under operating leases as of December 31, 2020 are as follows (in thousands):

2021	\$1,957
2022	1,785
2023	1,421
2024	191
2025	95
Thereafter	0
Total future lease payments	5,449
Less: imputed interest	(487)
Total present value of lease liabilities	\$4,962

As of December 31, 2020, operating leases recognized in lease liabilities had a weighted average remaining lease term of 3.0 years and a weighted average discount rate of 5.7%. As of December 31, 2020, liabilities for leases that had been entered into, but the term of which had not yet commenced, amounted to \$1.9 million.

12. FIXED ASSETS

The following table summarizes the Sohu Group's fixed assets (in thousands):

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
Office buildings	\$ 366,686	\$ 392,045
Computer equipment and hardware	133,451	132,021
Leasehold and building improvements	34,251	36,649
Office furniture	6,609	6,841
Vehicles	3,239	3,729
Fixed assets, gross	544,236	571,285
Accumulated depreciation	(206,554)	(233,611)
Fixed assets, net	\$ 337,682	\$ 337,674

For the years ended December 31, 2020, 2019 and 2018, depreciation expenses for fixed assets were \$25.5 million, \$28.2 million and \$32.1 million, respectively.

13. GOODWILL

Changes in the carrying value of goodwill by segment are as follows (in thousands):

	Sohu	Changyou	Total
Balance as of December 31, 2018			
Goodwill	69,627	180,543	250,170
Accumulated impairment losses	<u>(32,246)</u>	<u>(170,286)</u>	<u>(202,532)</u>
	<u>\$ 37,381</u>	<u>\$ 10,257</u>	<u>\$ 47,638</u>
Transactions in 2019			
Foreign currency translation adjustment	(248)	0	(248)
Impairment losses	<u>0</u>	<u>0</u>	<u>0</u>
Balance as of December 31, 2019	<u>\$ 37,133</u>	<u>\$ 10,257</u>	<u>\$ 47,390</u>
Balance as of December 31, 2019			
Goodwill	69,379	180,543	249,922
Accumulated impairment losses	<u>(32,246)</u>	<u>(170,286)</u>	<u>(202,532)</u>
	<u>\$ 37,133</u>	<u>\$ 10,257</u>	<u>\$ 47,390</u>
Transactions in 2020			
Foreign currency translation adjustment	1,044	0	1,044
Impairment losses	<u>0</u>	<u>0</u>	<u>0</u>
Balance as of December 31, 2020	<u>\$ 38,177</u>	<u>\$ 10,257</u>	<u>\$ 48,434</u>
Balance as of December 31, 2020			
Goodwill	70,423	180,543	250,966
Accumulated impairment losses	<u>(32,246)</u>	<u>(170,286)</u>	<u>(202,532)</u>
	<u>\$ 38,177</u>	<u>\$ 10,257</u>	<u>\$ 48,434</u>

There was one reporting unit under the Sohu segment. After Changyou ceased operations of RaidCall and the cinema advertising business, the reporting units under the Changyou segment consisted of the Changyou online game business and the 17173.com Website. The Changyou online game business was the only reporting unit with goodwill under the Changyou segment.

In the fourth quarter of 2020, the Sohu Group tested goodwill for impairment at the reporting unit level. The Group performed impairment tests using the qualitative and quantitative methods. For the Sohu segments, impairment tests were conducted by quantitatively comparing the fair values of the reporting units to their carrying amounts. The Sohu segments estimated the fair values by weighting the results from the income approach and market approach. The valuation approach considers a number of factors that include expected future cash flows, revenue growth rates, discount rates, and requires Sohu to make certain assumptions and estimates regarding future profitability of the business. The market approach considers earnings multipliers based on market data of comparable companies engaged in similar business. For the Changyou segment, Changyou first qualitatively assessed whether it was more likely than not that the fair values of the reporting segments were less than their carrying amounts. For those reporting units where it was more likely than not that their fair values were less than their carrying amounts, Changyou performed the quantitative goodwill impairment test. Changyou estimated the fair values using the income approach considering factors that included expected future cash flows, growth rates and discount rates.

As of December 31, 2020, for the Sohu and Changyou segments, management concluded that the fair values of the reporting units exceeded their carrying values, indicating that the goodwill of the reporting units was not impaired.

[Table of Contents](#)

In March 2019 and August 2019, respectively, Changyou ceased its RaidCall and cinema advertising business operations. Accordingly, there were no impairments for these two units, as the carrying values of both RaidCall and the cinema advertising business were nil before their cessation. As of December 31, 2019, for the Sohu segment and the businesses in the Changyou segment, management concluded that the fair values of the reporting units exceeded their carrying values, indicating that the goodwill of the reporting units was not impaired.

14. INTANGIBLE ASSETS, NET

Items	As of December 31, 2019			
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Purchased video content	\$217,610	\$ (179,167)	\$ (35,940)	\$ 2,503
Operating rights for licensed games	47,227	(27,992)	(12,365)	6,870
Domain names and trademarks	26,301	(9,896)	(16,176)	229
Computer software	13,273	(12,953)	0	320
Developed technologies	8,200	(868)	(7,332)	0
Others	2,738	(903)	(1,835)	0
Total	<u>\$315,349</u>	<u>\$ (231,779)</u>	<u>\$ (73,648)</u>	<u>\$ 9,922</u>

Items	As of December 31, 2020			
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount
Purchased video content	\$212,999	\$ (161,160)	\$ (50,088)	\$ 1,751
Operating rights for licensed games	51,856	(35,017)	(14,026)	2,813
Domain names and trademarks	27,536	(10,243)	(17,219)	74
Computer software	11,749	(11,545)	0	204
Developed technologies	8,699	(918)	(7,781)	0
Others	2,928	(966)	(1,962)	0
Total	<u>\$315,767</u>	<u>\$ (219,849)</u>	<u>\$ (91,076)</u>	<u>\$ 4,842</u>

Impairment Losses

In 2020, Sohu recognized a \$1.5 million impairment loss related to Sohu Video's purchased video content pursuant to the Sohu Group's policy on impairment of overseas content. Changyou recognized a \$2.7 million impairment loss related to content and game licenses, of which \$0.8 million was recognized as impairment of intangible assets and \$1.9 million was recognized as impairment of prepaid and other current assets.

In 2019, Sohu recognized a \$7.2 million impairment loss for a domain name related to the 56.com Website, mainly due to enhanced restrictions that Chinese regulatory authorities imposed on the broadcasting industry, which had an adverse effect on the operation of the 56.com Website. Also in 2019, Sohu recognized a \$4.0 million impairment loss related to Sohu Video's purchased video content pursuant to the Sohu Group's policy on impairment of overseas content.

In 2018, Sohu recognized \$10.4 million in losses related to Sohu Video's purchased video content, of which \$9.8 million was recognized as impairment of intangible assets and \$0.6 million was recognized as impairment of prepaid and other current assets, as Sohu Video's revenues for 2018 did not meet management's expectations.

[Table of Contents](#)

Amortization

In 2020, 2019 and 2018, amortization of intangible assets was \$14.4 million, \$38.8 million and \$58.1 million, respectively.

As of December 31, 2020, amortization expenses for future periods are estimated to be as follows:

<u>For the year ended December 31,</u>	<u>(in thousands)</u>
2021	3,346
2022	1,177
2023	279
2024	40
2025	0
Thereafter	0
Total expected amortization expense	<u>\$ 4,842</u>

15. TAXATION

Income Tax

PRC Corporate Income Tax

The majority of the subsidiaries and VIEs of the Sohu Group are based in mainland China and are subject to income taxes in the PRC. These China-based subsidiaries and VIEs conduct substantially all of the Sohu Group's operations, and generate most of the Sohu Group's income or losses. The CIT Law applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to HNTEs, Software Enterprises, and KNSEs.

Principal Entities Qualified as HNTEs

Under preferential tax treatment, HNTEs can enjoy an income tax rate of 15%, but need to re-apply every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate.

As of December 31, 2020, the following principal entities of the Sohu Group were qualified as HNTEs and were entitled to an income tax rate of 15%.

For Sohu

- Sohu New Momentum. Sohu New Momentum qualified as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Sohu Internet and Video Tianjin. Sohu Internet and Video Tianjin qualified as HNTEs for the years 2018 through 2020, and will need to re-apply for HNTE qualification in 2021.
- Sohu Media. Sohu Media re-applied for HNTE qualification and received approval in December 2020. Sohu Media is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2020 through 2022, and will need to re-apply for HNTE qualification in 2023.

For Changyou

- Gamespace and Changyou Chuangxiang. Gamespace and Changyou Chuangxiang qualified as HNTEs for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Gamease and AmazGame. Gamease and AmazGame re-applied for HNTE qualification and received approval in October 2020. Gamease and AmazGame are entitled to continue to enjoy the beneficial tax rate as HNTEs for the years 2020 through 2022, and will need to re-apply for HNTE qualification in 2023.

For Sogou

- Sogou Network. Sogou Network qualified as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Sogou Information. Sogou Information qualified as an HNTE for the years 2018 through 2020, and will need to re-apply for HNTE qualification in 2021.

Table of Contents

- Sogou Technology. Sogou Technology re-applied for HNTE qualification and received approval in December 2020. Sogou Technology is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2020 through 2022, and will need to re-apply for HNTE qualification in 2023.

Principal Entities Qualified as KNSEs

The CIT Law and its implementing regulations provide that a Software Enterprise is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. An entity that qualifies as a KNSE is entitled to a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of a Software Enterprise or a KNSE must perform a self-assessment each year to ensure they meet the criteria for qualification and file required supporting documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to the tax authorities' assessment each year as to whether they are entitled to use the relevant preferential CIT treatments. If at any time during the preferential tax treatment years an enterprise uses the preferential CIT rates but the relevant authorities determine that it fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise's Software Enterprise or KNSE status.

For Changyou

- AmazGame. In 2020, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2019. Also in 2020, AmazGame was qualified as a KNSE after the relevant government authorities' assessment and became entitled to a preferential income tax rate of 10% for 2019. In 2021, AmazGame expects to follow the appropriate rules and procedures of the relevant government authorities in order to maintain its KNSE status for 2020.
- Changyou Chuangxiang. In 2020, Changyou Chuangxiang completed a self-assessment and filed required supporting documents for KNSE status for 2019. In 2020, Changyou Chuangxiang was qualified as a KNSE after the relevant government authorities' assessment and became entitled to a preferential income tax rate of 10% for 2019. In 2021, Changyou Chuangxiang expects to follow the appropriate rules and procedures of the relevant government authorities in order to maintain its KNSE status for 2020.

U.S. Corporate Income Tax

Sohu.com Inc., which was formerly the top-tier publicly-traded parent company of the Sohu Group, was dissolved and liquidated on May 31, 2018. Sohu.com Inc. was a Delaware corporation that was subject to U.S. federal corporate income tax on its taxable income at a rate of 21% for taxable years beginning after December 31, 2017 and of up to 35% for prior tax years. U.S. federal tax legislation signed into law on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act (the "U.S. TCJA"), significantly modified the U.S. Internal Revenue Code by, among other things, reducing the maximum statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a partial territorial tax system with a one-time Toll Charge on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings.

Certain activities conducted in the PRC resulted in U.S. corporate income taxes being imposed on Sohu.com Inc. when its subsidiaries that were controlled foreign corporations ("CFCs") generated income that was subject to Subpart F of the U.S. Internal Revenue Code ("Subpart F"). Generally, passive income, such as rents, royalties, interest, dividends, and gains from disposal of the company's investments, is among the types of income subject to taxation under Subpart F. Any income taxable under Subpart F was taxable in the U.S. at the applicable federal corporate income tax rate. Subpart F income also included certain income from intra-Group transactions between Sohu.com Inc.'s non-U.S. subsidiaries and VIEs and Changyou's non-U.S. subsidiaries and VIEs or Sogou's non-U.S. subsidiaries and VIEs, or where Sohu.com Inc.'s non-U.S. subsidiaries or VIEs made an "investment in U.S. property," such as holding the stock in, or making a loan to, a U.S. corporation. Under a provision of the U.S. tax code commonly referred to as the CFC look-through rule, Sohu.com Inc. did not have to treat dividends received by its CFC subsidiaries as Subpart F income includible in Sohu.com Inc.'s taxable income in the U.S.

To the extent that portions of Sohu.com Inc.'s U.S. taxable income, such as Subpart F income or GILTI, as applicable, had been determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may have been entitled to claim foreign tax credits to offset its U.S. income tax liabilities. Following the enactment of the U.S. TCJA, if dividends that Sohu.com Inc. received from its subsidiaries after January 1, 2018 were determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. would generally not have been required to pay U.S. corporate income tax on those dividends. Liabilities for U.S. corporate income tax were accrued in the Company's consolidated statements of comprehensive income and estimated tax payments were made when required by U.S. law.

Treatment of Toll Charge Related to the U.S. TCJA

Beginning in the fourth quarter of 2017, the Sohu Group had recognized a provisional amount of income tax expense for the Toll Charge of \$219 million, which represented management's estimate of the amount of the Toll Charge that would have been payable by Sohu.com Inc. based on the deemed repatriation to the United States of its share of previously deferred earnings of certain of its non-U.S. subsidiaries, offset by a reduction of \$4 million in liability for deferred U.S. income tax, as a result of the U.S. TCJA. The Sohu Group included the provisional amount of the Toll Charge of \$219 million in its interim financial statements through the quarter ended September 30, 2018, in reliance on SAB 118.

For the fourth quarter of 2018, the Sohu Group's management re-evaluated the impact on the Sohu Group of the Toll Charge under the U.S. TCJA. Management determined that it was more likely than not, based on the technical merits, that the tax position that the Sohu Group had no Toll Charge liability would be sustained. The Group recognized a tax benefit in the amount of \$77 million, which was the largest amount that management determined to be greater than 50% likely to be realized upon settlement with the U.S. IRS. As a result, as of December 31, 2018, the Sohu Group had an unrecognized tax benefit in the amount of \$142 million, which represented the difference between the tax benefit recognized in the fourth quarter of 2018 and management's previous estimate of the Toll Charge. The estimate remained unchanged as of December 31, 2020. In addition, the Sohu Group accrued \$8 million and \$6 million, respectively, in interest on the unrecognized tax benefit for the years of 2019 and 2020.

The tax benefit recognized and the unrecognized tax benefit in relation to the Toll Charge may be subject to further adjustment in subsequent periods based on facts and circumstances that arose after December 31, 2020, such as any IRS assessments upon audit and management's further judgment and estimates.

Cayman Island Tax

Under the current tax laws of the Cayman Islands, the Group is not subject to tax on its income or capital gains. In addition, no Cayman Islands withholding tax will be imposed upon the payment of dividends by the Group to its shareholders.

Hong Kong Tax

The Group's subsidiaries incorporated in Hong Kong are subject to profits tax in Hong Kong at the rate of 16.5% for each of the years ended December 31, 2018, 2019 and 2020.

Composition of Income Tax Expense

Sohu.com Inc., which was the former top-tier entity of the Sohu Group, was a Delaware corporation that was subject to United States income tax. On May 31, 2018, Sohu.com Inc. was dissolved and liquidated and Sohu.com Limited became the top-tier entity of the Sohu Group. Sohu.com Limited is not subject to income or capital gains tax under the current laws of the Cayman Islands. There are no other taxes likely to be material to Sohu.com Limited levied by the government of the Cayman Islands.

The components of income before income taxes are as follows (in thousands):

	Year ended December 31,		
	2018	2019	2020
Income/(loss) before income tax expense			
Income/(loss) from China operations	\$ (76,585)	\$(89,150)	\$154,514
Income/(loss) from non-China operations	(59,307)	19,079	(57,815)
Total income/(loss) before income tax expense from continuing operations	<u>\$(135,892)</u>	<u>\$(70,071)</u>	<u>\$ 96,699</u>
Income tax expense applicable to China operations			
Current tax	\$ 14,578	\$ 9,026	\$ 24,255
Deferred tax	48,907	11,191	102,652
Subtotal income tax expense applicable to China operations	63,485	20,217	126,907
Non-China income tax expense/(benefit)	(78,540)	7,887	6,207
Non-China withholding tax expense	469	324	112
Total income tax expense/(benefit) from continuing operations	<u>\$ (14,586)</u>	<u>\$ 28,428</u>	<u>\$133,226</u>

[Table of Contents](#)

In 2020, of the \$133.2 million total income tax expense, \$126.9 million was for PRC tax, resulting primarily from accrued regular income tax expense of \$40.7 million and additional income withholding tax of \$88 million recognized by Changyou due to a revised policy with respect to Changyou's PRC subsidiaries regarding their distribution of cash dividends, offset by a reversal of PRC income tax expense of \$6.9 million by Changyou due to preferential tax rates that Changyou's subsidiaries were entitled to as KNSEs; and \$6 million was for U.S. corporate income tax, resulting primarily from accrued interest on an unrecognized tax benefit.

In 2019, of the \$28.4 million total income tax expense, \$20.2 million was for PRC tax, resulting primarily from accrued regular income tax expense of \$32.6 million, offset by a reversal of PRC income tax expense of \$19.5 million by Changyou due to preferential tax rates that Changyou's subsidiaries were entitled to as KNSE and Software enterprises, and \$8 million was for U.S. corporate income tax, resulting primarily from accrued interest on an unrecognized tax benefit.

For the fourth quarter of 2018, the Sohu Group's management re-evaluated the impact on the Sohu Group of the Toll Charge under the U.S. TCJA. Management determined that it was more likely than not, based on the technical merits, that the tax position that the Sohu Group had no Toll Charge liability would be sustained. The Group recognized a tax benefit in the amount of \$77 million, which was the largest amount that management determined to be greater than 50% likely to be realized upon settlement with the U.S. IRS. As a result, as of December 31, 2018 the Sohu Group had an unrecognized tax benefit in the amount of \$142 million, which represented the difference between the tax benefit recognized in the fourth quarter of 2018 and management's previous estimate of the Toll Charge. In addition, the Sohu Group accrued \$2 million in interest on the unrecognized tax benefit.

The combined effects of the income tax exemption and reduction available to the Group are as follows (in thousands, except per share data):

	Year Ended December 31,		
	2018	2019	2020
Tax holiday effect	\$23,271	\$7,981	\$16,174
Basic net income per share effect	0.60	0.20	0.41

Effective Tax Rate

The CIT Law applies an income tax rate of 25% to all enterprises, but grants preferential tax treatment to HNTEs, Software Enterprises, and KNSEs.

The U.S. TCJA significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time Toll Charge on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings.

Table of Contents

The following is reconciliation between the statutory rate and the Group's effective tax rate. For 2018, 2019 and 2020, the statutory rate represented the PRC statutory rate of 25%. The table does not reflect any accruals related to the Toll Charge. See "U.S. Corporate Income Tax" and "Treatment of Toll Charge Related to the U.S. TCJA."

	Year Ended December 31,		
	2018	2019	2020
Statutory Rate:	25%	25%	25%
Effect of tax holidays applicable to subsidiaries and consolidated VIEs (1)	17%	11%	(17%)
Tax differential from statutory rate applicable to subsidiaries and consolidated VIEs	(1%)	7%	9%
Effect of withholding taxes (2)	(39%)	(12%)	109%
Changes in valuation allowance for deferred tax assets	(29%)	(71%)	27%
Research and development super-deduction	4%	12%	(9%)
Others	(24%)	(1%)	(13%)
	<u>(47%)</u>	<u>(29%)</u>	<u>131%</u>

Note (1): The reversal of income tax for preferential income tax rates that Changyou's subsidiaries and VIEs were entitled to as KNSSEs or Software Enterprises for 2018, 2019 and 2020 was included in the "Effect of tax holidays applicable to subsidiaries and consolidated VIEs" in the above table.

Note (2): The effective tax rate for 2018 was mainly due to additional income withholding tax of \$47 million that was recognized in the first quarter of 2018 due to a revised policy for Changyou's PRC subsidiaries with respect to their distribution of cash dividends. The revised policy was adopted to facilitate the distribution of a special cash dividend in the aggregate amount of approximately \$500.0 million that was declared by Changyou's Board of Directors on April 5, 2018. The change for 2020 was mainly due to additional income withholding tax of \$88 million that was recognized in the second quarter of 2020 due to a revised policy with respect to Changyou's PRC subsidiaries regarding their distribution of cash dividends.

PRC Withholding Tax on Dividends

The CIT Law imposes a 10% withholding income tax on dividends distributed by foreign invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the "Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income," if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to a withholding tax rate of 10%.

Before 2018, in order to fund the distribution of a dividend to shareholders of the Sohu Group's majority-owned subsidiary Changyou, Changyou's management determined to cause one of its PRC subsidiaries to declare and distribute a cash dividend of all of its stand-alone 2012 earnings and half of its stand-alone subsequent years' earnings to its direct overseas parent company, Changyou HK, and adopted as a policy for such subsequent years for its PRC subsidiaries a limit on payment of dividends to their direct overseas parent companies of one-half of such PRC subsidiaries' earnings. In 2018, in order to facilitate the distribution of a special cash dividend of \$500.0 million declared by Changyou's board of directors on April 5, 2018, Changyou revised its policy for its PRC subsidiaries with respect to their distribution of cash dividends. Under the revised policy, all of Changyou's PRC subsidiaries (not including Changyou's VIEs and their subsidiaries) will be able to distribute their cumulative available and undistributed earnings to their direct overseas parent companies in future periods. The change resulted in Changyou's accrual of additional withholding income taxes of approximately \$47 million for the period before December 31, 2017, which was recognized in the Sohu Group's consolidated financial statements for the quarter ended March 31, 2018. As of December 31, 2019, the Sohu Group had accrued deferred tax liabilities related to Changyou in the amount of \$86.8 million for PRC withholding tax. In 2020, after the completion of Changyou Merger, Changyou's net income/(loss) is wholly attributable to Sohu. Changyou changed its policy for its PRC subsidiaries with respect to their distribution of cash dividends. The change resulted in Changyou's accrual of additional withholding income taxes of approximately \$88 million, which was recognized in the Sohu Group's consolidated financial statements for the quarter ended June 30, 2020. As of December 31, 2020, the Sohu Group had accrued deferred tax liabilities related to Changyou in the amount of \$206.6 million for PRC withholding tax.

With the exception of that dividend, the Sohu Group does not intend to have any of its PRC subsidiaries or VIEs distribute any undistributed profits of such subsidiaries or VIEs to their direct overseas parent companies, but rather intends that such profits will be permanently reinvested by such subsidiaries and VIEs for their PRC operations. As of December 31, 2020, the total amount of undistributed profits from the PRC subsidiaries and VIEs for which no withholding tax had been accrued was \$783.8 million, and the unrecognized tax liabilities were \$78.4 million.

[Table of Contents](#)

PRC Value-Added Tax

On May 1, 2016, the transition from the imposition of PRC business tax to the imposition of VAT was expanded to all industries in China, and as a result all of the Sohu Group's revenues have been subject to VAT since that date. To record VAT payable, the Group adopted the net presentation method, which presents the difference between the output VAT (at rates of 6% or 17% for the period from January 1, 2018 to April 30, 2018, at rates of 6% or 16% for the period from May 1, 2018 to March 31, 2019, and at rates of 6% or 13% after April 1, 2019) and the available input VAT amount (at the rate applicable to the supplier).

Deferred Tax Assets and Liabilities

Significant components of the Group's deferred tax assets and liabilities consist of the following (in thousands):

	As of December 31,	
	2019	2020
Deferred tax assets:		
Net operating loss from operations	\$ 277,478	\$ 325,797
Accrued bonus and commissions	8,539	10,613
Intangible assets transfer	916	690
Others	10,947	8,692
Total deferred tax assets	297,880	345,792
Less: Valuation allowance	(283,711)	(326,755)
Net deferred tax assets	<u>\$ 14,169</u>	<u>\$ 19,037</u>
Deferred tax liabilities		
Withholding tax for dividend	\$ (86,834)	\$(206,594)
Others	(9,070)	(10,999)
Total deferred tax liabilities	<u>\$ (95,904)</u>	<u>\$(217,593)</u>

Net deferred tax assets are recorded under other assets in the consolidated balance sheets. As of December 31, 2020, the Group had net operating losses from PRC entities of approximately \$1.56 billion available to offset against future net profit for income tax purposes. The Group anticipates that it is more likely than not that these net operating losses may not be utilized based on its estimate of the operation performance of these PRC entities; therefore, \$318.5 million in deferred tax assets generated from net operating losses were offset by a valuation allowance.

The following table sets forth the movement of the valuation allowances for deferred tax assets for the years presented (in thousands):

	For the Year Ended December 31,		
	2018	2019	2020
Beginning balance	\$233,910	250,524	283,711
Provision for the year	34,496	44,634	36,363
Reversal for the year	(6,891)	(7,311)	(12,637)
Foreign currency translation adjustment	(10,991)	(4,136)	19,318
Ending balance	<u>\$250,524</u>	<u>283,711</u>	<u>326,755</u>

In 2020, \$13.8 million of PRC net operating losses generated from previous years expired. Pursuant to a public announcement issued by the PRC State Administration of Taxation in August 2018, net operating losses of entities not qualified as HNTEs will expire between 2021 and 2025 if not utilized and those of entities qualified as HNTEs will expire in 2030.

[Table of Contents](#)

Uncertain Tax Positions

The following table summarizes the Group's unrecognized tax benefit from January 1, 2018 to December 31, 2020 (in thousands):

	As of December 31,		
	2018	2019	2020
Beginning balance	\$ 31,138	\$174,363	\$181,640
Increases/(decreases) related to prior year tax positions	(1,190)	7,277	7,120
Increases related to current year tax positions	144,415	0	0
Ending balance	<u>\$174,363</u>	<u>\$181,640</u>	<u>\$188,760</u>

The increase in 2020 was mainly due to \$6 million in interest recognized in connection with an unrecognized tax benefit for the year ended December 31, 2020.

The increase in 2019 was mainly due to \$8 million interest recognized in connection with an unrecognized tax benefit for the year ended December 31, 2019.

The material jurisdictions in which the Group is subject to potential examination include China and the United States. In general, the PRC tax authorities have up to five years, and the U.S. IRS has up to three years and in certain cases up to six years, to conduct examinations of the tax filings of the Group.

16. COMMITMENTS AND CONTINGENCIES

Commitments

The following table sets forth the Group's commitments as of December 31, 2020 (in thousands):

	2021	2022	2023	2024	2025	Thereafter	Total Payments Required
Royalties and expenditures for licensed content of games	\$28,423	7,870	0	0	0	0	36,293
Purchase of bandwidth	14,084	150	102	0	0	0	14,336
Interest payment commitment	6,623	1,458	1,334	628	0	0	10,043
Operating lease obligations	4,144	3,647	1,165	73	37	0	9,066
Purchase of content and services — others	6,715	236	19	0	0	0	6,970
Purchase of content and services — video	5,398	1,006	0	0	0	0	6,404
Others	518	24	0	0	0	0	542
Total Payments Required	<u>\$65,905</u>	<u>14,391</u>	<u>2,620</u>	<u>701</u>	<u>37</u>	<u>0</u>	<u>83,654</u>

Litigation

The Sohu Group is a party to various litigation matters which it considers routine and incidental to its business. The Sohu Group records a liability when the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. The Sohu Group evaluates, on a regular basis, developments in litigation matters that could affect the amount of liability that has been previously accrued and makes adjustments as appropriate.

Management believes that the total liabilities to the Sohu Group that may arise as a result of currently pending legal proceedings will not have a material adverse effect on the Group's business, results of operations, financial condition and cash flows. As of December 31, 2020, Sohu and Changyou had no significant litigation contingencies.

PRC Law and Regulations

The Chinese market in which the Sohu Group operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability to operate an Internet business and to conduct brand advertising, search and search-related advertising, online game, and other services in the PRC. Though the PRC has, since 1978, implemented a wide range of market-oriented economic reforms, continued reforms and progress towards a full market-oriented economy are uncertain. In addition, the telecommunication, information, and media industries remain highly regulated. Restrictions are currently in place and are unclear with respect to which segments of these industries foreign-owned entities, like the Sohu Group, may operate. The Chinese government may issue from time to time new laws or new interpretations of existing laws to regulate areas such as telecommunication, information and media. The Sohu Group's legal structure and scope of operations in China could be subject to restrictions, which could result in limits on its ability to conduct business in the PRC. Certain risks related to PRC law that could affect the Sohu Group's VIE structure are discussed in Note 17 - VIEs.

[Table of Contents](#)

Regulatory risks also encompass interpretation by PRC tax authorities of current tax law, including the applicability of certain preferential tax treatments.

The Sohu Group's sales, purchase and expense transactions are generally denominated in RMB and a significant portion of its assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions. Remittances in currencies other than RMB by its subsidiaries in China may require certain supporting documentation in order to effect the remittance.

17. VIEs

Background

PRC laws and regulations prohibit or restrict foreign ownership of companies that operate Internet information and content, Internet access, online games, mobile, value added telecommunications and certain other businesses in which the Sohu Group is engaged or could be deemed to be engaged. Consequently, the Sohu Group conducts certain of its operations and businesses in the PRC through its VIEs. The Sohu Group consolidates in its consolidated financial statements all of the VIEs of which the Group is the primary beneficiary.

VIEs Consolidated within the Sohu Group

The Sohu Group adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. Management made evaluations of the relationships between the Sohu Group and its VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of contractual arrangements with its consolidated VIEs, the Sohu Group controls the shareholders' voting interests in those VIEs. As a result of such evaluation, the management concluded that the Sohu Group is the primary beneficiary of the VIEs which the Group consolidates.

All of the consolidated VIEs are incorporated and operated in the PRC, and the Group's principal VIEs are directly or indirectly owned by Dr. Charles Zhang, the Sohu Group's Chairman and Chief Executive Officer, or other executive officers and employees of the Sohu Group identified below. Capital for the consolidated VIEs was funded by the Sohu Group through loans provided to Dr. Charles Zhang and other executive officers and employees, and was initially recorded as loans to related parties. These loans are eliminated for accounting purposes against the capital of the VIEs upon consolidation.

Under contractual agreements with the Sohu Group, Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs are required to transfer their ownership in these entities to the Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Group at any time as requested by the Group to repay the loans outstanding. All voting rights of the consolidated VIEs are assigned to the Sohu Group, and the Group has the right to designate all directors and senior management personnel of the consolidated VIEs, and also has the obligation to absorb losses of the consolidated VIEs. Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs have pledged their shares in the consolidated VIEs as collateral for the loans. As of December 31, 2020, the aggregate amount of these loans was \$7.6 million.

Under its contractual arrangements with the consolidated VIEs, the Sohu Group has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Group considers that there is no asset of a consolidated VIE that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves of the VIEs. As of December 31, 2020, the registered capital and PRC statutory reserves of the consolidated VIEs totaled \$103.9 million. As all of the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the consolidated VIEs do not have recourse to the general credit of the Sohu Group for any of the liabilities of the consolidated VIEs. Currently there is no contractual arrangement that could require the Sohu Group to provide additional financial support to the consolidated VIEs. As the Sohu Group is conducting certain business in the PRC mainly through the consolidated VIEs, the Group may provide such support on a discretionary basis in the future, which could expose the Group to a loss.

The Sohu Group classified the consolidated VIEs within the Sohu Group as principal VIEs or immaterial VIEs based on certain criteria, such as the VIEs' total assets or revenues. The following is a summary of the principal VIEs within the Sohu Group:

[Table of Contents](#)

Basic Information for Principal VIEs and Subsidiaries of Principal VIEs

For Sohu

- High Century
High Century was incorporated in 2001. As of December 31, 2020, Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.
- Heng Da Yi Tong
Heng Da Yi Tong was incorporated in 2002. As of December 31, 2020, Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.
- Sohu Internet
Sohu Internet was incorporated in 2003. As of December 31, 2020, High Century held a 100% interest in this entity.
- Donglin
Donglin was incorporated in 2010. As of December 31, 2020, Sohu Internet held a 100% interest in this entity.
- Tianjin Jinhu
Tianjin Jinhu was incorporated in 2011. As of December 31, 2020, Xiufeng Deng and Xuemei Zhang each held a 50% interest in this entity.
- Focus Interactive
Focus Interactive was incorporated in July 2014. As of December 31, 2020, Heng Da Yi Tong held 100% of the equity interests in this entity.

For Changyou

- Gamease
Gamease was incorporated in 2007. As of December 31, 2020, High Century held a 100% interest in this entity.
- Shanghai ICE
Shanghai ICE was acquired by Changyou in 2010. As of December 31, 2020, Gamease held a 100% interest in this entity.
- Guanyou Gamespace
Guanyou Gamespace was incorporated in 2010. As of December 31, 2020, Beijing Changyou Star Digital Technology Co., Ltd (“Changyou Star”) held a 100% interest in this entity.

For Sogou

- Sogou Information
Sogou Information was incorporated in 2005. As of December 31, 2020, Xiaochuan Wang, Sogou’s Chief Executive Officer, High Century and Tencent held 10%, 45% and 45% interests, respectively, in this entity.
- Chengdu Easypay
Chengdu Easypay was incorporated in 2015. As of December 31, 2020, Sogou Information held 100% of the equity interests in this entity.

[Table of Contents](#)

Financial Information

The following financial information of the Sohu Group's consolidated VIEs (including subsidiaries of VIEs) is included in the accompanying consolidated financial statements (in thousands):

	As of December 31,		
	2019	2020	
ASSETS:			
Cash and cash equivalents	\$ 40,535	\$ 47,028	
Restricted cash	1,132	1,211	
Accounts receivable, net	67,403	47,234	
Prepaid and other current assets	13,586	15,385	
Short-term investments	0	153	
Intra-Group receivables due from the Company's subsidiaries	400,338	506,659	
Assets held for sale (current)	121,347	113,011	
Total current assets	<u>644,341</u>	<u>730,681</u>	
Long-term investments, net	17,488	17,307	
Fixed assets, net	639	295	
Intangible assets, net	6,832	3,173	
Goodwill	32,782	33,670	
Other non-current assets	14,754	15,134	
Assets held for sale (non-current)	32,244	0	
Total assets	<u>\$749,080</u>	<u>\$800,260</u>	
LIABILITIES:			
Accounts payable	\$ 8,595	\$ 11,145	
Accrued liabilities	50,913	46,888	
Receipts in advance and deferred revenue	38,754	43,076	
Other current liabilities	31,684	37,148	
Intra-Group payables due to the Company's subsidiaries	300,601	332,794	
Liabilities held for sale (current)	138,303	187,712	
Total current liabilities	<u>568,850</u>	<u>658,763</u>	
Long-term tax liabilities	13,220	14,134	
Deferred tax liabilities	1,998	2,014	
Intra-Group payables due to the Company's subsidiaries	18,599	19,338	
Other long-term liabilities	0	286	
Liabilities held for sale (non-current)	1,130	0	
Total liabilities	<u>\$603,797</u>	<u>\$694,535</u>	
As of December 31,			
	2018	2019	2020
Net revenue	\$499,861	\$511,957	\$583,187
Net income from continuing operations	1,098	19,607	41,756
Net loss from discontinued operations	<u>\$ (19,534)</u>	<u>\$ (1,491)</u>	<u>\$ (82,329)</u>

[Table of Contents](#)

	Year ended December 31,		
	2018	2019	2020
Net cash provided by/(used in) continuing operating activities	\$ 18,268	\$ (2,038)	\$ 5,224
Net cash provided by/(used in) discontinued operating activities	51,657	(5,046)	(13,244)
Net cash provided by/(used in) operating activities	69,925	(7,084)	(8,020)
Net cash provided by/(used in) investing activities	(1,110)	(441)	47
Net cash provided by/(used in) discontinued investing activities	(48,161)	(18,040)	7,797
Net cash provided by/(used in) investing activities	(49,271)	(18,481)	7,844
Net cash provided by continuing financing activities	650	0	0
Net cash provided by discontinued financing activities	0	8,601	152
Net cash provided by financing activities	\$ 650	\$ 8,601	\$ 152

Summary of Significant Agreements Currently in Effect

Agreements between Subsidiaries, Consolidated VIEs and Nominee Shareholders

Loan and share pledge agreement between Sohu Media and the shareholders of High Century: The agreement provides for loans to the shareholders of High Century for them to make contributions to the registered capital of High Century in exchange for the equity interests in High Century, and the shareholders pledge those equity interests to Sohu Media as security for the loans. The agreement includes powers of attorney that give Sohu Media the power to appoint nominees to act on behalf of the shareholders of High Century in connection with all actions to be taken by High Century. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in High Century, which are held by the Sohu Group's legal department and may be completed and effected at Sohu Media's election.

Loan and share pledge agreement between Sohu Focus HK and the shareholders of Heng Da Yi Tong: The agreement provides for loans to the shareholders of Heng Da Yi Tong for them to make contributions to the registered capital of Heng Da Yi Tong in exchange for the equity interests in Heng Da Yi Tong, and the shareholders pledge those equity interests to Focus HK as security for the loans. The agreement includes powers of attorney that give Focus HK the power to appoint nominees to act on behalf of the shareholders of Heng Da Yi Tong in connection with all actions to be taken by Heng Da Yi Tong. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in Heng Da Yi Tong, which are held by the Sohu Group's legal department and may be completed and effected at Focus HK's election.

Loan agreements and equity pledge agreements between Video Tianjin and the shareholders of Tianjin Jinhu. The loan agreements provide for loans to the shareholders of Tianjin Jinhu for them to make contributions to the registered capital of Tianjin Jinhu in exchange for the equity interests in Tianjin Jinhu. Under the equity pledge agreements, the shareholders of Tianjin Jinhu pledge to Video Tianjin their equity interests in Tianjin Jinhu to secure the performance of their obligations under the loan agreements and Tianjin Jinhu's obligations to Video Tianjin under their business agreements. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to Video Tianjin their equity interests in Tianjin Jinhu.

Exclusive equity interest purchase right agreements between Video Tianjin, Tianjin Jinhu and the shareholders of Tianjin Jinhu. Pursuant to these agreements, Video Tianjin and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Tianjin Jinhu all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Video Tianjin, Tianjin Jinhu and the shareholders of Tianjin Jinhu. The agreement sets forth the right of Video Tianjin to control the actions of the shareholders of Tianjin Jinhu. The agreement has a term of 10 years, renewable at the request of Video Tianjin.

Powers of Attorney executed by the shareholders of Tianjin Jinhu in favor of Video Tianjin with a term of 10 years, extendable at the request of Video Tianjin. These powers of attorney give Video Tianjin the right to appoint nominees to act on behalf of each of the Tianjin Jinhu shareholders in connection with all actions to be taken by Tianjin Jinhu.

Loan agreements and equity pledge agreements between AmazGame and the sole shareholder of Gamease and between Gamespace and the sole shareholder of Guanyou Gamespace. The loan agreements provide for loans to the respective shareholders of Gamease and Guanyou Gamespace for the shareholders to make contributions to the registered capital of Gamease and Guanyou Gamespace in exchange for 100% of the equity interests in Gamease and Guanyou Gamespace. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to AmazGame and Gamespace, as the case may be, their equity interests in Gamease and Guanyou Gamespace. Under the equity pledge agreements, the respective shareholders of Gamease and Guanyou Gamespace pledge to AmazGame and Gamespace, their equity interests in Gamease and Guanyou Gamespace to secure the performance of their obligations under the loan agreements and Gamease's and Guanyou Gamespace's obligations to AmazGame and Gamespace under the various VIE-related agreements. If the shareholders breach their obligations under any VIE-related agreements (Gamease's or Guanyou Gamespace's breach of any of its obligations under the various applicable VIE-related agreements will be treated as its shareholder's breach of its obligations), including the equity pledge agreements, AmazGame and Gamespace are entitled to exercise their rights as the beneficiaries under the applicable equity pledge agreements, including all rights the respective shareholders have as shareholders of Gamease or Guanyou Gamespace.

Table of Contents

Equity interest purchase right agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right, exercisable at any time if and when it is legal to do so under PRC law, to purchase from the respective shareholders of Gamease and Guanyou Gamespace all or any part of their equity interests in Gamease and Guanyou Gamespace at a purchase price equal to their initial contributions to the registered capital of Gamease and Guanyou Gamespace.

Powers of attorney executed by the sole shareholder of Gamease in favor of AmazGame and by the sole shareholder of Guanyou Gamespace in favor of Gamespace, with a term of 10 years. These powers of attorney give the respective boards of directors of AmazGame and Gamespace the right to appoint nominees to act on behalf of their respective shareholders in connection with all actions to be taken by Gamease and Guanyou Gamespace.

Business operation agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. These agreements set forth the right of AmazGame and Gamespace to control the actions of Gamease and Guanyou Gamespace, as the case may be, and the respective shareholders of Gamease and Guanyou Gamespace. Each agreement has a term of 10 years.

Loan and share pledge agreements between Sogou Technology and the shareholders of Sogou Information. The loan agreement provides for a loan to Xiaochuan Wang, the individual shareholder of Sogou Information, to be used by him to make contributions to the registered capital of Sogou Information in exchange for his equity interest in Sogou Information. The loan is interest free and is repayable on demand, but the shareholder may repay the loan only by transferring to Sogou Technology his equity interest in Sogou Information. Under the pledge agreement, all of the shareholders of Sogou Information pledge their equity interests to Sogou Technology to secure the performance of their obligations under the various VIE-related agreements. If any shareholder of Sogou Information breaches any of his or its obligations under any VIE-related agreements, Sogou Technology is entitled to exercise its right as the beneficiary under the share pledge agreement. The share pledge agreement terminates only after all of the obligations of the shareholders under the various VIE-related agreements are no longer in effect.

Exclusive equity interest purchase right agreements between Sogou Technology, Sogou Information and the shareholders of Sogou Information. Pursuant to these agreements, Sogou Technology and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Sogou Information all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Sogou Technology, Sogou Information and the shareholders of Sogou Information. The agreement sets forth the right of Sogou Technology to control the actions of the shareholders of Sogou Information. The agreement has a term of 10 years, renewable at the request of Sogou Technology.

Powers of Attorney executed by the shareholders of Sogou Information in favor of Sogou Technology with a term of 10 years, extendable at the request of Sogou Technology. These powers of attorney give Sogou Technology the right to appoint nominees to act on behalf of each of the three Sogou Information shareholders in connection with all actions to be taken by Sogou Information.

Business Arrangements between Subsidiaries and Consolidated VIEs

Exclusive technology consulting and service agreement between Sohu Era and Sohu Internet. Pursuant to this agreement Sohu Era has the right to provide technical consultation and other related services to Sohu Internet, in exchange for a percentage of the gross revenue of Sohu Internet. The agreement has an initial term of two years, and is renewable at the request of Sohu Era.

Exclusive technology consulting and service agreement between Video Tianjin and Tianjin Jinhu. Pursuant to this agreement Video Tianjin has the right to provide technical consultation and other related services to Tianjin Jinhu in exchange for a fee. The agreement has a term of 10 years and is renewable at the request of Video Tianjin.

[Table of Contents](#)

Technology support and utilization agreements between AmazGame and Gamease and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right to provide certain product development and application services and technology support to Gamease and Guanyou Gamespace, respectively, for a fee equal to a predetermined percentage, subject to adjustment by AmazGame or Gamespace at any time, of Gamease's and Guanyou Gamespace's respective revenues. Each agreement terminates only when AmazGame or Gamespace is dissolved.

Services and maintenance agreements between AmazGame and Gamease, and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace, respectively, provide marketing, staffing, business operation and maintenance services to Gamease and Guanyou Gamespace, respectively, in exchange for a fee equal to the cost of providing such services plus a predetermined margin. Each agreement terminates only when AmazGame or Gamespace, as the case may be, is dissolved.

Exclusive technology consulting and service agreement between Sogou Technology and Sogou Information. Pursuant to this agreement Sogou Technology has the right to provide technical consultation and other related services to Sogou Information in exchange for a fee. The agreement has a term of 10 years and is renewable at the request of Sogou Technology.

Certain of the contractual arrangements described above between the VIEs and the related wholly-owned subsidiaries of the Sohu Group are silent regarding renewals. However, because the VIEs are controlled by the Sohu Group through powers of attorney granted to the Sohu Group by the shareholders of the VIEs, the contractual arrangements can be, and are expected to be, renewed at the subsidiaries' election.

VIE-Related Risks

It is possible that the Sohu Group's operation of certain of its operations and businesses through VIEs could be found by PRC authorities to be in violation of PRC law and regulations prohibiting or restricting foreign ownership of companies that engage in such operations and businesses. If a finding were made by PRC authorities that the Sohu Group's operation of certain of its operations and businesses through VIEs is prohibited, regulatory authorities with jurisdiction over the licensing and operation of such operations and businesses would have broad discretion in dealing with such a violation, including levying fines, confiscating the Sohu Group's income, revoking the business or operating licenses of the affected businesses, requiring the Sohu Group to restructure its ownership structure or operations, or requiring the Sohu Group to discontinue all or any portion of its operations. Any of these actions could cause significant disruption to the Sohu Group's business operations, and have a severe adverse impact on the Sohu Group's cash flows, financial position, and operating performance. The Sohu Group's management considers the possibility of such a finding by PRC regulatory authorities to be remote.

In addition, it is possible that the contracts among the Sohu Group, the Sohu Group's VIEs and shareholders of its VIEs would not be enforceable in China if PRC government authorities or courts were to find that such contracts contravene PRC law and regulations or are otherwise not enforceable for public policy reasons. In the event that the Sohu Group was unable to enforce these contractual arrangements, the Sohu Group would not be able to exert effective control over the affected VIEs. Consequently, such VIEs' results of operations, assets and liabilities would not be included in the Sohu Group's consolidated financial statements. If such were the case, the Sohu Group's cash flows, financial position and operating performance would be severely adversely affected. The Sohu Group's contractual arrangements with respect to its consolidated VIEs are in place. The Sohu Group's management believes that such contracts are enforceable, and considers the possibility remote that PRC regulatory authorities with jurisdiction over the Sohu Group's operations and contractual relationships would find the contracts to be unenforceable.

The Sohu Group's operations and businesses rely on the operations and businesses of its VIEs, which hold certain recognized and unrecognized revenue-producing assets. The recognized revenue-producing assets include goodwill and intangible assets acquired through business acquisitions. Goodwill primarily represents the expected synergies from combining an acquired business with the Sohu Group. Intangible assets acquired through business acquisitions mainly consist of customer relationships, non-compete agreements, user bases, copyrights, trademarks and developed technologies. Unrecognized revenue-producing assets mainly consist of licenses and intellectual property. Licenses include operations licenses, such as Internet information service licenses and licenses for providing content. Intellectual property developed by the Sohu Group mainly consists of patents, copyrights, trademarks, and domain names. The Sohu Group's operations and businesses may be adversely impacted if the Sohu Group loses the ability to use and enjoy assets held by these VIEs.

18. SOHU.COM LIMITED SHAREHOLDERS' EQUITY

Summary of the Company's outstanding shares (in thousands):

	Number of Outstanding Shares As of December 31,		
	2018	2019	2020
Balance, beginning of year	38,898	39,229	39,269
Issuance:	331	40	37
Balance, end of year	<u>39,229</u>	<u>39,269</u>	<u>39,306</u>

Share Incentive Plans

Sohu (excluding Sohu Video), Changyou, Sogou, and Sohu Video have incentive plans for the granting of share-based awards, including options and restricted share units, to their directors, management and other key employees.

1) Sohu.com Limited Share-based Awards

Sohu's 2018 Share Incentive Plan

On July 2, 2010, Sohu.com Inc.'s shareholders adopted the 2010 Stock Incentive Plan, which provides for the issuance of up to 1,500,000 shares of Sohu.com Inc.'s common stock, including stock issued pursuant to the vesting and settlement of restricted stock units and pursuant to the exercise of stock options. The maximum term of any share-based award granted under the Sohu 2010 Stock Incentive Plan is ten years from the grant date.

On April 2, 2018, Sohu.com Limited adopted the Sohu 2018 Share Incentive Plan, which provides for the issuance of up to 1,148,565 ordinary shares of Sohu.com Limited. The Sohu 2018 Share Incentive Plan will expire in April 2028.

Upon the dissolution of Sohu.com Inc. on May 31, 2018, Sohu.com Limited assumed all then existing obligations of Sohu.com Inc. with respect to equity incentive awards that had been granted under the Sohu 2010 Stock Incentive Plan and then remained outstanding, and such awards were converted into the right to receive upon exercise or settlement Sohu.com Limited's ordinary shares under the Sohu 2018 Share Incentive Plan rather than shares of the common stock of Sohu.com Inc., subject to the other terms of such outstanding awards.

As of December 31, 2020, 208,280 shares were available for grant under the Sohu 2018 Share Incentive Plan.

i) Summary of Share Option Activity

In February 2015, May 2016, September 2017 and November 2017, Sohu.com Inc.'s Board of Directors approved contractual grants to members of the Company's management and key employees of options for the purchase of an aggregate of 1,068,000, 13,000, 32,000 and 6,000 shares of common stock of Sohu.com Inc., respectively, under the Sohu 2010 Stock Incentive Plan, with nominal exercise prices of \$0.001, all of which were converted, on May 31, 2018, into the right to receive upon exercise Sohu.com Limited's ordinary shares under the Sohu 2018 Share Incentive Plan. In February 2019, July 2019 and September 2020, Sohu.com Limited's Board of Directors approved contractual grants to members of the Company's management and key employees of options for the purchase of an aggregate of 20,000, 477,500 and 34,000 shares of ordinary shares of Sohu.com Limited, respectively, under the Sohu 2018 Share Incentive Plan, with nominal exercise prices of \$0.001. These share options vest and become exercisable in four equal installments over a period of four years, with each installment vesting upon the satisfaction of a service period requirement and certain subjective performance targets. These share options are substantially similar to restricted share units except for the nominal exercise price, which would be zero for restricted share units.

Under ASC 718-10-25 and ASC 718-10-55, no grant date can be established for these options until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. To determine the fair value of these options, the public market price of the underlying shares at each reporting date is used and a binomial valuation model is applied.

As of December 31, 2020, 815,425 of these options had been granted and had become vested on their respective vesting dates, as a mutual understanding of the subjective performance targets was reached between the Company and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. The cumulative share-based compensation expense for these granted options has been adjusted and fixed based on their aggregate fair values, at their respective grant dates, of \$26.4 million.

[Table of Contents](#)

A summary of option activity under the Sohu 2018 Share Incentive Plan as of and for the year ended December 31, 2020 is presented below:

<u>Options</u>	<u>Number Of Shares (in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (1) (in thousands)</u>
Outstanding as of January 1, 2020	128	\$ 0.001		\$
Granted	112	0.001		
Exercised	(43)	0.001		
Forfeited or expired	0			
Outstanding as of December 31, 2020	<u>197</u>	0.001	6.09	3,147
Vested as of December 31, 2020	<u>197</u>	0.001	6.09	3,147
Exercisable as of December 31, 2020	<u>197</u>	0.001	6.09	3,147

Note (1): The aggregated intrinsic value in the preceding table represents the difference between Sohu's closing ADS price of \$15.94 on December 31, 2020 and the nominal exercise price of the options.

For the years ended December 31, 2020, 2019 and 2018, total share-based compensation expense recognized for these options was \$2.6 million, \$1.9 million and negative \$5.1 million, respectively. The negative amounts resulted from re-measured compensation expense based on the then-current fair value of the awards on the reporting date. For the years ended December 31, 2020, 2019 and 2018, the total fair values of these Sohu options vested on their respective vesting dates were \$1.0 million, \$2.5 million and \$5.0 million, respectively. For the years ended December 31, 2020, 2019 and 2018, the total intrinsic value of options exercised was \$0.7 million, \$0.6 million and \$6.2 million, respectively.

2) Changyou.com Limited Share-based Awards

Changyou 2014 Share Incentive Plan

On June 27, 2014, Changyou reserved 2,000,000 of its Class A ordinary shares under the Changyou.com Limited 2014 Share Incentive Plan (the "Changyou 2014 Share Incentive Plan") for the purpose of making share incentive awards to certain members of its management and key employees. On November 2, 2014, Changyou's Board approved an increase in the number of Class A ordinary shares reserved under the Changyou 2014 Share Incentive Plan from 2,000,000 to 6,000,000. The maximum term of any share right granted under the Changyou 2014 Share Incentive Plan is ten years from the grant date. The Changyou 2014 Share Incentive Plan will terminate in June 2024. As of December 31, 2020, all shares available for grant under the Changyou 2014 Share Incentive Plan had been granted.

i) Summary of Share Option Activity

On November 2, 2014, Changyou approved the contractual grant of an aggregate of 2,416,000 Class A restricted share units to certain members of its management and certain other employees. On February 16, 2015, Changyou's Board of Directors approved the conversion of 2,400,000 of these Class A restricted share units into options for the purchase of Class A ordinary shares at an exercise price of \$0.01. On June 1, 2015, Changyou's Board of Directors approved the contractual grant of options for the purchase of an aggregate of 1,998,000 Class A ordinary shares to certain members of its management and certain other employees at an exercise price of \$0.01. On July 28, 2016, Changyou's Board of Directors approved the contractual grant of options for the purchase of an aggregate of 100,000 Class A ordinary shares to certain member of its management at an exercise price of \$0.01. On August 26, 2019, Changyou's Board of Directors approved the grant, effective as of October 1, 2019, to a member of Changyou's management and a Changyou employee of options for the purchase of an aggregate of 3,023,000 Class A ordinary shares at an exercise price of \$0.01 per Class A ordinary share. These Changyou share options vest in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and the achievement of certain subjective performance targets. These Changyou share options are substantially similar to restricted share units except for the nominal exercise price, which would be zero for restricted share units. After the completion of the Changyou Merger, the Sohu Board approved the Changyou Plans' Modification, pursuant to which, among other things, a portion of the share options previously granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger were settled by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share, which equals the Changyou Merger consideration of \$5.40 per Changyou Class A ordinary share minus the per-share exercise price of \$0.01 of such options. None of the remaining share options granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger or that become vested in the future will be exercisable, but can only be repurchased by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share underlying such vested share options upon termination of the option holders' employment or upon approval of the Chairman of the Sohu Board. As a result of the Changyou Plans' Modification, share-based compensation expense will be accrued over the service period based on the fixed price of \$5.39 per Changyou Class A ordinary share. No subsequent fair value re-measurement will be made, given that the award is an obligation based on a fixed amount of \$5.39 per Changyou Class A ordinary share.

[Table of Contents](#)

Under ASC 718-10-25 and ASC 718-10-55, no grant date can be established until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards.

Prior to the completion of Changyou Merger, to determine the fair value of these Changyou share options, the public market price of the underlying Changyou Class A ordinary shares at each reporting date was used and a binomial valuation model was applied.

As of December 31, 2020, 3,732,750 of these Changyou share options had been granted and had become vested on their respective vesting dates, as a mutual understanding of the subjective performance targets had been reached between Changyou and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. The cumulative share-based compensation expense of \$4.2 million for these granted share options was adjusted and fixed based on the aggregate amounts of the fair values of these granted share options at their respective grant dates for periods before the Changyou Plans' Modification, and at a price of \$5.39 per Changyou Class A ordinary share for periods after the Changyou Plans' Modification.

For the years ended December 31, 2020, 2019 and 2018, total share-based compensation expense recognized for share options under the Changyou 2014 Share Incentive Plan was \$7.7 million, negative \$1.9 million and negative \$6.5 million, respectively. For the years ended December 31, 2020, 2019 and 2018, the total fair values of these Changyou share options vested on their respective vesting dates were \$4.2 million, \$1.0 million and \$5.7 million, respectively. For the years ended December 31, 2020, 2019 and 2018, the total intrinsic value of share options exercised was \$0.1 million, \$6.6 million and \$14.9 million, respectively.

Changyou 2019 Share Incentive Plan

On August 3, 2019, Changyou adopted and reserved for issuance 3,000,000 Class A ordinary shares under a new share incentive plan (the "Changyou 2019 Share Incentive Plan"). On August 26, 2019, Changyou's Board of Directors approved the grant, effective as of October 1, 2019, to certain members of the Changyou's management and certain other employees of options for the purchase of an aggregate of 1,909,000 Class A ordinary shares at an exercise price of \$0.01. These Changyou share options vest in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and the achievement of certain subjective performance targets. After the completion of the Changyou Merger, the Sohu Board approved the Changyou Plans' Modification, pursuant to which, among other things, none of the share options granted under the Changyou 2019 Share Incentive Plan will be exercisable, but can only be repurchased by Changyou following vesting at a fixed price of \$5.39 per Changyou Class A ordinary share underlying such vested share options upon termination of the option holders' employment or upon approval of the Chairman of the Sohu Board. As a result of the Changyou Plans' Modification, share-based compensation expense will be accrued over the service period based on the fixed price of \$5.39 per Changyou Class A ordinary share. No subsequent fair value re-measurement will be made, given that the award is an obligation based on a fixed amount of \$5.39 per Changyou Class A ordinary share.

Under ASC 718-10-25 and ASC 718-10-55, no grant date can be established until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards.

Prior to the completion of the Changyou Merger, to determine the fair value of Changyou share options, the public market price of the underlying Changyou Class A ordinary shares at each reporting date was used and a binomial valuation model was applied.

As of December 31, 2020, 477,250 of the share options granted under the Changyou 2019 Share Incentive Plan had vested. The cumulative share-based compensation expense of \$2.6 million for the granted share options was adjusted and fixed based on a price of \$5.39 per Changyou Class A ordinary share after the Changyou Plans' Modification. For the years ended December 31, 2020 and 2019, total share-based compensation expense recognized for these share options under the Changyou 2019 Share Incentive Plan was \$4.8 million and \$3.2 million, respectively. For the years ended December 31, 2020, the total value of these Changyou share options vested on their respective vesting dates was \$2.6 million.

3) Sogou Inc. Share-based Awards

Sogou 2010 Share Incentive Plan

Sogou adopted a share incentive plan on October 20, 2010, which was amended effective August 22, 2014 to increase the aggregate number of Sogou Class A Ordinary Shares issuable under the plan to 41,500,000 (as amended to date, the “Sogou 2010 Share Incentive Plan”). Awards of share rights granted under the Sogou 2010 Share Incentive Plan were made to management and other key employees of Sogou and of any present or future parents or subsidiaries or VIEs of Sogou. The Sogou 2010 Share Incentive Plan expired on October 19, 2020 and is no longer available for making new grants. The maximum term of any share incentive award granted under the Sogou 2010 Share Incentive Plan is ten years from the grant date.

The options contractually granted under the Sogou 2010 Share Incentive Plan were placed in one of the following three categories:

- (i) Performance-based options, which vest and become exercisable either in four equal installments or in two to four installments of specified share numbers over their specified vesting periods, with each installment vesting upon a service period requirement being met, as well as the employee grantee’s achievement, as determined by Sogou’s chief executive officer, of performance targets for the corresponding period specified by Sogou’s chief executive officer. For purposes of recognition of share-based compensation expense, each installment is considered to be granted as of the date that the performance targets have been set; or
- (ii) Service-based options, which vest and become exercisable either in four equal installments or in two to four installments of specified share numbers over their specified vesting periods, with each installment vesting only upon a service period requirement being met; or
- (iii) IPO-based options, which were subject to completion of an IPO and vesting/ exercisability in five equal installments, with (i) the first installment vesting upon the expiration of all underwriters’ lockup periods applicable to Sogou’s IPO and (ii) each of the four subsequent installments vesting on the first, second, third, and fourth anniversary dates of the completion of Sogou’s IPO.

A summary of each of the above three categories of Sogou’s share options as of December 31, 2020 is presented below (in thousands):

	Contractually Granted	Granted (For Purposes of Share- based Compensation Expense)	Vested and Exercisable	Exercised
Performance-based options	30,912	29,169	28,761	27,772
Service-based options	1,888	1,888	1,410	829
IPO-based options	7,250	7,250	5,810	5,810
Total	40,050	38,307	35,981	34,411

A summary of Sogou share option activity under the Sogou 2010 Share Incentive Plan as of and for the year ended December 31, 2020 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding as of January 1, 2020	7,162	\$ 0.377	4.45	\$
Granted	1,099	0.001		
Exercised	(4,233)	0.426		
Forfeited or expired	(132)	0.001		
Outstanding as of December 31, 2020	3,896	0.232	4.38	30,850
Vested as of December 31, 2020 and expected to vest thereafter	3,395	0.266	4.46	26,767
Exercisable as of December 31, 2020	1,570	0.001	5.77	12,794

Note (1): The aggregate intrinsic values in the preceding table represent the difference between Sogou’s closing price of \$8.15 per Sogou ADS (each representing one Sogou Class A Ordinary Share) on December 31, 2020 and the exercise prices of the share options.

Table of Contents

For the years ended December 31, 2020, 2019 and 2018, total share-based compensation expense recognized for Sogou share options under the Sogou 2010 Share Incentive Plan was \$7.4 million, \$13.5 million and \$12.5 million, respectively. As of December 31, 2020, there was \$0.8 million of unrecognized compensation expense related to unvested Sogou share options. The expense is expected to be recognized over a weighted average period of 1.37 years. For the years ended December 31, 2020, 2019 and 2018, the total intrinsic value of options exercised was \$23.1 million, \$1.6 million, and \$33.2 million, respectively.

Prior to the completion of Sogou's IPO, the fair values of Sogou Class A Ordinary Shares were assessed using the income approach/discounted cash flow method or based on the mid-point of the estimated Sogou IPO price range, in each case with a discount for lack of marketability, because the Sogou Class A Ordinary Shares underlying the award were not publicly traded at the time of grant. The assessment required complex and subjective judgments regarding Sogou's projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants were made. After the completion of Sogou's IPO, the fair values of the ordinary shares of Sogou were determined based on the market price of Sogou's ADSs.

The fair value of the Sogou share options granted under the Sogou 2010 Incentive Plan was estimated on the date of grant with the assistance of a qualified professional appraiser, using the binomial valuation model with the following assumptions used:

<u>Assumptions Adopted</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Average risk-free interest rate	3.36%~3.51%	2.60%~2.86%	1.21%~1.66%
Exercise multiple	2	2~3	2~3
Expected forfeiture rate (post-vesting)	12%	0%~12%	0%
Weighted average expected option life	9	7	4
Volatility rate	40%~46%	36%~41%	38%~44%
Dividend yield	0%	0%	0%
Weighted average fair value of share options	12.26	4.05	4.48

Sogou estimated the risk-free rate based on the market yields of U.S. Treasury securities with an estimated country-risk differential as of the valuation date. An exercise multiple was estimated as the ratio of the fair value of the Sogou Class A Ordinary Shares over the exercise prices as of the time the options would be expected to be exercised, based on consideration of research studies regarding exercise patterns based on historical statistical data. In Sogou's valuation analysis, a multiple of three was applied for management and a multiple of two was applied for other key employees. Sogou estimated the forfeiture rate to be 0% for the Sogou share options granted to Sogou management and 12% for the Sogou share options granted to Sogou's other key employees. As Sogou's ordinary shares had been publicly traded for slightly more than three years as of December 31, 2020, the expected volatility at the valuation date was estimated based on the historical volatility of specified comparable companies for the periods before the grant dates with length commensurate with the expected term of the Sogou share options. Sogou has no history or expectation of paying dividends on its ordinary shares. Accordingly, the dividend yield was estimated to be 0%.

Sogou 2017 Share Incentive Plan

In October 2017, Sogou adopted a share incentive plan (the "Sogou 2017 Share Incentive Plan") which provides that the aggregate number of Sogou Class A Ordinary Shares issuable under the plan is 28,000,000. Share incentive awards may be granted under the Sogou 2017 Share Incentive Plan to Sogou's management and employees and of any of its present or future parents or subsidiaries. The maximum term of any share incentive award granted under the Sogou 2017 Share Incentive Plan is ten years from the grant date.

The options contractually granted under the Sogou 2017 Share Incentive Plan may be placed in one of the following two categories:

- (i) Performance-based options, which vest and become exercisable in four equal installments, with each installment vesting upon a service period requirement being met, as well as the employee grantee's achievement, as determined by Sogou's chief executive officer, of performance targets for the corresponding period specified by Sogou's chief executive officer. For purposes of recognition of share-based compensation expense, each installment is considered to be granted as of the date that the performance targets have been set; or

Table of Contents

- (ii) Service-based options, which vest and become exercisable in four equal installments, with each installment vesting only upon a service period requirement being met.

A summary of each of the above two categories of Sogou's share options as of December 31, 2020 is presented below (in thousands):

	Contractually Granted	Granted (For Purposes of Share- based Compensation Expense)	Vested and Exercisable	Exercised
Performance-based options	192	55	44	17
Service-based options	994	994	324	173
Total	1,186	1,049	368	190

A summary of Sogou share option activity under the Sogou 2017 Share Incentive Plan as of and for the year ended December 31, 2020 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding as of January 1, 2020	798	\$ 0.001	8.90	\$ 7,000
Granted	425	0.001		
Exercised	(142)	0.001		
Forfeited or expired	(222)	0.001		
Outstanding as of December 31, 2020	859	0.001	8.51	7,000
Vested as of December 31, 2020 and expected to vest thereafter	680	0.001	8.46	5,541
Exercisable as of December 31, 2020	178	0.001	7.95	1,451

Note (1): The aggregate intrinsic value in the preceding table represents the difference between the closing price of \$8.15 per Sogou ADS (each representing one Class A Ordinary Share) on December 31, 2020 and the exercise prices of the share options.

For the years ended December 31, 2020, 2019 and 2018, total share-based compensation expense recognized for Sogou share options under the Sogou 2017 Share Incentive Plan was \$1.6 million, \$2.4 million and \$1.6 million, respectively. As of December 31, 2020 there was \$1.5 million of unrecognized compensation expense related to unvested Sogou share options. The expense is expected to be recognized over a weighted average period of 1.74 years.

The method used to determine the fair value of the Sogou share options granted under the Sogou 2017 Share Incentive Plan was the same as the method used for the share options granted under the Sogou 2010 Incentive Plan as described above, except for the assumptions used in the binomial valuation model as presented below:

Assumptions Adopted	2018	2019	2020
Average risk-free interest rate	3.41%~3.95%	2.37%~3.45%	1.20%~2.47%
Exercise multiple	2	2~3	2~3
Expected forfeiture rate (post-vesting)	12%	0%~12%	0%~12%
Weighted average expected option life	10	10	9
Volatility rate	40%~46%	41%~42%	39%~42%
Dividend yield	0%	0%	0%
Weighted average fair value of share options	10.09	4.87	4.95

[Table of Contents](#)

Sohu Management Sogou Share Option Arrangement

Under an arrangement (the “Sohu Management Sogou Share Option Arrangement”) that was approved by the boards of directors of Sohu and Sogou in March 2011, Sohu has the right to provide to members of Sohu’s Board of Directors, management and other key employees of the Sohu, and certain members of management and other key employees of Sogou the opportunity to purchase from Sohu up to 12,000,000 Sogou Class A Ordinary Shares at a fixed exercise price of \$0.625 or \$0.001 per share. Of these 12,000,000 Sogou Class A Ordinary Shares, 8,800,000 are Sogou Class A Ordinary Shares previously held by Sohu and 3,200,000 are Sogou Class A Ordinary Shares that were newly-issued on April 14, 2011 by Sogou to Sohu at a price of \$0.625 per share, or a total of \$2.0 million. As of December 31, 2020, Sohu had contractually granted options for the purchase of 8,305,000 Sogou Class A Ordinary Shares under the Sohu Management Sogou Share Option Arrangement.

The options contractually granted under the Sohu Management Sogou Share Option Arrangement may be placed in one of the following two categories:

- (i) Performance-based options, which vest and become exercisable in four equal installments, with each installment vesting upon a service period requirement being met, as well as the Sogou Group’s achievement of performance targets for the corresponding period. All of these options vested and became exercisable before January 1, 2017. For purposes of recognition of share-based compensation expense, each installment is considered to be granted as of the date that the performance targets have been set; or
- (ii) Service-based options, which were granted to members of Sohu’s Board of Directors. All of these share options vested and became exercisable in 2015, as the service period requirement had been met.

A summary of the above two categories of Sogou’s share options as of December 31, 2020 is presented below (in thousands):

	Contractually Granted	Granted (For Purposes of Share- based Compensation Expense)	Vested and Exercisable	Exercised
Performance-based options	8,290	8,290	8,290	8,290
Service-based options	15	15	15	6
Total	8,305	8,305	8,305	8,296

A summary of Sogou share option activity under the Sohu Management Sogou Share Option Arrangement as of and for the year ended December 31, 2020 is presented below:

	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding as of January 1, 2020	9	\$ 0.001	5.38	\$
Granted	0			
Exercised	0			
Forfeited or expired	0			
Outstanding as of December 31, 2020	9	0.001	4.38	73
Vested as of December 31, 2020	9	0.001	4.38	73
Exercisable as of December 31, 2020	9	0.001	4.38	73

Note (1): The aggregate intrinsic values in the preceding table represent the difference between the closing price of \$8.15 per Sogou ADS (each representing one Class A Ordinary Share) on December 31, 2020 and the exercise prices of the options.

As all Sogou share options granted under the Sohu Management Sogou Share Option Arrangement vested before January 1, 2017, no share-based compensation expense was recognized for the years ended December 31, 2020, 2019, and 2018.

[Table of Contents](#)

Option Modification

In the first and second quarter of 2013, a portion of the Sogou share options granted under the Sogou 2010 Share Incentive Plan and the Sohu Management Sogou Share Option Arrangement were exercised early, and the resulting Sogou ordinary shares were transferred to trusts with the original option grantees as beneficiaries. The trusts will distribute the Sogou ordinary shares to those beneficiaries in installments based on the vesting requirements under the original option agreements. Although these trust arrangements caused a modification of the terms of these Sogou share options, the modification was not considered substantive. Accordingly, no incremental fair value related to these Sogou ordinary shares resulted from the modification, and the remaining share-based compensation expense for these Sogou ordinary shares continued to be recognized over the original remaining vesting period.

As of December 31, 2020, 1,899,000 Sogou Class A Ordinary Shares issued upon the early exercise of options granted under the Sogou 2010 Share Incentive Plan remained unvested in accordance with the vesting requirements under the original option agreements. All Sogou Class A Ordinary Shares issued upon such early exercise that have become vested have been included in the disclosures under the headings “Sogou 2010 Share Incentive Plan” and “Sohu Management Sogou Share Option Arrangement” above.

In the first quarter of 2018, Sogou changed the vesting conditions of options for the purchase of 2,181,192 Sogou Class A Ordinary Shares contractually granted under the Sogou 2010 Share Incentive Plan by removing as a condition of vesting Sogou’s achievement of performance targets for the period corresponding to the vesting schedule. Of these options, options for the purchase of 1,601,427 Sogou Class A Ordinary Shares had not been deemed granted, because their performance targets for the current period had not been set, so the removal of the performance targets resulted in these options becoming subject to vesting only upon service-period requirements being met and being deemed granted immediately upon the effectiveness of the changes. For the remaining options for the purchase of 579,765 Sogou Class A Ordinary Shares, which had been deemed granted, the removal of the performance targets constituted a modification. The modification was not considered substantive, because their performance targets had been achieved before the modification. Based on valuation results, no incremental fair value related to these Sogou ordinary shares was recognized in connection with the modification, and the remaining share-based compensation expense for these Sogou ordinary shares continued to be recognized over the remaining vesting period.

4) Sohu Video Share-based Awards

On January 4, 2012, Sohu Video adopted the Sohu Video Share Incentive Plan, under which 25,000,000 ordinary shares of Sohu Video are reserved for the purpose of making share incentive awards to management and key employees of Sohu Video and to Sohu management. The maximum term of any share incentive award granted under the Sohu Video Share Incentive Plan is ten years from the grant date. The Sohu Video Share Incentive Plan will expire on January 3, 2022. As of December 31, 2020, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made and were subject to vesting in four equal installments, with each installment vesting upon a service period requirement being met, as well as Sohu Video’s achievement of performance targets for the corresponding period. For purposes of ASC 718-10-25, as of December 31, 2020, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. As of December 31, 2019, options for the purchase of 4,972,800 Sohu Video ordinary shares were vested.

For the years ended December 31, 2020, 2019 and 2018, total share-based compensation expense recognized for vested Sohu Video options under the Sohu Video Share Incentive Plan was negative \$0.7 million, negative \$0.9 million and negative \$0.5 million, respectively.

The fair value as of December 31, 2020 of the Sohu Video options contractually granted to management and key employees of Sohu Video and to Sohu management was estimated on the reporting date using the binomial valuation model, with the following assumptions used:

<u>Assumptions Adopted</u>	2019	2020
Average risk-free interest rate	2.44%	1.11%
Exercise multiple	2.8	2.8
Expected forfeiture rate (post-vesting)	14%	5%
Weighted average expected option life	2.0	1.0
Volatility rate	53.9%	57.3%
Dividend yield	0	0
Fair value	0.35	0.21

19. NONCONTROLLING INTEREST

Prior to the completion of the Changyou Merger on April 17, 2020, the noncontrolling interests in the Sohu Group's consolidated financial statements primarily consisted of noncontrolling interests for Changyou and Sogou and, following the completion of the Changyou Merger, consist of noncontrolling interests for Sogou.

Noncontrolling Interest in the Consolidated Balance Sheets

As of December 31, 2020 and 2019, noncontrolling interest in the consolidated balance sheets was \$0.68 billion and \$0.88 billion, respectively.

	As of December 31,	
	2019	2020
Changyou	\$151,503	\$ 1,321
Sogou	726,960	683,291
Total	<u>\$878,463</u>	<u>\$684,612</u>

Noncontrolling Interest of Changyou

As of December 31, 2020 and 2019, noncontrolling interest of Changyou of \$1.3 million and \$151.5 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, representing an economic interest of nil and 33%, respectively, in Changyou's net assets held by shareholders other than Sohu and reflecting the reclassification of Changyou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest. As a result of the completion of Sohu's acquisition of the noncontrolling interests in Changyou on April 17, 2020, Sohu holds 100% of the combined total of Changyou's outstanding ordinary shares, and the noncontrolling interests recognized in the Sohu Group's consolidated balance sheets only reflected economic interests in Changyou's subsidiaries held by shareholders other than Changyou.

Noncontrolling Interest of Sogou

As of December 31, 2020 and 2019, noncontrolling interest of Sogou of \$683.3 million and \$727.0 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, representing an economic interest of 66% and 66%, respectively, in Sogou's net assets held by shareholders other than Sohu and reflecting the reclassification of Sogou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest.

Noncontrolling Interest in the Consolidated Statements of Comprehensive Income/(Loss)

For the years ended December 31, 2020, 2019 and 2018, respectively, the Sohu Group had net income of negative \$42.2 million, net income of \$105.9 million and net income of \$92.7 million, respectively, attributable to the noncontrolling interest in the consolidated statements of comprehensive income/(loss).

	Year Ended December 31,		
	2018	2019	2020
Changyou	\$27,137	\$ 46,990	\$ 18,448
Sogou	65,586	58,955	(60,656)
Total	<u>\$92,723</u>	<u>\$105,945</u>	<u>\$(42,208)</u>

	Year Ended December 31,		
	2018	2019	2020
Net income from continuing operations attributable to noncontrolling shareholders	\$41,732	\$ 58,223	\$ 18,448
Net income/(loss) from discontinued operations attributable to noncontrolling shareholders	50,991	47,722	(60,656)
Net income/(loss) attributable to noncontrolling interest shareholders	<u>\$92,723</u>	<u>\$105,945</u>	<u>\$(42,208)</u>

Noncontrolling Interest of Changyou

For the years ended December 31, 2020, 2019 and 2018, respectively, a \$18.4 million net income, a \$47.0 million net income and a \$27.1 million net income, respectively, attributable to the noncontrolling interest of Changyou was recognized in the Sohu Group's consolidated statements of comprehensive income/(loss), representing a nil, 33% and 33%, respectively, of the economic interest in Changyou attributable to shareholders other than Sohu.

Noncontrolling Interest of Sogou (Discontinued)

For the years ended December 31, 2020, 2019 and 2018, respectively, a negative \$60.7 million net income, a \$59.0 million net income and a \$65.6 million net income, respectively, attributable to the noncontrolling interest of Sogou was recognized in the Sohu Group's consolidated statements of comprehensive income/(loss), representing Sogou's net income/(loss) attributable to shareholders other than Sohu.

20. NET INCOME/(LOSS) PER SHARE

Basic net income/(loss) per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net income/(loss) per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potential ordinary shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income/(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income/(loss) per share.

Additionally, for purposes of calculating the numerator of diluted net income/(loss) per share, the net income/(loss) attributable to the Sohu Group is calculated as discussed below. The adjustment will not be made if there is an anti-dilutive effect.

Changyou's Net Income/(Loss) Attributable to Sohu

Prior to the completion of the Changyou Merger on April 17, 2020, Changyou's net income/(loss) attributable to Sohu was determined using the percentage that the weighted average number of Changyou shares held by Sohu represented of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Changyou, which was used for the calculation of basic net income per share. After the completion of the Changyou Merger, Sohu holds 100% of the combined total of Changyou's outstanding ordinary shares, so Changyou's net income/(loss) is wholly attributable to Sohu.

After the completion of the Changyou Merger, the Sohu Board approved the Changyou Plans' Modification, pursuant to which, among other things, a portion of the share options previously granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger were settled by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share, which equals the Changyou Merger consideration of \$5.40 per Changyou Class A ordinary share minus the per-share exercise price of \$0.01 of such options. None of the remaining share options granted under the Changyou 2014 Share Incentive Plan that became vested after the completion of the Changyou Merger or that become vested in the future, and none of the share options granted under the Changyou 2019 Share Incentive Plan, will be exercisable, but can only be repurchased by Changyou at a fixed price of \$5.39 per Changyou Class A ordinary share underlying such vested share options upon termination of the option holders' employment or upon approval of the Chairman of the Sohu Board. As a result of the Changyou Plans' Modification, share-based compensation expense will be accrued over the service period based on the fixed price of \$5.39 per Changyou Class A ordinary share. No subsequent fair value re-measurement will be made, given that the award is an obligation based on a fixed amount of \$5.39 per Changyou Class A ordinary share.

In the calculation of Sohu's diluted net income/(loss) per share, before the Sohu Board's approval of the Changyou Plans' Modification, a dilutive effect should be assumed. All of Changyou's existing unvested restricted share units and share options, and vested restricted share units and share options that have not yet been settled or exercised, are treated as vested and settled under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu in Changyou to decrease. As a result, Changyou's net income/(loss) attributable to Sohu on a diluted basis decreased accordingly. The effect of this calculation is presented as "incremental dilution from Changyou" in the table below. Assuming an anti-dilutive effect, all of these Changyou restricted share units and share options are excluded from the calculation of Sohu's diluted net income/(loss) per share. As a result, Changyou's net income/(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income/(loss) per share.

[Table of Contents](#)

After the Changyou Plans' Modification, all of Changyou's previously granted share-based awards have been reclassified as obligation-based awards. Accordingly, all of those Changyou awards are excluded from the calculation of Sohu's diluted net income/(loss) per share. Changyou's net income/(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income/(loss) per share. There have been no diluted effects resulting from Changyou's existing unvested share options.

Sogou's Net Income/(Loss) Attributable to Sohu (Discontinued)

Sogou's net income/(loss) attributable to Sohu is determined using the percentage that the weighted average number of Sogou shares held by Sohu represents of the weighted average number of Sogou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Sogou, which is used for the calculation of basic net income per share. Sogou's net income/(loss) attributable to Sohu is reflected as discontinued operations in the Sohu Group's consolidated statements of comprehensive income.

In the calculation of Sohu's diluted net income/(loss) per share, assuming a dilutive effect, the percentage of Sohu's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested Sogou share options with the performance targets achieved as well as vested but unexercised Sogou share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. The effect of this calculation is presented as "incremental dilution from Sogou" in the table below. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of Sohu's diluted income/(loss) per share. As a result, Sogou's net income/(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income/(loss) per share.

For the year ended December 31, 2020, all of the Sogou share options had a dilutive effect, and therefore were included in the calculation of Sohu.com Limited's diluted net income/(loss) per share. This impact is presented as "incremental dilution from Sogou" in the table below.

The following table presents the calculation of the Sohu Group's basic and diluted net loss per share (in thousands, except per share data).

	Year Ended December 31,		
	2018	2019	2020
Numerator:			
Net loss from continuing operations attributable to Sohu.com Limited, basic	\$(163,038)	\$(156,722)	\$(54,975)
Net income/(loss) from discontinued operations attributable to Sohu.com Limited, basic	2,956	7,386	(31,137)
Net loss attributable to Sohu.com Limited, basic	(160,082)	\$(149,336)	(86,112)
Effect of dilutive securities:			
Incremental dilution from Changyou	(381)	(507)	(392)
Incremental dilution from Sogou	(496)	(606)	0
Net loss from continuing operations attributable to Sohu.com Limited, diluted	(163,659)	(157,282)	(55,365)
Net income/(loss) from discontinued operations attributable to Sohu.com Limited, diluted	2,700	6,833	(31,139)
Net loss attributable to Sohu.com Limited, diluted	\$(160,959)	\$(150,449)	(86,504)
Denominator:			
Weighted average basic ordinary shares outstanding	38,959	39,249	39,452
Effect of dilutive securities:			
Share options and restricted share units	0	0	0
Weighted average diluted ordinary shares outstanding	\$ 38,959	\$ 39,249	\$ 39,452
Basic net loss per share attributable to Sohu.com Limited			
Continuing operations	\$ (4.18)	\$ (3.99)	\$ (1.39)
Discontinued operations	0.07	0.19	(0.79)
Net loss per share	(4.11)	(3.80)	(2.18)
Diluted net loss per share attributable to Sohu.com Limited			
Continuing operations	\$ (4.20)	\$ (4.01)	\$ (1.40)
Discontinued operations	0.07	0.18	(0.79)
Net loss per share	(4.13)	(3.83)	(2.19)

21. CHINA CONTRIBUTION PLAN

The Sohu Group's subsidiaries and consolidated VIEs in China participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. Chinese labor regulations require the Group's subsidiaries and consolidated VIEs to pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; the Group's China-based subsidiaries and consolidated VIEs have no further commitments beyond their monthly contributions. For the years ended December 31, 2020, 2019 and 2018, the Group's China based subsidiaries and consolidated VIEs contributed a total of \$59.2 million, \$79.2 million and \$89.9 million, respectively, to these funds.

22. PROFIT APPROPRIATION

The Sohu Group's China-based subsidiaries and VIEs are required to make appropriations to certain non-distributable reserve funds.

On March 15, 2019, the Standing Committee of the National People's Congress of the PRC issued the *Law of the People's Republic of China on Foreign Investment* (the "Foreign Investment Law"), which took effect on January 1, 2020 and replaced the *Law of the People's Republic of China on Foreign Investment Enterprises*, promulgated on April 12, 1986 and most recently amended on September 3, 2016 (the "Replaced Foreign Investment Enterprises Law"), and certain other laws and regulations relating to foreign investment. On December 12, 2019, the State Council of the PRC also issued the *Implementing Regulations of the Foreign Investment Law*, which became effective on January 1, 2020.

Under the China Foreign Investment Enterprises Laws and its supplemental regulations those of the Group's China-based subsidiaries that are considered under PRC law to be WFOEs are required to make appropriations from their after-tax profit as determined under generally accepted accounting principles in the PRC (the "after-tax-profit under PRC GAAP") to non-distributable reserve funds, including (i) a general reserve fund and (ii) a staff bonus and welfare fund. Each year, at least 10% of the after-tax-profit under PRC GAAP is required to be set aside as general reserve fund until such appropriations for the fund equal 50% of the registered capital of the applicable entity. The appropriation for the other reserve fund is at the Group's discretion as determined by each entity. Alternatively, after January 1, 2020, those China-based subsidiaries of the Group that are wholly foreign-owned enterprises may choose to make appropriations from their after-tax-profit under PRC GAAP to non-distributable reserve funds, including a statutory surplus fund and a discretionary surplus fund, in compliance with the requirements of the Company Law of the PRC (the "Company Law") that apply to PRC domestically-funded enterprises.

Pursuant to the Company Law, those of the Group's China-based subsidiaries that are considered under PRC law to be domestically funded enterprises, as well as the Group's VIEs, are required to make appropriations from their after-tax-profit under PRC GAAP to non-distributable reserve funds, including a statutory surplus fund and a discretionary surplus fund. Each year, at least 10% of the after-tax-profit under PRC GAAP is required to be set aside as statutory surplus fund until such appropriations for the fund equal 50% of the registered capital of the applicable entity. The appropriation for the discretionary surplus fund is at the Company's discretion as determined by each entity.

Upon certain regulatory approvals and subject to certain limitations, the general reserve fund and the statutory surplus fund can be used to offset prior year losses, if any, and can be converted into paid-in capital of the applicable entity.

For the years ended December 31, 2020, 2019 and 2018, the total amount of profits contributed to these funds by the Group was \$0.4 million, \$10.4 million and \$7.3 million, respectively. As of December 31, 2020 and 2019, the total amount of profits contributed to these funds by the Group was \$81.1 million and \$80.7 million, respectively.

[Table of Contents](#)

As a result of these and other restrictions under PRC laws and regulations, the Group's China-based subsidiaries and VIEs are restricted in their ability to transfer a portion of their net assets in the form of non-distributable reserve funds to the Company in the form of dividends, loans or advances. Even though the Company currently does not require any such dividends, loans or advances from its China-based subsidiaries and VIEs for working capital and other funding purposes, the Company may in the future require additional cash resources from its China-based subsidiaries and VIEs due to changes in business conditions, to fund future acquisitions and development, or to declare and pay dividends to or make distributions to its shareholders.

23. CONCENTRATION RISKS

Because its operations are substantially conducted in the PRC, the Sohu Group is subject to PRC-related political, economic and legal risks. Besides these risks, the Sohu Group may also have the following concentration risks.

Operation Risk

For the years ended December 31, 2020, 2019 and 2018, there were no revenues from customers that individually represent greater than 10% of the total online advertising revenues.

For the year ended December 31, 2020, revenues from TLBB were \$309.7 million, accounting for approximately 58% of Changyou's online game revenues, approximately 56% of Changyou's total revenues and approximately 41% of the Sohu Group's total revenues. For the year ended December 31, 2020, revenues from Legacy TLBB Mobile were \$88.3 million, accounting for approximately 16% of Changyou's online game revenues, approximately 16% of Changyou's total revenues, and approximately 12% of the Sohu Group's total revenues.

Financial instruments that potentially subject the Sohu Group to concentration risks consist primarily of cash and cash equivalents and short-term investments. Cash and cash equivalents in Sohu Group are mainly denominated in RMB and in U.S. dollars. Short-term investments are denominated in RMB. The Group may experience economic losses and negative impacts on earnings and equity as a result of fluctuations in the exchange rate between the U.S. dollar and the RMB. Moreover, the Chinese government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Group may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency.

Credit Risk

As of December 31, 2020, approximately 95% of the Sohu Group's cash and cash equivalents and short-term investments were held in 22 financial institutions in Mainland China. The remaining cash and cash equivalents and short-term investments were held primarily in financial institutions in Hong Kong and Macao.

As of December 31, 2019, approximately 89% of the Sohu Group's cash and cash equivalents and short-term investments were held in 23 financial institutions in Mainland China. The remaining cash and cash equivalents and short-term investments were held primarily in financial institutions in Hong Kong and Macao.

The Sohu Group holds its cash and bank deposits at Chinese financial institutions that are among the largest and most respected in the PRC and at international financial institutions with high ratings from internationally-recognized rating agencies. The management chooses these institutions because of their reputations and track records for stability, and their known large cash reserves, and management periodically reviews these institutions' reputations, track records, and reported reserves.

Management expects that any additional institutions that the Sohu Group uses for its cash and bank deposits will be chosen with similar criteria for soundness. As a further means of managing its credit risk, the Sohu Group holds its cash and bank deposits in a number of different financial institutions. As of December 31, 2020 and 2019, the Sohu Group held its cash and bank deposits in different financial institutions and held no more than approximately 59% and 19%, respectively, of its total cash at any single institution.

Under PRC law, it is generally required that a commercial bank in the PRC that holds third party cash deposits protect the depositors' rights over and interests in their deposited money; PRC banks are subject to a series of risk control regulatory standards; and PRC bank regulatory authorities are empowered to take over the operation and management of any PRC bank that faces a material credit crisis.

For the credit risk related to accounts receivable, the Sohu Group performs ongoing credit evaluations of its customers and, if necessary, maintains reserves for potential credit losses. Historically, such losses have been within management's expectations.

24. RESTRICTED NET ASSETS

Relevant PRC law and regulations permit payment of dividends by PRC-based operating entities only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a PRC-based operating entity is required to annually appropriate 10% of net after-tax income to the statutory surplus reserve fund (see Note 23) prior to payment of any dividends, unless such reserve funds have reached 50% of the entity’s registered capital. As a result of these and other restrictions under PRC law and regulations, PRC-based operating entities are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances. The Company may in the future require additional cash resources from PRC-based operating entities due to changes in business conditions, to fund future acquisitions and development, or to declare and pay dividends to or distribution to its shareholders. As of December 31, 2020, the Group had restricted net assets in the amount of \$347.4 million.

25. ADDITIONAL INFORMATION — CONDENSED FINANCIAL STATEMENTS

The condensed financial statements of Sohu.com Limited have been prepared in accordance with Securities and Exchange Commission Regulation S-X Rule 5-04 and Rule 12-04.

The Company records its investments in subsidiaries and VIEs under the equity method of accounting. Such investments and long-term loans to subsidiaries and VIEs are presented on the balance sheet as “Interests in subsidiaries and VIEs” and the loss of the subsidiaries and VIEs is presented as “Share of loss of subsidiaries and VIEs” in the statement of comprehensive income.

The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these financial statements should be read in conjunction with the notes to the Consolidated Financial Statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

As of December 31, 2019 and 2020, there were no material contingencies, significant provisions for long-term obligations, or guarantees of the Company, except for those, if any, which have been separately disclosed in the consolidated financial statements.

SOHU.COM LIMITED
CONDENSED BALANCE SHEETS
(In thousands)

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2020</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,756	\$ 586
Prepaid and other current assets	744	1,609
Due from subsidiaries and VIEs	530,182	528,218
Total current assets	534,682	530,413
Interests in subsidiaries and VIEs	22,093	0
Other assets, net	27,736	27,496
Total assets	<u>\$ 584,511</u>	<u>\$ 557,909</u>
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities	3,757	1,932
Deficit of investment in subsidiaries and VIEs	0	50,101
Long-term liabilities	152,300	158,507
Total liabilities	<u>156,057</u>	<u>210,540</u>
Shareholders’ equity:		
Ordinary Shares: \$0.001 par value per share (75,400 shares authorized; 39,269 shares and 39,306 shares, respectively, issued and outstanding as of December 31, 2019 and 2020)	39	39
Additional paid-in capital	948,201	952,733
Accumulated other comprehensive income	24,351	29,189
Accumulated deficit	(544,137)	(634,592)
Total shareholders’ equity	<u>428,454</u>	<u>347,369</u>
Total liabilities and shareholders’ equity	<u>\$ 584,511</u>	<u>\$ 557,909</u>

SOHU.COM LIMITED
CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Year Ended December 31,		
	2018	2019	2020
Revenues	\$ 0	\$ 0	\$ 0
Cost of revenues	0	0	0
Gross profit	0	0	0
Operating expenses:			
General and administrative	12,206	2,320	1,613
Operating loss	(12,206)	(2,320)	(1,613)
Share of loss of subsidiaries and VIEs	(232,307)	(184,092)	(77,221)
Other income/(expense)	22	44,738	(1,083)
Interest income	5,865	225	12
Loss before income tax expense/(benefit)	(238,626)	(141,449)	(79,905)
Income tax expense/(benefit)	(78,544)	7,887	6,207
Net loss	(160,082)	(149,336)	(86,112)
Other comprehensive income/(loss)	(13,494)	24,351	29,189
Comprehensive loss	<u><u>\$ (173,576)</u></u>	<u><u>\$ (124,985)</u></u>	<u><u>\$ (56,923)</u></u>

SOHU.COM LIMITED
CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)

	<u>Year Ended December 31,</u>		
	<u>2018</u>	<u>2019</u>	<u>2020</u>
Cash flows from operating activities:			
Net loss	\$(160,082)	\$(149,336)	\$(86,112)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Investment loss from subsidiaries and VIEs	232,307	184,092	77,221
Share-based compensation expense/(benefit)	(1,916)	395	0
Others	(993)	0	0
Changes in current assets and liabilities:			
Due from subsidiaries and VIEs	(2,963)	(59,533)	1,964
Prepaid and other current assets	(3,996)	425	(865)
Tax liabilities	(79,569)	7,886	6,207
Accrued liabilities	1,892	(3,715)	(1,825)
Net cash used in operating activities	<u>(15,320)</u>	<u>(19,786)</u>	<u>(3,410)</u>
Cash flows from investing activities:			
Dividend received	0	7,050	0
Net cash used in operating activities	<u>0</u>	<u>7,050</u>	<u>0</u>
Net decrease in cash, cash equivalents, restricted cash and restricted time deposits	(15,320)	(12,736)	(3,410)
Cash, cash equivalents, restricted cash and restricted time deposits at beginning of year	2,845	16,732	3,996
Cash and cash equivalents, restricted cash and restricted time deposits of Sohu.com Limited at the date of the liquidation of Sohu.com Inc.	29,207	0	0
Cash, cash equivalents, restricted cash and restricted time deposits at end of year	<u>\$ 16,732</u>	<u>\$ 3,996</u>	<u>\$ 586</u>
Reconciliation of cash, cash equivalents, and restricted time deposits to the condensed balance sheets:			
Cash and cash equivalents	\$ 16,492	\$ 3,756	\$ 586
Restricted time deposits included in other assets	240	240	0
Total cash, cash equivalents, restricted cash and restricted time deposits at end of year	<u>\$ 16,732</u>	<u>\$ 3,996</u>	<u>\$ 586</u>

The Third Supplemental Agreement to the Amended and Restated Business Development and Resource Sharing Agreement

This Third Supplemental Agreement to the Amended and Restated Business Development and Resource Sharing Agreement (“**Third Supplemental Agreement**”) is made by the following parties on February 14, 2021:

- (1) **Shenzhen Tencent Computer Systems Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with its legal address at 35/F, Tencent Building, Kejizhongyi Road, Maling Community, Yuehai Street, Nanshan District, Shenzhen (“**Tencent**”);
- (2) **Sohu.com Limited**, a corporation duly established and validly existing under the laws of Cayman Islands, with its legal address at PO Box 309, Ugland House, Grand Cayman, KY 1-1104, Cayman Islands (“**Sohu**”);
- (3) **Sogou Inc.**, a corporation duly established and validly existing under the laws of the Cayman Islands, with its legal address at P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands (“**Sogou Inc.**”);
- (4) **Beijing Sogou Technology Development Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with its legal address at Room 01, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou China**”);
- (5) **Beijing Sogou Network Technology Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with legal address at Room 03, 10/F, Building 9, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou Network**”);
- (6) **Beijing Sogou Information Service Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with its legal address at Room 02, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou Information**”);
- (7) **Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with its legal address at 16/F, Tencent Building, Kejizhongyi Road, Yuehai Street, Nanshan District, Shenzhen, Guangdong Province, China (“**Shi Ji Guang Su**”).

The parties mentioned above shall hereinafter be referred to individually as a “**Party**”, and collectively as the “**Parties**”. In particular, **Sogou Inc.**, **Sogou China**, **Sogou Network**, **Sogou Information** and **Shi Ji Guang Su** are collectively referred to as “**Sogou**”.

Whereas,

The **Parties** entered into the Amended and Restated Business Development and Resource Sharing Agreement (the “**Agreement**”) on September 25, 2017, and Supplemental Agreement to the Amended and Restated Business Development and Resource Sharing Agreement (“**Supplemental Agreement**”), the First Supplemental Agreement to the Amended and Restated Business Development and Resource Sharing Agreement (“**First Supplemental Agreement**”), and the Second Supplemental Agreement to the Amended and Restated Business Development and Resource Sharing Agreement (“**Second Supplemental Agreement**”, together with the Agreement, the Supplemental Agreement and the First Supplemental Agreement collectively as the “**Original Agreements**”) on October 13, 2017, September 20, 2018 and October 24, 2019 respectively.

Upon amicable consultation, the **Parties** amend the **Original Agreements** as follows:

1. The **Parties** agree to extend the validity period of Subparagraph (3) of Paragraph 1 of Clause 2 “Amendment to the Strategic Principles of Business Development and Resource Sharing” of the First Supplementary Agreement for one year to September 15, 2021, i.e. the Subparagraph is modified as follows: *The search function inside Weixin/WeChat is not the above- mentioned “general search engine”, and is not subject to the above provision that “such default general search engine shall be the search engine powered by Sogou”. However, from September 16, 2020 to September 15, 2021, under equivalent conditions and subject to Tencent’s requirements for user experience, Sogou Search will be the preferred third-party search function to power such a Weixin/WeChat search function that allows Weixin/WeChat users to access Internet information outside Weixin/WeChat for that period. Without prejudice to user experience, the cooperation herein may be extended for additional successive one-year periods during the Cooperation Period.*

2. Miscellaneous

2.1 Effectiveness. This **Third Supplemental Agreement** shall become effective when the **Parties** sign or seal on the date first written above.

2.2 Validity. This **Third Supplemental Agreement** shall become an integral part of the **Original Agreement** when it becomes effective, and shall have the same legal force as the **Original Agreement**. If there is any discrepancy between the provisions of this **Third Supplemental Agreement** and the **Original Agreement**, this **Third Supplemental Agreement** shall prevail, and the other provisions of the **Original Agreement** shall remain fully effective.

2.3 Definition and Interpretation. Unless otherwise stated, the words used herein shall have the same meanings set forth in the **Original Agreement**.

2.4 Counterparts. This **Third Supplemental Agreement** may be made in multiple counterparts. All counterparts shall be originals when they are signed and delivered, and together constitute the same one agreement.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, the Parties hereto have caused this **Third Supplemental Agreement** to be executed by their respective authorized representatives on the date and year first written above.

Shenzhen Tencent Computer Systems Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Sogou Inc.

(Seal)

Signature: _____

Name:

Title:

Beijing Sogou Network Technology Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Beijing Sogou Information Service Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Sohu.com Limited

(Seal)

Signature: _____

Name:

Title:

Beijing Sogou Technology Development Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.

(Seal)

Signature: _____

Name:

Title:

Offshore Credit Agreement

No.: 2020 Offshore No. 091502

Creditor: China Merchants Bank Co., Ltd. (hereinafter referred to as Party A)

Debtor: Changyou.com HK Limited (hereinafter referred to as Party B)

Upon application of Party B, Party A hereby agrees to provide Party B with a line of credit for its use through Party A's offshore financial center according to the Agreement. Party A and Party B have reached consensus on the following terms and have entered into the Offshore Credit Agreement (the "Agreement") through full consultation in accordance with the relevant laws and regulations.

Article 1 Line of Credit

1.1 Party A shall provide Party B with a line of credit of USD 370 million [The actual available amount of the line of credit shall be subject to the amount of the qualified standby letter of credit/letter of guarantee received by Party A (Please tick "Ö" in if terms of the Agreement apply)]. In which (Please tick "Ö"):

Revolving line of credit (currency and amount)

One-time line of credit USD 370 million .

The varieties of credit business under the line of credit include but are not limited to loans, trade financing, bills, letters of guarantee, corporation overdraft, derivative transactions and other types of credit business.

Revolving line of credit refers to the maximum amount of the sum of the principal and the balance of one or more type(s) of credit business mentioned in the preceding paragraph and provided by Party A to Party B during the credit period, which can be used continuously and circularly.

One-time line of credit refers to the cumulative amount of various types of credit business mentioned in the preceding paragraph and provided by Party A to Party B during the credit period, which shall not exceed the one-time line of credit amount approved by the Agreement. Party B shall not use the one-time line of credit circularly. The amount of multiple types of credit business applied by Party B shall start using the one-time line of credit amount until it is fully exhausted.

“Trade financing” includes but is not limited to letter of credit, import/export bill purchase, delivery guarantee, inward bills purchased under collection, packing credit, outward bills purchased under collection, export negotiation, import/export remittance financing, credit and insurance financing, factoring, commercial paper guarantees etc.

1.2 During the credit period, all the specific credit businesses, which have been applied by Party B and approved by Party A, will be incorporated into the Agreement automatically and occupy the line of credit hereunder.

1.3 If Party A handles the factoring business with Party B as the payer (debtor of accounts receivable), the creditor’s rights of accounts receivable transferred to Party A from a third party shall occupy the above line of credit. If Party B applies to Party A for the factoring business with Party B as the payee (creditor of accounts receivable), then Party A’s own funds or other legitimate sources of funds which are paid to Party B in the aforesaid business for the purpose of purchasing the creditor’s rights of accounts receivable/underwriting amount held by Party B shall occupy the aforesaid line of credit.

1.4 If Party A, after issuing a letter of credit (L/C), entrusts other financial institutions to transfer the L/C to the beneficiary in accordance with its internal procedures, such issuance as well as the bill purchase and delivery guarantee business that occurs under such issuance shall occupy the above line of credit;

When handling the import L/C business, if import bill purchase is actually incurred under the same L/C afterwards, the import L/C and the import bill purchase shall occupy the same line of credit at different stages. In other words, when the import bill purchase business occurs, the amount recovered after the L/C is paid out will be used for the import bill purchase, with the same line of credit used by the original import L/C.

1.5 If Party A and Party B have signed an *Offshore Credit Agreement* numbered ____ / ____ (hereinafter referred to as the “Original Agreement”), from the effective date of the Agreement, the unliquidated balance of specific business that has occurred under the Original Agreement (the specific amount of such balance shall be subject to Party A’s records and determination) shall be automatically included in the Agreement and directly use the line of credit hereunder, and the unused line of credit of Party B under the Original Agreement shall be abolished automatically. (please tick “Ö” in if this clause is applicable)

Article 2 Credit Period

The credit period is 12 months, which starts from December 14, 2020 and ends on December 13, 2021. Party B shall submit an application to Party A for use of the line of credit during the credit period, and unless otherwise provided herein or by the Parties, Party A will not accept Party B’s line of credit use applications that are submitted beyond the credit period.

Article 3 Use of the Line of Credit

3.1 Category and scope of the line of credit

The line of credit under the Agreement is (please tick “Ö” in either of the following two options):

(/) 3.1.1 Comprehensive line of credit, the Parties agree on the specific business type and amount to be used by the line of credit as follows:

____ / _____, _____ / _____

(Ö) 3.1.2 Single line of credit of working capital loan: It is used to repay the RMB loan of cross-border trade between Party B and Guangfa Bank Co., Ltd. (hereinafter referred to as Guangfa Bank) & Bank of East Asia(China) Co., Ltd. (hereinafter referred to as Bank of East Asia).

The loan hereunder shall be issued in installments: the first loan withdrew shall not exceed the US dollar equivalent to RMB 1.4 billion yuan to repay the RMB loan of cross-border trade received by Party B with Guangfa Bank and Bank of East Asia; the remaining loan withdrew shall not exceed the US dollar equivalent to RMB 1 billion yuan to repay the RMB loan of cross-border trade received by Party B with Bank of East Asia.

3.2 The category of the line of credit under the Agreement (revolving line of credit or one-time line of credit), the type of applicable Credit Business, the specific amount of line of credit for various types of Credit Business, whether various types of credit business are reversible, and the specific conditions of use shall be subject to the approval of Party A. If Party A adjusts its original approval opinions as required by Party B through application during the credit period, the subsequent approval opinions issued by Party A shall constitute the supplementation and changes to the original or preceding approval opinions, and so on.

3.3 Party B shall submit an application each time it plans to use the line of credit and submit the materials as required by Party A, and Party A shall approve and conduct applications on a case-by-case basis. Party A is entitled to decide whether to approve the application in accordance with its internal management and Party B's operation conditions, or to unilaterally reject Party B's application without assuming any legal liability. In case of any discrepancy between this clause and the remaining provisions hereof, the former shall prevail.

3.4 When Party A approves and agrees to the specific credit business to be conducted, the concrete business documents (including but not limited to a single-withdrawal agreement/application, framework agreement, offshore loan contract, specific business document, etc.) signed and concluded by and between Party A and Party B for the credit business shall constitute an integral part of the *Offshore Credit Agreement*. The specific amount, interest rate, length of maturity, use and expenses and other business elements for each loan or other credit businesses shall be jointly determined by the concrete business documents, business vouchers confirmed by Party A (including but not limited to loan receipt) and business records of Party A's system.

In case that Party B applies for loans within the line of credit, Party A and Party B do not need to sign an Offshore Loan Contract for each loan, but Party B shall submit to Party A an offshore withdrawal application and the materials required by Party A for each time of applying a loan. Party A shall approve applications on a case-by-case basis. If Party A approves a loan, the specific contents shall be subject to the corresponding loan notes and the business records in Party A's system. The contents not stated in the loan notes or Party A's system shall be subject to the provisions hereof.

The offshore withdrawal applications, loan notes and Party A's system business records shall constitute an integral part of the Agreement. In the event that the offshore withdrawal application is inconsistent with the loan notes and the business records in Party A's system, the Parties hereto agree that the loan notes and the business records in Party A's system shall prevail.

3.5 Every loan or other credits granted within the line of credit shall specifically determine their period for use according to Party B's operation requirements and Party A's regulations on business management. The due date of specific business shall not ("shall" or "shall not") be later than that of the credit period. If such loan or other credits are guaranteed by a standby letter of credit/letter of guarantee, its due date shall not be later than five working days prior to the due date of corresponding standby letter of credit/letter of guarantee.

3.6 Credit review and adjustment. Party A is entitled to review the credits independently during the credit period and may, by notifying Party B in writing at any time, unilaterally modify the amount and other terms and conditions of the original credit, including cancellation of the credit.

Article 4 Interest and Expenses

4.1 The financing adopts (please tick "Ö" in either of the following two options):

Fixed interest rate Floating interest rate

4.2 Determination of interest rate during the contract period (please tick "Ö" in "□" if applicable):

4.2.1 The interest rate takes the monthly//daily Libor on the pricing day or one or two working days before the pricing day in the same currency as the loan as the benchmark to add or subtract 95 basis points (BPs). Party A shall determinate the date of interest rate determination as the pricing date, or one or two working days before the pricing date in accordance with international practices. The pricing date refers to the reference date used to determine the benchmark interest rate in the loan term or floating period. If the loan adopts fixed interest rate, the pricing date shall be the actual loan issuing date; if the loan adopts floating interest rate, the pricing date shall be determined in accordance with Article 4.2.2.

4.2.2 The floating interest rate shall float monthly/ / daily, and the applicable benchmark interest rate in each floating period shall be determined as agreed herein. The actual issuance date of the loan is the pricing date of the first floating cycle, and then the first day of each floating cycle thereafter shall be the pricing date of such floating cycle; or the interest collection date of each floating cycle is the pricing date of the next floating cycle (please tick "O" in either of the following two options)

4.2.3 Party A is entitled to adjust such basis points, regularly or irregularly, in combination with changes in relevant national policies, international credit loan market prices or Party A's own credit loan policies. Such adjustment shall take effect as from the date of notification from Party A to Party B (The notice shall be made through announcement at Party A's outlets or on the official website of CMBC, or by sending to any contact address/method reserved by Party B herein); If Party B does not accept such adjustment, Party B shall have the right to make early repayment as agreed herein. Otherwise, it shall be deemed that it agrees to implement the benchmark interest rate and/or interest rate pricing method as adjusted by Party A.

Whenever the benchmark interest rate (applicable LIBOR or HIBOR) is less than 0, the benchmark interest rate (applicable LIBOR or HIBOR) shall be taken as 0.

In case of any discrepancy between this clause and the remaining provisions hereof, the former shall prevail.

4.3 Party A charges Party B a loan management fee of 0.65% per annum based on the average daily financing balance, which is charged one-time for the first use of line of credit, or in the way of payment with interest (please tick "O" in either of the two options).

4.4 If the loan term is less than 3 months (including 3 months), the loan interest shall be collected at the time of repaying the principal. If the loan term is more than 3 months, the charging dates of interest are March 21, June 21, September 21, December 21 of each year and the due date of loan, and the interest shall be charged to the date one day before the interest charging date. The loan interest shall be calculated according to the actual loan amount and the number of days actually occupied from the date when the loan is transferred into the borrowing account. Party B shall pay the interest on each charging date of interest and Party A may deduct the interest payable by Party B from any of its bank accounts. In case that Party B fails to pay the interest on time, the compound interest stipulated herein will be calculated for the unpaid interest (penalty interest included), according to the overdue loan interest rate.

If the loan is due on a holiday, the due date shall be automatically extended to the first working day after the holiday and the interest shall be charged in accordance with the number of days actually occupied.

4.5 In paying off the loan, the principal, the rest interest and the loan management fee (if any) must be paid off simultaneously.

4.6 If Party B fails to repay the loan on schedule, a penalty interest of 2%/year (overdue loan interest rate) will be charged on the basis of the original interest rate for the unpaid part of the loan from the date of overdue payment (penalty interest). The original interest rate is the applicable interest rate before the due date of the loan (including the acceleration of the due date) (In case of a floating interest rate, it shall continue to float before the overdue payment of the loan).

If Party B fails to use the loan as agreed herein, a penalty interest of 2%/year will be charged on the basis of the original interest rate for the part that is not used for the purpose as agreed herein as from the date when the purpose is changed. The original interest rate refers to the applicable rate before the change in the loan's intended use.

If there are the overdue loans or use without conforming to the provisions of the Agreement, the interest accrual is calculated according to the higher rate in the above regulations.

4.7 The loan principal and interest, loan management fee and other relevant fees payable by Party B under the Agreement shall be exempted from any existing or future taxes, levies, fines, duties, fees or deductions of any nature collected by any tax authorities or other competent authorities, and shall neither be used for any offset, nor be the subject of any counterclaim, limitation or deduction. In the event that Party B is required to deduct any taxes, levies, fines, duties or fees from the payment according to any laws or regulations, Party B promises to undertake the above deductions or taxes, and warrants to pay such deductions or taxes in full amount to relevant tax or other competent authorities within the legal term, so as to ensure that the actual amount received by Party A equals to the amount before the deductions or taxes are deducted.

4.8 The actual amount of each loan/withdrawal, its starting and ending date, purpose, interest rate and other matters shall be subject to the loan notes (or record of Party A's system). The contents not stated in the loan notes or Party A's system shall be subject to the provisions hereof.

Article 5 Provisions on Guarantee

5.1 Where Party B or any third party accepted by Party A provides mortgage or pledge guarantee or joint guarantee with its property for all debts owed by Party B to Party A hereunder, Party B or the third party shall, as a guarantor, separately issue or sign a letter of guarantee upon the request of Party A as below:

5.1.1 For all debts that Party B owes to Party A hereunder, Beijing Branch of China Merchants Bank Co., Ltd. shall act as its joint and several guarantor and must provide Party A with a standby letter of credit/letter of guarantee in the same currency.

5.1.2 All debts that Party B owes to Party A hereunder shall be collateralized (pledged) by ____/____ with the property owned by it or legally entitled to disposition, and the Parties shall sign a separate guarantee contract.

5.2 If the guarantor fails to issue or sign the letter of guarantee or complete other procedures according to this clause (for example, the debtor of an account receivable raises objections before the account receivable is pledged), Party A shall have the right to reject Party B's credit granting application.

5.3 Provided that the mortgagor has provided real estate mortgage guarantee for all debts that Party B owes to Party A hereunder, if Party B knows that the collateral has been or may be included in the scope of government demolition and expropriation, it shall notify Party A immediately and urge the mortgagor to continue using the government's compensation to provide guarantee for Party B's debts in accordance with the mortgage contract, to complete the corresponding guarantee procedures in a timely manner, or to provide other safeguard measures accepted by Party A in accordance with Party A's requirements.

When it is necessary to reset the guarantee or take other safeguard measures as the collateral is involved in the aforesaid circumstances, the mortgagor shall assume the relevant expenses incurred and Party B shall be held jointly and severally liable for the expenses. Party A is entitled to deduct such expenses directly from Party B's account.

Article 6 Rights and Obligations of Party B

6.1 Party B has the right:

6.1.1 To request Party A to provide loans or other credits within the line of credit in accordance with the requirements stipulated herein;

6.1.2 To use the line of credit in accordance with the provisions hereof;

6.1.3 To request Party A to keep confidential the production, operation, finance and accounts and other information provided by Party B, except as otherwise stipulated by laws, regulations, or as otherwise required by regulatory authorities, or as otherwise provided by the Agreement; and

6.1.4 To transfer the debt to a third party after obtaining the written consent of Party A.

6.2 Party B shall undertake the following obligations:

6.2.1 Party B shall provide the documents, as required by Party A, (including but not limited to its authentic quarterly financial report; annual financial report, major decisions and changes in the aspect of its production, operation and management, information about withdrawal and fund using, and collateral related information during the periods designated by Party A), and information about all the opening banks, accounts, deposit and loan balances. Besides, Party B shall coordinate with Party A's investigation, review and check;

6.2.2 Party B shall accept the supervision by Party A in relation to its use of credit funds and production, operation and finance activities;

6.2.3 Party B shall use loans and/or other lines of credit in accordance with the arrangements under the Agreement and each concrete business document and/or usage commitments;

6.2.4 Party B shall repay principal, interest, and expenses of the loan, advance and other credit debt in full and on time in accordance with the Agreement and each concrete business document;

6.2.5 Transfer all or part of the debts hereunder to a third party after obtaining the written consent of Party A;

6.2.6 In any one of the following circumstances, Party B shall promptly inform, and actively cooperate with Party A to implement security measures for safe repayment of loans, advances and principal and interest of other credit debts as well as all related expenses under the Agreement:

6.2.6.1 Party B encounters a major financial loss, asset loss, or other financial crises;

6.2.6.2 Party B provides any third party with loan or surety bond, or mortgage (pledge) guarantee with its own property (right);

6.2.6.3 Party B suspends its business, has its business license revoked or canceled, files for or is filed for bankruptcy, dissolution, etc.;

6.2.6.4 A major crisis occurring in the operation or finance of Party B's controlling shareholder, its other affiliated companies, or actual controller, or a personnel change in legal representative/principals, directors or important senior management, or Party B, its controlling shareholder, actual controller or senior management of its affiliated companies being punished by the competent authorities of the State/their personal freedom being restricted/being imposed of coercive measures, or missing for over 7 days, which may affect its normal operation;

6.2.6.5 Party B incurs any litigation, arbitration or criminal or administrative penalties, which have material adverse consequences on operations or property status of Party B;

6.2.6.6 Party B has changes in important enterprise information, such as the company name, registered address, place of business, and beneficial owners;

6.2.6.7 Party B or its actual controller is engaged in a large amount of private usury; or has adverse records such as borrowing new debts to repay old ones, overdue records, debit interest in other financial institutions; or is involved in a debt crisis due to the internal capital chain rupture of Party B's affiliated enterprise; or Party B's project is suspended, delayed or encounters a major investment failure.

6.2.6.8 Party B encounters other significant matters that might affect its solvency.

6.2.7 Party B shall not slacken off management and recourse to its due creditor's rights, or dispose of any existing main property for free or in any other inappropriate manner.

6.2.8 Party A's consent is necessary for Party B's major matters such as merging (consolidation), separation, reorganization, joint venture (cooperation), transfer of property (share) rights, shareholding reform, investment in a foreign country, increased debt financing.

6.2.9 Party B shall do the following checked affairs as required by Party A (please tick "Ö" in the applicable):

Insure its core assets and designate Party A as the first in line beneficiary;

Not sell or mortgage the ____/____ assets designated by Party A prior to the settlement of credit debts;

Impose the following restrictions on dividends distributed to its shareholders as required by Party A prior to the settlement of credit debts:

_____/_____ Other:_____/_____

6.2.10 Where the accounts receivable is pledged dynamically, Party B shall guarantee that the undrawn credit granting amount, at any time during the credit period, shall be less than 80% of the amount of pledged accounts receivable. If the undrawn amount is higher than the point, Party B is required to have new accounts receivable pledged to the satisfaction of Party A or have additional amount deposited into the margin account until the amount of pledged accounts receivable \times 80% + effective margin > the undrawn credit granting amount.

6.2.11 Provided that Party B has pledged the margin deposit, if the balance of the margin account is less than of the amount of specific business due to exchange rate fluctuations, Party B is obliged to increase the corresponding amount of deposit or provide other guarantees in accordance with Party A's request.

6.2.12 The payment for sales under import account shall be recovered from the account designated by Party A. For export negotiation, the bills and/or invoices under L/C shall be transferred to Party A.

6.2.13 Party B shall guarantee that any settlement, payment and other balancing transactions will be accounted in its bank settlement account opened with Party A. The amount of settlement transactions of Party B in the designated account during the credit period shall not be less than the proportion of Party B's financing amount with Party A to its total financing amount with all the banks.

Article 7 Rights and Obligations of Party A

7.1 Party A has the right:

7.1.1 To request Party B to repay in full and on time the principal and the interest of loans, advances, and other debts under the Agreement and the specific business documents;

7.1.2 To require Party B to provide information related to the use of its line of credit;

7.1.3 To know about Party B's production, operation and financial activities;

7.1.4 To supervise Party B to use loans and/or other line of credits for the purpose as agreed in the Agreement and each specific business document; where necessary, to directly suspend or restrict the enterprise E-bank function/enterprise App/other online functions (including but not limited to the shutdown of E-bank function/enterprise App/other online functions and presetting payment objects/limit of single pay amount/limit of stage pay amount, and other restrictive measures) of Party B's account, restrict other electronic payment channels and the selling of settlement vouchers, or restrict the counter payment and transfer of Party B's account, and the payment and universal withdrawing function of the non-counter channel, such as telephone banking and mobile banking;

7.1.5 To entrust other branches of China Merchants Bank in the locality of the beneficiary to open the overriding letter of credit in accordance with its internal procedures after the acceptance of Party B's application to open a L/C;

7.1.6 To deduct money directly from or through Party A's domestic branches, the accounts opened by Party B for the purpose of repaying debts owed by Party B under the Agreement and specific business documents (when the credit debt is not in RMB, Party A has the right to deduct a corresponding amount from Party B's RMB account in accordance with the foreign exchange rate published upon the deduction to purchase foreign currencies to repay the principal, interest and expenses of the credit) under the premise that the margin account of Party B cannot be deducted in full;

7.1.7 To transfer Party B's debt and take such measures as deemed appropriate, including but not limited to fax, mail, personal delivery, announcements on the public media, etc., to notify Party B of the transfer matters, and conduct collection from Party B;

7.1.8 To supervise Party B's accounts by itself or by entrusting other institutions of China Merchants Bank other than Party A, and control the payment of the loan funds according to the intended use of the loan and the payment range as agreed by the Parties;

7.1.9 When Party A discovers that Party B has violated any of the provisions specified herein, Party A shall be entitled to require Party B to implement the security measures for repayment of principal, interest and all expenses of the credit debts hereunder as required by Party A and Party B shall actively cooperate with this respect. Party A has the right to adopt one or several default remedy measures stipulated in the article "Default Event and Treatment" in the Agreement if Party B fails to cooperate with Party A; and

7.1.10 To exercise other rights stipulated herein.

7.2 Party A shall undertake the following obligations:

7.2.1 Party A shall grant loans and provide other lines of credit to Party B within the limit of line of credit in accordance with the Agreement and terms and conditions in each specific business document; and

7.2.2 Party A shall keep confidential the assets, finance, production and operation of Party B, except as otherwise specified by laws, regulations, regulators, or the information provided to Party A's affiliated companies, external auditing, accounting or lawyers and other professional institutions, which bear the same obligation of confidentiality.

Article 8 Special Undertakings of Party B

8.1 Party B is a legal entity duly incorporated and validly existing under the laws of the place of registration, and Party B has a full civil capacity to sign and fulfill the Agreement;

8.2 The execution and fulfillment of the Agreement has been fully authorized by the Board of Directors or other competent authorities.

8.3 Documents, data and certificates of Party B, guarantor, mortgagor (pledgee), mortgage (pledge) and so on as provided by Party B are authentic, accurate, complete and valid, and do not contain any major faults at variance with facts or miss out any material fact;

8.4 Party B will strictly conform to the concrete business documents, and the various letters and related documents issued to Party A;

8.5 There is no litigation, arbitration or criminal and administrative penalty that may have a significant adverse impact on Party B or its major property, and no such things shall occur during the performance of the Agreement. In case of such occurrences, Party B shall notify Party A immediately.

8.6 Party B shall strictly abide by laws and regulations of the place of registration, the principal place of business and China in its business activities, carry out all sorts of business activities in strict accordance with the business scope stipulated in Party B's articles of association or that approved according to law, and handle registration and annual inspection procedures in a timely manner;

8.7 Party B undertakes to keep or improve current business operating and management level, and ensure the maintenance and appreciation of current assets. It shall not abandon any creditor's rights expired. Nor shall it dispose of current property for free or in any other inappropriate ways.

8.8 Party B shall not pay off other long-term debts ahead of time without Party A's permission.

8.9 When using the loans or other granted credit hereunder, Party B shall not violate the relevant provisions in the *Anti-Money Laundering Law of the People's Republic of China* and in other laws, regulations and of Party A relating to anti-money laundering; the laws and regulations relating to anti-money laundering of Party B's place of registration, office, site for business operation and the place where business occurred; or any other applicable laws and regulations concerning anti-money laundering. The source of the loan funds or other granted credit, and repayment funds hereunder shall not involve any high-risk countries and regions, or any industries that do not conform to Chinese laws and regulations, such as gambling, or any money laundering activities, terrorist financing activities or diffuse financing activities, or any activities belong to the sanction projects of the United Nations, the People's Republic of China and other international organizations or countries. If Party A finds that Party B's account has abnormal transactions or involved in money laundering, terrorist financing or diffuse financing activities, or other activities in violation of the aforesaid regulations or other sanction programs, or Party B fails to provide documents proving the legitimacy and rationality of the business and business background in time, Party A shall have the right to require repayment in advance with immediate effect, take control measures to terminate relevant business relationships and freeze relevant funds in accordance with laws and regulations.

In order to understand the purposes of Party B's loan or other granted credit and the source and nature of the repayment funds, Party B shall, as requested by Party A, promptly provide documents and materials that can prove the purposes of the loan or other granted credit, and the source and nature of the repayment funds.

8.10 The loan project applied under the credit shall conform to the requirements of all applicable laws and regulations. The loan shall not be used for speculation in negotiable securities, futures or real estate in violation of regulations. In addition, the loan shall not be used to conduct debit and credit to obtain illegal incomes, in the production and operation field and for purpose that are forbidden by the State or for other purposes except as stipulated in the Agreement and each concrete business document;

If the payment for loan fund is made by the borrower itself, Party B shall summarize and report fund payment to Party A periodically (at least on a monthly basis), and Party A has the right to verify whether loan payment accords with the Agreement by means of account analysis, certificate verification, and on-site investigation.

8.11 Party B shall not be involved in any other major events that affect the performance of its obligations hereunder at the time of signing and fulfilling the Agreement.

8.12 Within one week after each loan hereunder is issued, Party B shall provide Party A with the certificate of RMB loan of cross-border trade repayment to Beijing AmazGame Age Internet Technology Co., Ltd. in Bank of East Asia or China Guangfa Bank (including but not limited to remittance record, repayment certificate, etc.). Meanwhile, Party B shall guarantee and urge Beijing AmazGame Age Internet Technology Co., Ltd. to transfer amount corresponding to the deposit to be pledged in full to the account opened with Party A by Beijing AmazGame Age Internet Technology Co., Ltd. within one week after each loan hereunder is issued.

8.13 In the event that the term of the loan hereunder exceeds one year, Party B shall complete the recordation of medium and long-term foreign debts before the withdrawal with the National Development and Reform Commission as required in the document “No. 2044 [2015] of the National Development and Reform Commission” issued by the National Development and Reform Commission, and provide relevant evidential materials.

8.14 Upon issuance of the loan hereunder, Party B shall submit relevant materials such as fund use certificate as required by Party A.

8.15 Prior to the settlement of all business hereunder, the accumulated undistributed profit amount of Beijing AmazGame Age Internet Technology Co., Ltd. shall not be less than the total amount of all financing principal and interest issued by Party A to Party B, and the dividends of Beijing AmazGame Age Internet Technology Co., Ltd. shall first be used to repay the financing of Party A.

8.16 Beijing AmazGame Age Internet Technology Co., Ltd. shall pledge the deposit of no less than RMB 1.4 billion yuan at Beijing Branch of China Merchants Bank Co., Ltd. within 7 natural days after the first loan issued by Party A to Party B.

8.17 After Party A completes the issuance of all loans to Party B, Beijing AmazGame Age Internet Technology Co., Ltd. shall add pledge of deposit of no less than RMB 1 billion yuan at Beijing Branch of China Merchants Bank Co., Ltd. within 7 natural days after the date of the last loan issued by Party A, so as to ensure that the total amount of the pledged deposit is not less than RMB 2.4 billion yuan.

8.18 Before the settlement of all business hereunder, if (the loan principal issued by Party A to Party B *110% + interest per period) *real-time exchange rate³ (deposit pledge amount of Beijing AmazGame Age Internet Technology Co., Ltd. at Beijing Branch of China Merchants Bank Co., Ltd.*92% + appraisal value of house mortgage*45%), Beijing AmazGame Age Internet Technology Co., Ltd. will increase the total amount of the above deposit pledge within 5 working days as required by Beijing Branch of China Merchants Bank Co., Ltd., so that (the loan principal issued by Party A to Party B*110% + interest per period) *real-time exchange rate < (the above deposit pledge amount * 92% + appraisal value of house mortgage*45%).

Article 9 Other Expenses

Due to the expenses for credit investigation, inspection, notarization in connection with the Agreement, and in case that Party B fails or is unable to repay the debts owed to Party A on time under the Agreement, all costs incurred by Party A to execute the creditor's right, such as attorney fees, legal costs, travel expenses, announcing fees and service fees, shall be borne by Party B in full, which shall be deducted by Party A from Party B's bank account opened with Party A as authorized by Party B. In case of any shortfall, Party B undertakes to pay back the exact amount upon receipt of Party A's notice.

Article 10 Default Event and Treatment

10.1 Party B shall be regarded as in default in case of any of following situations:

10.1.1 Party B fails to perform or violate the obligations hereof;

10.1.2 The relevant representations and undertakings hereunder are untrue or incomplete, or Party B violates the provisions thereof;

10.1.3 Party B fails to withdraw and disburse the loan as agreed herein, fails to repay the principal, interest or expenses of the loan in full and on time as stipulated herein, fails to use the funds in the withdrawal account, or does not accept Party A's surveillance and fails to make any rectifications as required by Party A;

10.1.4 Party B has a material breach of the contract legally signed with other creditors, and such breach has not resolved completely within three months as of the date of the breach.

The foregoing material breach of the contract means that Party B's creditors are entitled to claim a sum of more than RMB 20 million yuan from Party B due to its breach.

10.1.5 Where Party B is a listed enterprise or plans to be listed, its listing encounters significant impediment or its listing application is suspended, it is imposed with self-discipline supervision measures by the stock exchange for more than three times in total such as warning letter, order to correct, limitation on transaction of stock account, or is given disciplinary punishment, or its listing is terminated, etc.;

10.1.6 Where Party B is a supplier of government's procurement department, the risk information released against Party A's credit repayment appears, such as the government's procurement department's delaying payment continuously or accumulatively for three installments, or Party B's being canceled as a supplier (listed into the blacklist of government procurement), untimely goods supply, instable product quality, operational difficulty, significant financial deterioration (insolvency), and project shutdown, etc.

10.1.7 Party B's financial indices fail to continuously conform to the requirements as stipulated in the Agreement/concrete business document, or any preconditions (if any) for Party A to grant credit/financing to Party B as stipulated in the Agreement/concrete business document are not met continuously.

10.1.8 Party B uses the loan in the form of "breaking up the whole into parts" to avoid the payment of loan funds entrusted by Party B to Party A according to the provisions hereof.

10.1.9 Party B's business activities may bring risks of anti-money laundering or sanctions compliance to Party A.

10.1.10 Other circumstances in which Party A believes that its legitimate rights and interests are damaged.

10.2 Where one of the following situations involving the guarantor occurs, and Party A believes that its guarantee capacity may be influenced and requires the guarantor to eliminate the detrimental effect thereof or requires Party B to increase or change the guarantee conditions, but the guarantor and Party B do not cooperate, it shall be regarded as default event.

10.2.1 The guarantor fails to immediately notify Party A and to actively cooperate with Party A to implement relevant safeguard measures in occurrence of one of similar situations as described in clause 6.2.6, or fails to obtain the consent of Party A in occurrence of the situations as described in clause 6.2.8;

10.2.2 The guarantor conceals its actual capacity to assume the guarantee liability, or fails to obtain authorization from the board of directors or any competent authority when issuing standby letter of credit or irrevocable letter of guarantee;

10.2.3 The guarantor fails to go through the annual inspection registration procedures and the business term extension/prolonging procedures on time;

10.2.4 The guarantor is slack to manage and claim its due debts, or dispose of existing major assets in a non-reimbursable and other improper manner.

10.2.5 The guarantor fails to perform or violate the obligations of the letter of guarantee/guarantee text;

10.3 In case of any of the following circumstances where Party A considers that it may make mortgage (pledge) ineffective or mortgage (pledge) insufficient to the mortgagor (pledgor) and that Party A requires the mortgagor (pledgor) to eliminate the relevant adverse impact or requires Party B to add or exchange warrant conditions, the mortgagor's (pledgor's) and Party B's rejections for cooperation shall be deemed as a default event.

10.3.1 The mortgagor (pledger) does not possess the ownership or right of disposition of the collateral (pledge), or there is any dispute over the ownership;

10.3.2 The mortgage/pledge registration formalities concerning the collateral (pledge) have not been completed or the collateral (pledge) has been sealed up, detained, supervised, has shared/statutory priority (including but not limited to the priority of construction project funds), and/or such circumstances that have occurred are concealed;

10.3.3 Without the prior written consent of Party A, the mortgagor shall not transfer, lease, remortgage, or dispose of the collateral in any other improper manner; or the mortgagor's earnings from disposing of the collateral with the prior written consent of Party A are not used to repay Party B's debts owed to Party A as required;

10.3.4 The mortgagor fails to properly keep, maintain, and repair the collateral, and as a result the collateral significantly depreciates; or the mortgagor's behavior directly damages the collateral, resulting in a decrease in the value of the collateral; or the mortgagor fails to insure/renew the insurance for the collateral during the mortgage period according to Party A's request;

10.3.5 The collateral has been or may be included in the scope of government demolition and expropriation, but the mortgagor fails to immediately notify Party A or to fulfill its relevant obligations as stipulated in the mortgage contract;

10.3.6 If the mortgagor uses its mortgaged property in China Merchants Bank to provide second mortgage guarantee for the business hereunder, the mortgagor settles his personal mortgage loan in advance without Party A's consent before Party B pays off the credit granted hereunder.

10.3.7 The pledgor uses its financial products as the pledge, and the source of the subscription fund is illegal or illegitimate;

10.3.8 There is any event or potential event that may impact the mortgage (or pledge) value or the mortgage (or pledge) right of Party A.

10.3.9 Party B fails to perform or violate the obligations of the guarantee text;

10.4 In case that the guarantee hereunder includes the pledge of accounts receivable, if the debtor of the accounts receivable involves in significant deterioration in business, transfer of properties/flight of capital to avoid its debts, or collaborated with the pledger of the accounts receivable to change the payment path resulting in no payment of the accounts receivable entering the payment account, loss of commercial reputation, loss or possible loss of the capacity for fulfilling the contract or other major events that affect its debt paying ability, Party A has the right to require Party B to provide relevant guarantees or new effective accounts receivable for pledge; if Party B fails to do so, it shall be deemed as a breach of contract.

10.5 If any above-mentioned event of default occurs, Party A is entitled to take the following measures respectively or jointly:

10.5.1 Reduce the line of credit under the Agreement, or cease the use of the remaining line of credit;

10.5.2 Recover the financing principal, interest and pertinent expenses that have been issued within the line of credit;

10.5.3 With respect to the bill of exchange that has been accepted or the letter of credit, letter of guarantee, letter of guarantee for delivery that has been opened by Party A (including the entrusted overriding ones) during the credit period, whether Party A has advanced or not, Party A may require Party B to post margin or meet margin calls as the guarantee money for repaying the subsequent advances of Party A under the Agreement, or to hand over the corresponding amount to a third party for drawing as the margin of Party A for its future advances for Party B;

10.5.4 With respect to the creditor's rights for the unliquidated accounts receivable transferred by Party B to Party A under the business of factoring, Party A shall have the right to require Party B to immediately fulfill the repurchase obligation and pursue other recovery measures; for Party A's creditor's rights to Party B for accounts receivable which are transferred to Party A under the business of factoring, Party A shall have the right to recourse against Party B with immediate effect.

10.5.5 Freeze/deduct the deposit in Party B's settlement account and/or other accounts directly or through the domestic institutions of Party A to pay off all debts of Party B under the Agreement and each concrete business document; stop opening new settlement account for Party B, stop processing new credit card of Party B's legal representative;

10.5.6 Directly require Party B to provide other property acceptable by Party A as the new guarantee, as appropriate, and where Party B fails to provide new guarantee as required, it shall pay liquidated damages equal to 30% of the amount of line of credit hereunder.

10.5.7 Report Party B's default and unfaithful acts to credit reporting institutions and China Banking Association;

10.5.8 Dispose of the mortgage and pledge and/or make recovery from the guarantor according to the stipulations in the guarantee document;

10.5.9 Party A may recourse as per the stipulations herein.

10.6 The funds claimed by Party A shall be reimbursed in accordance with the sequence of first later and then earlier actual maturity dates of the granted credits. The liquidation order for each concrete granted credit shall be as per the sequence of first expenses, penalty, compound interest, penalty interest, interest and finally the credit principal, until the entire principal and interest and their related expenses are paid off.

Party A shall be entitled to unilaterally adjust the aforementioned repayment sequence, unless otherwise required by the laws and regulations.

Article 11 Repayment and Repayment in Advance

Party B shall repay the loan principal, the remaining unpaid interest and the loan management fee in a lump sum at the due date of each loan. If Party B applies for early repayment, the first repayment date of any loan shall not be earlier than 6 months after the withdrawal of the loan, and the repayment shall be made only on the interest collection date with the single repayment amount no less than USD 10 million. Party B shall submit a written application to Party A no later than 14 working days prior to the planned early repayment date and pay Party A liquidated damages for early repayment. The liquidated damages for repayment in advance = amount to be repaid in advance * ratio of the liquidated damages (0%). If Party A agrees Party B's application for repayment in advance after review, Party B shall pay Party A the liquidated damages for the repayment in advance in full within the period required by Party A, otherwise, Party A still has the right to refuse Party B's application for repayment in advance. Party A has the right but is not obliged to reduce the amount of Party B's liquidated damages for repayment in advance on its own discretion according to the factors, such as Party B's remaining term of the loan when it repays in advance.

In the event that Party B repays the loan in advance, the interest rate shall still be subject to the Agreement and the interest payable shall be calculated based on the actual loan term.

Article 12 Miscellaneous

12.1 During the term hereof, Party A's tolerant, postponed or delayed exercise of its interests or rights hereunder for any default or delay of Party B shall not impair, impact, or restrict any and all rights and interests that Party A is entitled to as a creditor in accordance with the relevant laws and regulations and the Agreement, nor shall it be deemed as Party A's permission or acceptance of any breach of the Agreement or be deemed as Party A's waiver of its right to take actions against existing or future defaults.

12.2 If the Agreement becomes legally invalid in full or in part for whatever reason, Party B shall still be liable for repayment of all debts that it owes to Party A hereunder. If that happens, Party A is entitled to terminate the performance of the Agreement and may immediately claim all debts owed by Party B hereunder.

If Party A faces a cost increase during the performance of its obligations hereunder due to any change to the applicable laws and policy requirements, Party B shall compensate Party A for the increased cost as required.

12.3 The notifications, requirements or other documents, etc. of the Parties related to the Agreement shall be sent in writing (including but not limited to letter, fax, email, E-bank function/enterprise App and other E-platforms, SMS or WeChat, etc.)

Party A's Contact Address: Building 3 of South Main Building, No.65 Courtyard, Bajiaodong Street, Shijingshan District, Beijing

Corporate Email: zhangjingjing@cyou-inc.com

Fax No.:/

Mobile Phone No. of Contact Person: 61927559

Corporate WeChat ID:/

Party B's Contact Address of Party A: 7/F, Tower D, Global Trade Center, 36 Beisanhuandong Lu, Dongcheng District, Beijing, P.R. China

Corporate Email: synthesis@cmbchina.com

Fax No.: 59575087

Mobile Phone No. of Contact Person: 17600355610

Corporate WeChat ID:/

12.3.1 Any notice, request, or other document that is delivered by a specially assigned person (including but not limited to by a lawyer, notary, or courier) shall be deemed to have been served when the recipient signs on it (if the recipient refuses to accept it, it shall be deemed to have been served seven days after the date of rejection, return, or delivery (whichever is earlier)). Any notice, request, or other document that is delivered by postal service shall be deemed to have been served seven days after the date of posting. Any notice, request, or other document that is delivered by fax, email, Party A's E-platforms, SMS, WeChat, or other electronic means shall be deemed to have been served on the date when the sender's corresponding system shows successful delivery.

Where Party A notifies Party B of assignment of debts or collects funds from Party B via the announcement on the public media, the announcing date shall be regarded as the service date.

Where either party changes own contact address, email, fax number, mobile phone number or WeChat account, it shall notify the other party within five working days from the date of change, or the other party shall be entitled to send the documents as per the original contact address or information. Where the service fails due to change in contact address or contact information, the returning date or seven days after posting (whichever is earlier) shall be regarded as the service date. The changing Party shall assume the possible losses resulted therefrom, and the legal validity of service shall not be prejudiced.

12.3.2 The foregoing contact address, email address, fax number, mobile phone number, and WeChat ID of the Parties listed herein shall be used as their respective address for service of notary documents and judicial documents (including but not limited to the indictment/arbitration application, evidence, subpoena, notice of appearance, notice of adducing evidence, notice of court session, notice of hearing, written judgment/arbitration award, written verdict, mediation agreement, notice of time-limited performance, and legal instruments at the hearing and execution stages). Such documents shall be deemed to have been served when the court or the notary office has delivered them in written form to the address prescribed herein (refer to the preceding paragraph 12.3.1 for specific service provisions).

12.4 The Parties agree that for business applications under the trade financing business, Party B shall stamp the reserved seal according to the *Seal Card* provided by it to Party A on such applications, and the Parties shall recognize the validity of the seal. **Party B may submit all business applications to Party A by fax with a payment password in accordance with the *Authorization and Compensation Guarantee Concerning "Verified Fax Instructions"* signed with Party A. The Parties acknowledge that the business applications submitted by fax with a payment password shall be equally authentic as those submitted in written form.**

12.5 Special Terms on Business of Derivatives Transaction

12.5.1 The derivatives transaction operated by Party A upon Party B's application may occupy the line of credit in accordance with a certain percentage of transaction's nominal principal/transaction amount, or in the case of floating loss of derivatives transaction, Party A may increase Party B's line of credit occupied by the transaction as per the concrete stipulations made by and between the Parties (When each transaction occurs concretely, Party A determines the concretely occupied amount of line of credit as per the variety, term, risk level, risk degree coefficient of the business corresponding to the deducted line of credit, etc.). The actually occupied amount of line of credit shall be subject to the transaction files issued by Party A, such as notice of occupying of line of credit and/or transaction confirmation letter/letter of confirmation, etc.

12.5.2 The derivatives transaction with balance or suffering from loss during the credit period shall occupy the line of credit as per the preceding clause regardless of whether the transaction date is within the credit period.

12.6 The Parties hereto acknowledge that where Party B submits an online credit granting application or **a business voucher through Party A's E-platform (including but not limited to enterprise banking/enterprise App)**, an electronic signature produced in the form of digital certificate shall be deemed as Party B's valid stamp and signature **substantiating Party B's true intention**. Party A shall rely on the application information submitted on the online banking system to produce and issue relevant certificates. Party B shall admit the truthfulness, accuracy and legality of, and agree to be bound by, these certificates.

12.7 The written supplementary agreement with respect to any outstanding matter not covered herein and changes hereto reached and concluded by the Parties through consultation and the specific documents hereunder shall constitute an integral part of the Agreement.

12.8 For the convenience of businesses, all operations of Party A involved in the transaction (including but not limited to accepting the application, auditing the materials, granting loan, confirming transaction, withholding money, query, printing receipt, collecting, deducting and recalling funds, etc. and various notifications) may be processed by any outlets of Party A, and these outlets may generate, sign off or issue related letters. The business operations and letters of the outlets of Party A shall be regarded as made by Party A and shall be binding upon Party B.

12.9 The appendixes hereto (if any) shall constitute integral parts hereof and be automatically applicable to the specific business that actually occurs between the Parties.

12.10. The Agreement may be modified or terminated upon consultation and consensus by both Parties. The Agreement shall remain in force before the conclusion of a written agreement. Neither Party shall unilaterally modify, alter or terminate the Agreement without the consent of the other Party.

Article 13 Governing Law and Dispute Resolution

13.1 The conclusion, interpretation and dispute resolution of the Agreement shall be governed by the laws of the People's Republic of China (for the purpose of the Agreement, excluding the laws and regulations of Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Region, the same as below) and the rights and interests of the Parties shall be protected by the laws of the People's Republic of China.

13.2 The disputes arising from performance of the Agreement between the Parties shall be settled through consultation. If no agreement can be reached through such consultation, either Party may (please tick "Ö" in among any of the following three options):

13.2.1 Institute legal proceedings to a competent people's court;

13.2.2 Bring a lawsuit to a competent people's court at the place where the Agreement is signed; The Agreement is signed and concluded at

____/____;

13.2.3 Apply to China International Economic and Trade Arbitration Commission for arbitration in Beijing.

13.3 Party A may, in order to recover Party B's debts, directly apply to a competent people's court for enforcement of the debts owed by Party B under the Agreement and the concrete business documents to which a notary public has legally granted the effectiveness of forcible execution upon application by the Parties.

Article 14 Effectiveness

The Agreement shall take effect as of the date of Party A's special seal for contract and the signature of Party B authorized signatory, and shall automatically become null and void on the date when all debts owed by Party B to Party A and all other related expenses are paid off.

Article 15 Supplementary Provisions

The Agreement is made in duplicate, with one copy for Party A and Party B and /___, and each being equally authentic.

Special Reminder:

All terms hereof have been fully consulted by the Parties. Party B has been reminded by Party A to pay special attention to and make full and good understanding of the terms with regard to the exemption or limitation on Party A's liabilities, the rights owned by Party A unilaterally, the increase of Party B's liabilities, and the limitation on Party B's rights. Party A has explained the above terms as required by Party B. The Parties hereto have the same understanding of the terms of the Agreement.

(The remainder of this page is intentionally left blank)

(This is the signature page of the *Offshore Credit Agreement* numbered 2020 Offshore No. 091502)

Party A: China Merchants Bank Co., Ltd.

Authorized Signatory (signature): /s/ China Merchants Bank Co., Ltd.

Date of Signing: December 4, 2020

Party B: Changyou.com HK Limited

Authorized Signatory (signature):/s/ Tsan Hing HUI

Date of Signing: December 4, 2020

Place of Signing: China

Appendix 6

Pledge Agreement

(Applicable to Counter Guarantee Under Bank Guarantee)

No.: 2020 Asian Games Village External Guarantee Cooperation Agreement No. 016- Pledge 01

Pledgee: Beijing Branch of China Merchants Bank Co., Ltd. (hereinafter referred to as Party A)

Person in charge: Kai XIONG

Pledgor: Beijing AmazGame Age Internet Technology Co., Ltd. (hereinafter referred to as Party B)

Legal representative/Principal in charge: Xiaojian HONG

or

Pledgor: /

ID Card No.: /

Whereas,

1. According to the application of Party B (also as the Client), Party A signed and entered into the *Guarantee Cooperation Agreement with 2020 Asian Games Village External Guarantee Cooperation Agreement No. 016* (hereinafter referred to as the “Master Agreement”) with Party B on December 21, 2020. Or

Upon application of / / (also the “Client”), Party A signed and entered into the *Guarantee Cooperation Agreement* with No.: / / (hereinafter referred to as the “Master Agreement”) with the Client on / /.

2. According to the Master Agreement, Party B or the Client has submitted the *Application to Issue an Irrevocable Guarantee letter/Standby Letter of Credit* with 2020 Asian Games Village External Guarantee Cooperation Agreement No. 016 (hereinafter referred to as the “application”) to Party A, and the aforesaid application shall constitute an integral part of the Master Agreement.

Party A hereby agrees to issue a guarantee letter with No.110LG2000016(hereinafter referred to as the “guarantee letter”) to the Offshore Financial Center of China Merchants Bank Co., Ltd. (hereinafter referred to as the “beneficiary”) in respect of the issuance of the financing guarantee letter, and shall bear the guarantee liability within the limit of USD 216.55 million.

In order to ensure Party B (or the Client) to timely repay all debts owed to Party A in full under the Master Agreement and the application, Party B is willing to take the property or rights it owns or has the right to dispose of in accordance with law as the pledge; as reviewed, Party A agrees Party B to take the property or right it owns or has the right to dispose of in accordance with law as the pledge; Party A and Party B have reached agreements on the following terms through equal consultation in accordance with relevant laws and regulations, and hereby make and enter into the Agreement:

Article 1 Pledge used by Party B for Pledging

S.N.	Description	Qty.	Value	Right (Ownership) No.	Certificate of Ownership
1	fixed certificates of deposit	One	RMB 300 million	11090274708200103	self-owned
2	fixed certificates of deposit	One	RMB 300 million	11090274708200093	self-owned
3	fixed certificates of deposit	One	RMB 400 million	11090274708200080	self-owned
4	fixed certificates of deposit	One	RMB 400 million	11090274708200076	self-owned

(Columns and contents may be added or adjusted in accordance with the actual situation of pledges)

Article 2 Scope of Pledge Guarantee

The guarantee scope of the Agreement covers all the payments made by Party B (or the Client) to Party A in accordance with the Master Agreement and the application, including but not limited to the principal, interest, penalty, compound interest, liquidated damages and the cost to realize the pledge right (including but not limited to litigation costs, arbitration fees, lawyer's fees and other related expenses paid by Party A to realize the creditor's right or pledge right, as well as the indemnification and/or compensation liability and related expenses incurred by Party A's refusal to make the compensation) paid by Party A to the beneficiary for Party B (or the Client) to take payment liability under the guarantee letter, and related expenses such as the guarantee fees that Party B (or the Client) shall pay to Party A in accordance with the Master Agreement and the application. Before the expiration of the debt performance period specified in the Master Agreement and the application, Party B shall also undertake the guarantee liability with the pledge if Party A recovers to Party B (or the Client) ahead of the deadline in accordance with the provisions of the Master Agreement and the application.

If Party A and Party B (or the Client) agree on the extension of the debt performance period, interest rate and amount under the Master Agreement and the application or on the modification of relevant terms, or Party A adjusts the rate in accordance with the provisions of the Master Agreement and the application, the consent of or notice to Party B is not required and Party B shall recognize it, which shall not affect Party B's pledge guarantee liability hereunder.

Article 3 Independent Agreement

The pledge guarantee is independent without being affected by the effectiveness of the Master Agreement and the application, the guarantee issued by a third party for Party B (or the Client), or any agreement or document signed with any entity. It shall not change due to the fraud, reorganization, acquisition, suspension, dissolution, liquidation, bankruptcy and other changes of Party B (or the Client), or be affected by any time of grace and extension granted to Party B (or the Client) by Party A or postponement of exercising the right to recover Party B's (or the Client's) arrears by Party A in accordance with the relevant agreements.

In the case that Party A's creditor's rights have mortgage, pledge guarantee or guarantor otherwise at the same time, Party A shall have the right to claim guarantee rights to each mortgagor/pledgor (including Party B) and guarantor respectively, successively or at the same time; Party B's guarantee liability hereunder shall not be affected if Party A waives its place in the order of mortgage rights, waives, changes or cancels other mortgage and pledge guarantees, changes or relieves the guarantor's guarantee responsibility, or delays to claim its rights to any other mortgagor/pledgor/guarantor, and Party B is still obliged to bear the pledge guarantee liability for Party A as agreed herein.

Article 4 Party B fully accepts and recognizes the contents of the guarantee letter issued by Party A to the beneficiary, and agrees that Party A shall handle all matters under the guarantee letter in accordance with relevant regulations and international practices; during the validity period of the guarantee letter, any supplementary agreement reached by Party A and the client or the beneficiary on the extension of the validity period or any other matters, or the adjustment of interest rate by Party A in accordance with the provisions of the Master Agreement during the performance period of the debts under the Master Agreement shall not affect Party B's pledge guarantee liability. Party B shall ratify it and Party A does not need to inform Party B, which does not affect Party B's pledge guarantee liability hereunder.

Article 5 Transfer and Delivery of Pledge/Pledge Registration:

5.1 If the pledge hereunder is movable property, Party B shall hand over the pledge to Party A for possession on the signature date of the Agreement.

If the pledge is stored at a third party other than Party B, Party B shall issue a pledge notice to the third party on the signature date of the Agreement. The pledge shall be deemed to be handed over to Party A for possession when the pledge notice is delivered to the third party.

If Party B provides pledge for the business hereunder with the margin, Party B shall deposit the agreed margin to the account opened at Party A as required (Margin account No.: / ; or it shall be subject to the account number automatically generated by Party A's system at the time of margin depositing), which shall be deemed to specialize the fund in the form of margin and hand it over to Party A for possession as the guarantee for the debts of Party B (or the Debtor) under the Master Agreement.

5.2 If the pledge is a title hereunder, Party B shall deliver the certificate of title to Party A on the signature date of the Agreement, and make corresponding records on the certificate of title. Party A shall keep the certificate of title properly. In case of loss of the certificate of title due to improper storage, Party A shall bear the cost of certificate reissuance.

If Party B fails to hand over or deliver the pledge in time, it shall be liable for the losses suffered by Party A therefrom.

5.3 If the pledge hereunder must be registered in accordance with law for the establishment of its pledge right, Party B shall cooperate with Party A for pledge registration at the corresponding registration management institutions with the Agreement and relevant materials within the period required by Party A.

5.4 Party B shall actively support Party A in handling the relevant procedures in accordance with the above provisions in the principle of good faith, and Party B shall inform Party A in time of the change of registration information such as legal person information and company name or objection registration. If the registration becomes invalid as the relevant procedures are not completed in time or the registration information change are not informed due to the reason of Party B, Party B shall be liable for the losses suffered by Party A therefrom.

Article 6 Pledge Period

The pledge period is from the effective date of the Agreement to the expiration of the limitation of actions for the creditor's right of the principal and interest of advance payment paid by Party A for Party B (or the Client) to the beneficiary under the Master Agreement and the guarantee letter, and other creditor's right under the Master Agreement.

Article 7 Storage and Responsibility of Pledge:

7.1 During the pledge period, Party A shall keep the pledge properly. Party A shall assume civil liabilities for the loss or damage to the pledge resulted from improper storage;

7.2 If Party A fails to keep the pledge properly, causing possible loss or damage to the pledge, Party B may request Party A to withdraw and deposit the pledge, or request to pay off the debts and have the pledge returned.

Article 8 Collection of Fructus

Party A shall enjoy the pledge right to the fructus of the pledge and collect the fructus of the pledge.

Article 9 Expenses Bearing

Where the Agreement involves notarization (except for mandatory notarization) or other matters of entrusting a third party to provide services, all relevant costs and expenses incurred therefrom shall be borne by the entrusting party. If the Parties jointly act as the Client, each shall bear 50% of such costs and expenses.

Article 10 During the validity period of the Agreement, if there is possibility of damage to the pledge or obvious reduction to its value, which may harm the rights of Party A, Party A may require Party B to provide guarantee accordingly; if Party B fails to provide, Party A shall have the right to auction or sell the pledge before expiration and deposit the proceeds into the margin account as the guarantee for the debts under the Master Agreement.

If Party B conceals the existence of co-ownership, dispute or the situation that Party B has no ownership or disposition right to the pledge, Party A can require Party B to provide a new guarantee. If Party B fails to provide a new guarantee as required by Party A, it shall bear the liquidated damages of % of the amount of guarantee letter under the Master Agreement. Party B shall compensate Party A for any and all economic losses caused to Party A arising therefrom.

Article 11 During the validity period of the Agreement, in case of division or merger of Party B, the changed organization shall undertake or separately undertake the obligations hereunder; if Party B is declared to be dissolved or bankrupt, Party A shall have the right to dispose of the pledge before the expiration.

Article 12 If the pledge hereunder is the certificate of title (including but not limited to bills, bonds, certificates of deposit, warrants, bills of lading, etc.) or a financial product, and the maturity date of the certificate of title or financial product is earlier than that of the debts under the Master Agreement, Party A shall have the right to cash or withdraw for realization when the certificate of title or financial product matures, and deposit the recovered money into the margin account opened by Party B at Party A. Such funds shall be deemed to be specialized and transferred to Party A for possession from the date of entering into the margin account and continue to act as the pledge guarantee for the debts of Party B (or the Client) under the Master Agreement and the application. Or Party A negotiate with Party B to withdraw the goods under the certificate of title and deposit. Party B has no objection thereto and shall cooperate with Party A for relevant procedures.

If the pledge hereunder is a deposit certificate, the validity of the pledge shall not be affected by the change of the number, amount or term of the deposit certificate caused by the automatic transfer of the deposit certificate, partial early repayment, change of term, inquiring, freezing and deduction by the competent authority during the pledge period. As a continuation of the original deposit certificate, the changed deposit certificate will continue to provide pledge guarantee for the debts under the Master Agreement and the application.

If the maturity date of relevant title certificate or financial product is later than that of debts under the Master Agreement and the application, Party A shall have the right to withdraw relevant funds, cash relevant bills or auction/sell off relevant goods before the expiration, and pay off the debts of Party B (or the Debtor) under the Master Agreement and the application with the recovered money. The losses of interest or income and expenses arising therefrom shall be borne by Party B at its own expenses.

If the pledge hereunder is a deposit certificate or warrant, and the maturity date of the deposit certificate or warrant is later than that of debts under the Master Agreement and the application, Party A shall have the right to withdraw the relevant funds or auction/sell off the relevant goods before the expiration, and pay off the debts of Party B (or the Client) under the Master Agreement and the application with the recovered money.

If the pledge hereunder is the margin, the margin can be deposited into the margin account in full at one time or one by one as required by Party A from time to time in accordance with the business situation as the guarantee for the debts under the Master Agreement and the application. Party B confirms that the deposit/deduction of margin in the same margin account from time to time and Party A's partial release of the margin in accordance with Party B's application will not affect the specialization of the margin. The deposit/deduction of a single margin and its corresponding relationship with the principal creditor's rights guaranteed by the margin shall be subject to the business information/record kept by Party A. Party B recognizes the authenticity, accuracy and legality of such business information/records.

Article 13 In case of any of the following circumstances, Party A may dispose of the pledge in accordance with law:

13.1 After Party A undertakes the payment liability under the guarantee letter, the principal and interest of Party A's advance fail to be recovered in time as Party B or the Client fails to pay sufficient margin in accordance with the Master Agreement and the application, or the balance of the deposit account is insufficient or frozen or deducted by the judicial authorities;

13.2 Party B or the Client's business premises are seized or closed down by judicial or administrative authorities; or stop operation for more than 2 months without proper reasons, the business license is cancelled or revoked;

13.3 Party B or the Client is declared dissolved or bankrupt;

13.4 Party B, as a natural person, dies without any successor or bequest, or his/her successor or bequest waives the inheritance or legacy and refuses to perform the Agreement;

13.5 The causes specified in Article 11 and 12 herein occur;

13.6 Other causes endangering the performance of the Master Agreement.

Article 14 Realization of Pledge Right

If Party B or the Client has deposited sufficient margin or the balance of its deposit account is sufficient as stipulated in the Master Agreement to enable Party A to undertake the payment liability under the guarantee letter without making advance payments; or after Party A advances, Party B or the Client raises sufficient funds to pay off the principal and interest of Party A's advance and all other relevant expenses, the pledge right shall extinct, and Party A shall return the pledge.

In case of any of the circumstances specified in Articles 10, 11 and 13 of the Agreement, Party A may negotiate with Party B to discount, auction or sell off the pledge to repay the principal and interest of Party A's advances and all other relevant expenses, or deposit into the margin account opened by Party B at Party A for payment of the amount payable under the guarantee letter. Such funds shall be deemed to be specialized and transferred to Party A for possession from the date of entering into the margin account as the pledge guarantee for the debts under the guarantee agreement.

After the pledge is discounted, auctioned or sold off, the part of its price exceeding the principal and interest of Party A's advance and all other relevant expenses shall belong to Party B; if it is insufficient, Party A shall claim compensation separately.

Article 15 Modification and Termination of the Agreement

Neither Party shall change or rescind the Agreement without the consent of the other Party after the Agreement becomes effective. If the Agreement needs to be changed or rescinded, it shall be changed or rescinded in written agreement through consultation between the Parties hereto. The terms hereof shall not be invalidated until such agreement is reached.

Article 16 Notices

16.1 The notices, requests, or other documents given under the Agreement shall be made by the Parties in written forms (including but not limited to by correspondence, fax, email, Party A's online banking, SMS, or WeChat).

Contact Address of Party A: 7/F, Tower D, Global Trade Center, 36 Beisanhuandong Lu, Dongcheng District, Beijing

Email: synthesis@cmbchina.com Fax No.: _____ / _____

Mobile Phone No. of Contact Person: 17600355610 WeChat ID: _____ / _____

Contact Address of Party B: Room 1007, 10/F, Building 3 of South Main Building, No.65 Courtyard, Bajiaodong Street, Shijingshan District, Beijing

Email: zhangjingjing@cyou-inc.com Fax No.: _____ / _____

Mobile Phone No. of Contact Person: 13511091262 Company WeChat ID: / (Party B shall leave the email/WeChat account of the entity when it is an entity, and leave the email/WeChat account of the individual when it is an individual)

16.2 Any notice, request, or other document that is delivered by a specially assigned person (including but not limited to by a lawyer, notary, or courier) shall be deemed to have been served when the recipient signs on it (if the recipient refuses to accept it, it shall be deemed to have been served seven days after the date of rejection, return, or delivery (whichever is earlier)). Any notice, request, or other document that is delivered by postal service shall be deemed to have been served seven days after the date of posting. Any notice, request, or other document that is delivered by fax, email, Party A's E-bank notice, SMS, WeChat, or other electronic means shall be deemed to have been served on the date when the Party A's corresponding system shows successful delivery.

Where Party A notifies Party B of assignment of debts or collects funds from Party B via the announcement on the public media, the announcing date shall be regarded as the service date.

In case of change to either Party's contact address, email, fax number, mobile phone number or WeChat account, it shall notify the other Party within five working days as from the date of such change. Otherwise, the other Party shall have the right to use the original contact address or information. Where the service fails due to change in contact address, the returning date or seven days after posting (whichever is earlier) shall be regarded as the service date. The changing Party shall assume the possible losses resulted therefrom, and the legal validity of service shall not be prejudiced.

16.3 The foregoing contact address, email address, fax number, mobile phone number, and WeChat ID of the Parties listed herein shall be used as Party B's address for service of notary documents and judicial documents (including but not limited to the indictment/arbitration application, evidence, subpoena, notice of appearance, notice of adducing evidence, notice of court session, notice of hearing, written judgment/arbitration award, written verdict, mediation agreement, notice of time-limited performance, and legal instruments at the hearing and execution stages). Such documents shall be deemed to have been served when the court or the notary office has delivered them in written form to the address prescribed herein (refer to the preceding paragraph 17.2. for specific service provisions).

Article 17 Terms and Expressions

Unless otherwise expressly stated, the terms and expressions referred to herein shall have the same meaning as those in the Master Agreement.

Article 18 Non-waiver

During the term hereof, Party A's tolerant, postponed or delayed exercise of its interests or rights under the Master Agreement or the Agreement for any default or delay of the Debtor and Party B shall not impair, impact, or restrict any and all rights and interests that Party A is entitled to as a creditor in accordance with the relevant laws and regulations and the Agreement, nor shall it be deemed as Party A's permission or acceptance of any breach of the Agreement or be deemed as Party A's waiver of its right to take actions against existing or future defaults.

Article 19 Disputes Resolution

The disputes arising out of the performance of the Agreement between the Parties shall be settled through consultation. If no agreement can be reached through such consultation, it is agreed by the Parties hereto to solve it as per the dispute resolution method stipulated in the Master Agreement.

Article 20 Effectiveness of Pledge Agreement

The Agreement shall come into force from the date when the legal representatives/principal persons in charge of both Parties or their authorized agents sign/seal and affix their official seals/special seals for Agreements (if Party B is a natural person, the Agreement shall come into force from the date when Party A's legal representative/principal person in charge or their authorized agent signs/seals and affix the official seal/special seal for Agreements and Party B signs) and expire on the date when all the principal and interest of Party A's advances under the Master Agreement and the guarantee letter and all other related expenses are paid off.

Article 21 Other Supplementary Terms

21.1 Party B confirms that all operations of Party A in handling specific business for Party B (or the Debtor) and Party A's operations related to the Agreement can be handled at any branch of Party A, and relevant correspondence can be generated, signed or issued. The business operation and correspondence of the branches of Party A shall be deemed as acts of Party A and shall be binding on both Parties.

21.2 If the debt under the Master Agreement is not in RMB, Party A shall have the right to directly use the amount recovered as agreed herein to purchase foreign exchange/make foreign exchange transactions at the exchange rate announced by Party A at the time of settlement, so as to pay off the debts under the Master Agreement. The calculation of non-Renminbi debt amount under the Master Agreement shall be subject to the converted amount at the exchange rate (purchase price) announced by Party A at the time of settlement.

21.3 _____

Article 22 Supplementary Provisions

The Agreement is made in duplicate, with Party A, Party B, ___/___ and ___/___ holding each.

Special Reminder:

All terms hereof have been fully consulted by the Parties. The other Parties have been reminded by the Bank to pay special attention to and make full and good understanding of the terms with regard to the exemption or limitation on the Bank's liabilities, the rights owned by the Bank unilaterally, the increase of the other Parties' liabilities, and the limitation on the other Parties' rights. The Bank has explained the above terms as required by the other Parties concerned the other Parties. The Parties hereto have the same understanding of the terms of the Agreement.

(This is a signature page)

Party A: Beijing Branch of China Merchants Bank Co., Ltd.
Principal or authorized agent (signature/stamped name seal): /s/ Kai XIONG

Please sign below if the Pledger is concurrently a legal person:
Party B: Beijing AmazGame Age Internet Technology Co., Ltd.
Legal representative/principal or authorized agent (signature/stamped name seal): /s/ Xiaojian HONG

Please sign below if the Pledger is concurrently a natural person:
Party B (signature)
ID Card No.:

Date of Signing: December 28, 2020

Appendix 6

Pledge Agreement

(Applicable to Counter Guarantee Under Bank Guarantee)

No.: 2020 Asian Games Village External Guarantee Cooperation Agreement No. 017- Pledge 01

Pledgee: Beijing Branch of China Merchants Bank Co., Ltd. (hereinafter referred to as Party A)

Person in charge: Kai XIONG

Pledgor: Beijing AmazGame Age Internet Technology Co., Ltd. (hereinafter referred to as Party B)

Legal representative/Principal in charge: Xiaojian HONG

or

Pledgor: /

ID Card No.: /

Whereas,

1. According to the application of Party B (also as the Client), Party A signed and entered into the *Guarantee Cooperation Agreement* with 2020 Asian Games Village External Guarantee Cooperation Agreement No. 017 (hereinafter referred to as the "Master Agreement") with Party B on January 6, 2021. Or

Upon application of / / (also the "Client"), Party A signed and entered into the *Guarantee Cooperation Agreement* with No.: / / (hereinafter referred to as the "Master Agreement") with the Client on / /.

2. According to the Master Agreement, Party B or the Client has submitted the *Application to Issue an Irrevocable Guarantee letter/Standby Letter of Credit* with 2020 Asian Games Village External Guarantee Cooperation Agreement No. 017 (hereinafter referred to as the "application") to Party A, and the aforesaid application shall constitute an integral part of the Master Agreement.

Party A hereby agrees to issue a guarantee letter with No. 110LG2100001_(hereinafter referred to as the “guarantee letter”) to the Offshore Financial Center of China Merchants Bank Co., Ltd. (hereinafter referred to as the “beneficiary”) in respect of the issuance of the financing guarantee letter, and shall bear the guarantee liability within the limit of USD153.45 million.

In order to ensure Party B (or the Client) to timely repay all debts owed to Party A in full under the Master Agreement and the application, Party B is willing to take the property or rights it owns or has the right to dispose of in accordance with law as the pledge; as reviewed, Party A agrees Party B to take the property or right it owns or has the right to dispose of in accordance with law as the pledge; Party A and Party B have reached agreements on the following terms through equal consultation in accordance with relevant laws and regulations, and hereby make and enter into the Agreement:

Article 1 Pledge used by Party B for Pledging

S.N.	Description	Qty.	Value	Right (Ownership) No.	Certificate of Ownership
1	fixed certificates of deposit	One	RMB 300 million	11090274708200120	self-owned
2	fixed certificates of deposit	One	RMB 300 million	11090274708200134	self-owned
3	fixed certificates of deposit	One	RMB 400 million	11090274708200117	self-owned

(Columns and contents may be added or adjusted in accordance with the actual situation of pledges)

Article 2 Scope of Pledge Guarantee

The guarantee scope of the Agreement covers all the payments made by Party B (or the Client) to Party A in accordance with the Master Agreement and the application, including but not limited to the principal, interest, penalty, compound interest, liquidated damages and the cost to realize the pledge right (including but not limited to litigation costs, arbitration fees, lawyer's fees and other related expenses paid by Party A to realize the creditor's right or pledge right, as well as the indemnification and/or compensation liability and related expenses incurred by Party A's refusal to make the compensation) paid by Party A to the beneficiary for Party B (or the Client) to take payment liability under the guarantee letter, and related expenses such as the guarantee fees that Party B (or the Client) shall pay to Party A in accordance with the Master Agreement and the application. Before the expiration of the debt performance period specified in the Master Agreement and the application, Party B shall also undertake the guarantee liability with the pledge if Party A recovers to Party B (or the Client) ahead of the deadline in accordance with the provisions of the Master Agreement and the application.

If Party A and Party B (or the Client) agree on the extension of the debt performance period, interest rate and amount under the Master Agreement and the application or on the modification of relevant terms, or Party A adjusts the rate in accordance with the provisions of the Master Agreement and the application, the consent of or notice to Party B is not required and Party B shall recognize it, which shall not affect Party B's pledge guarantee liability hereunder.

Article 3 Independent Agreement

The pledge guarantee is independent without being affected by the effectiveness of the Master Agreement and the application, the guarantee issued by a third party for Party B (or the Client), or any agreement or document signed with any entity. It shall not change due to the fraud, reorganization, acquisition, suspension, dissolution, liquidation, bankruptcy and other changes of Party B (or the Client), or be affected by any time of grace and extension granted to Party B (or the Client) by Party A or postponement of exercising the right to recover Party B's (or the Client's) arrears by Party A in accordance with the relevant agreements.

In the case that Party A's creditor's rights have mortgage, pledge guarantee or guarantor otherwise at the same time, Party A shall have the right to claim guarantee rights to each mortgagor/pledgor (including Party B) and guarantor respectively, successively or at the same time; Party B's guarantee liability hereunder shall not be affected if Party A waives its place in the order of mortgage rights, waives, changes or cancels other mortgage and pledge guarantees, changes or relieves the guarantor's guarantee responsibility, or delays to claim its rights to any other mortgagor/pledgor/guarantor, and Party B is still obliged to bear the pledge guarantee liability for Party A as agreed herein.

Article 4 Party B fully accepts and recognizes the contents of the guarantee letter issued by Party A to the beneficiary, and agrees that Party A shall handle all matters under the guarantee letter in accordance with relevant regulations and international practices; during the validity period of the guarantee letter, any supplementary agreement reached by Party A and the client or the beneficiary on the extension of the validity period or any other matters, or the adjustment of interest rate by Party A in accordance with the provisions of the Master Agreement during the performance period of the debts under the Master Agreement shall not affect Party B's pledge guarantee liability. Party B shall ratify it and Party A does not need to inform Party B, which does not affect Party B's pledge guarantee liability hereunder.

Article 5 Transfer and Delivery of Pledge/Pledge Registration:

5.1 If the pledge hereunder is movable property, Party B shall hand over the pledge to Party A for possession on the signature date of the Agreement.

If the pledge is stored at a third party other than Party B, Party B shall issue a pledge notice to the third party on the signature date of the Agreement. The pledge shall be deemed to be handed over to Party A for possession when the pledge notice is delivered to the third party.

If Party B provides pledge for the business hereunder with the margin, Party B shall deposit the agreed margin to the account opened at Party A as required (Margin account No.: / ; or it shall be subject to the account number automatically generated by Party A's system at the time of margin depositing), which shall be deemed to specialize the fund in the form of margin and hand it over to Party A for possession as the guarantee for the debts of Party B (or the Debtor) under the Master Agreement.

5.2 If the pledge is a title hereunder, Party B shall deliver the certificate of title to Party A on the signature date of the Agreement, and make corresponding records on the certificate of title. Party A shall keep the certificate of title properly. In case of loss of the certificate of title due to improper storage, Party A shall bear the cost of certificate reissuance.

If Party B fails to hand over or deliver the pledge in time, it shall be liable for the losses suffered by Party A therefrom.

5.3 If the pledge hereunder must be registered in accordance with law for the establishment of its pledge right, Party B shall cooperate with Party A for pledge registration at the corresponding registration management institutions with the Agreement and relevant materials within the period required by Party A.

5.4 Party B shall actively support Party A in handling the relevant procedures in accordance with the above provisions in the principle of good faith, and Party B shall inform Party A in time of the change of registration information such as legal person information and company name or objection registration. If the registration becomes invalid as the relevant procedures are not completed in time or the registration information change are not informed due to the reason of Party B, Party B shall be liable for the losses suffered by Party A therefrom.

Article 6 Pledge Period

The pledge period is from the effective date of the Agreement to the expiration of the limitation of actions for the creditor's right of the principal and interest of advance payment paid by Party A for Party B (or the Client) to the beneficiary under the Master Agreement and the guarantee letter, and other creditor's right under the Master Agreement.

Article 7 Storage and Responsibility of Pledge:

7.1 During the pledge period, Party A shall keep the pledge properly. Party A shall assume civil liabilities for the loss or damage to the pledge resulted from improper storage;

7.2 If Party A fails to keep the pledge properly, causing possible loss or damage to the pledge, Party B may request Party A to withdraw and deposit the pledge, or request to pay off the debts and have the pledge returned.

Article 8 Collection of Fructus

Party A shall enjoy the pledge right to the fructus of the pledge and collect the fructus of the pledge.

Article 9 Expenses Bearing

Where the Agreement involves notarization (except for mandatory notarization) or other matters of entrusting a third party to provide services, all relevant costs and expenses incurred therefrom shall be borne by the entrusting party. If the Parties jointly act as the Client, each shall bear 50% of such costs and expenses.

Article 10 During the validity period of the Agreement, if there is possibility of damage to the pledge or obvious reduction to its value, which may harm the rights of Party A, Party A may require Party B to provide guarantee accordingly; if Party B fails to provide, Party A shall have the right to auction or sell the pledge before expiration and deposit the proceeds into the margin account as the guarantee for the debts under the Master Agreement.

If Party B conceals the existence of co-ownership, dispute or the situation that Party B has no ownership or disposition right to the pledge, Party A can require Party B to provide a new guarantee. If Party B fails to provide a new guarantee as required by Party A, it shall bear the liquidated damages of ___/___% of the amount of guarantee letter under the Master Agreement. Party B shall compensate Party A for any and all economic losses caused to Party A arising therefrom.

Article 11 During the validity period of the Agreement, in case of division or merger of Party B, the changed organization shall undertake or separately undertake the obligations hereunder; if Party B is declared to be dissolved or bankrupt, Party A shall have the right to dispose of the pledge before the expiration.

Article 12 If the pledge hereunder is the certificate of title (including but not limited to bills, bonds, certificates of deposit, warrants, bills of lading, etc.) or a financial product, and the maturity date of the certificate of title or financial product is earlier than that of the debts under the Master Agreement, Party A shall have the right to cash or withdraw for realization when the certificate of title or financial product matures, and deposit the recovered money into the margin account opened by Party B at Party A. Such funds shall be deemed to be specialized and transferred to Party A for possession from the date of entering into the margin account and continue to act as the pledge guarantee for the debts of Party B (or the Client) under the Master Agreement and the application. Or Party A negotiate with Party B to withdraw the goods under the certificate of title and deposit. Party B has no objection thereto and shall cooperate with Party A for relevant procedures.

If the pledge hereunder is a deposit certificate, the validity of the pledge shall not be affected by the change of the number, amount or term of the deposit certificate caused by the automatic transfer of the deposit certificate, partial early repayment, change of term, inquiring, freezing and deduction by the competent authority during the pledge period. As a continuation of the original deposit certificate, the changed deposit certificate will continue to provide pledge guarantee for the debts under the Master Agreement and the application.

If the maturity date of relevant title certificate or financial product is later than that of debts under the Master Agreement and the application, Party A shall have the right to withdraw relevant funds, cash relevant bills or auction/sell off relevant goods before the expiration, and pay off the debts of Party B (or the Debtor) under the Master Agreement and the application with the recovered money. The losses of interest or income and expenses arising therefrom shall be borne by Party B at its own expenses.

If the pledge hereunder is a deposit certificate or warrant, and the maturity date of the deposit certificate or warrant is later than that of debts under the Master Agreement and the application, Party A shall have the right to withdraw the relevant funds or auction/sell off the relevant goods before the expiration, and pay off the debts of Party B (or the Client) under the Master Agreement and the application with the recovered money.

If the pledge hereunder is the margin, the margin can be deposited into the margin account in full at one time or one by one as required by Party A from time to time in accordance with the business situation as the guarantee for the debts under the Master Agreement and the application. Party B confirms that the deposit/deduction of margin in the same margin account from time to time and Party A's partial release of the margin in accordance with Party B's application will not affect the specialization of the margin. The deposit/deduction of a single margin and its corresponding relationship with the principal creditor's rights guaranteed by the margin shall be subject to the business information/record kept by Party A. Party B recognizes the authenticity, accuracy and legality of such business information/records.

Article 13 In case of any of the following circumstances, Party A may dispose of the pledge in accordance with law:

13.1 After Party A undertakes the payment liability under the guarantee letter, the principal and interest of Party A's advance fail to be recovered in time as Party B or the Client fails to pay sufficient margin in accordance with the Master Agreement and the application, or the balance of the deposit account is insufficient or frozen or deducted by the judicial authorities;

13.2 Party B or the Client's business premises are seized or closed down by judicial or administrative authorities; or stop operation for more than 2 months without proper reasons, the business license is cancelled or revoked;

13.3 Party B or the Client is declared dissolved or bankrupt;

13.4 Party B, as a natural person, dies without any successor or bequest, or his/her successor or bequest waives the inheritance or legacy and refuses to perform the Agreement;

13.5 The causes specified in Article 11 and 12 herein occur;

13.6 Other causes endangering the performance of the Master Agreement.

Article 14 Realization of Pledge Right

If Party B or the Client has deposited sufficient margin or the balance of its deposit account is sufficient as stipulated in the Master Agreement to enable Party A to undertake the payment liability under the guarantee letter without making advance payments; or after Party A advances, Party B or the Client raises sufficient funds to pay off the principal and interest of Party A's advance and all other relevant expenses, the pledge right shall extinct, and Party A shall return the pledge.

In case of any of the circumstances specified in Articles 10, 11 and 13 of the Agreement, Party A may negotiate with Party B to discount, auction or sell off the pledge to repay the principal and interest of Party A's advances and all other relevant expenses, or deposit into the margin account opened by Party B at Party A for payment of the amount payable under the guarantee letter. Such funds shall be deemed to be specialized and transferred to Party A for possession from the date of entering into the margin account as the pledge guarantee for the debts under the guarantee agreement.

After the pledge is discounted, auctioned or sold off, the part of its price exceeding the principal and interest of Party A's advance and all other relevant expenses shall belong to Party B; if it is insufficient, Party A shall claim compensation separately.

Article 15 Modification and Termination of the Agreement

Neither Party shall change or rescind the Agreement without the consent of the other Party after the Agreement becomes effective. If the Agreement needs to be changed or rescinded, it shall be changed or rescinded in written agreement through consultation between the Parties hereto. The terms hereof shall not be invalidated until such agreement is reached.

Article 16 Notices

16.1 The notices, requests, or other documents given under the Agreement shall be made by the Parties in written forms (including but not limited to by correspondence, fax, email, Party A's online banking, SMS, or WeChat).

Contact Address of Party A: 7/F, Tower D, Global Trade Center, 36 Beisanhuandong Lu, Dongcheng District, Beijing

Email: synthesis@cmbchina.com Fax No.: _____ / _____

Mobile Phone No. of Contact Person: 17600355610 WeChat ID: _____ / _____

Contact Address of Party B: Room 1007, 10/F, Building 3 of South Main Building, No.65 Courtyard, Bajiaodong Street, Shijingshan District, Beijing

Email: zhangjingjing@cyou-inc.com Fax No.: _____ / _____

Mobile Phone No. of Contact Person: 13511091262 Company WeChat ID: /

(Party B shall leave the email/WeChat account of the entity when it is an entity, and leave the email/WeChat account of the individual when it is an individual)

16.2 Any notice, request, or other document that is delivered by a specially assigned person (including but not limited to by a lawyer, notary, or courier) shall be deemed to have been served when the recipient signs on it (if the recipient refuses to accept it, it shall be deemed to have been served seven days after the date of rejection, return, or delivery (whichever is earlier)). Any notice, request, or other document that is delivered by postal service shall be deemed to have been served seven days after the date of posting. Any notice, request, or other document that is delivered by fax, email, Party A's E-bank notice, SMS, WeChat, or other electronic means shall be deemed to have been served on the date when the Party A's corresponding system shows successful delivery.

Where Party A notifies Party B of assignment of debts or collects funds from Party B via the announcement on the public media, the announcing date shall be regarded as the service date.

In case of change to either Party's contact address, email, fax number, mobile phone number or WeChat account, it shall notify the other Party within five working days as from the date of such change. Otherwise, the other Party shall have the right to use the original contact address or information. Where the service fails due to change in contact address, the returning date or seven days after posting (whichever is earlier) shall be regarded as the service date. The changing Party shall assume the possible losses resulted therefrom, and the legal validity of service shall not be prejudiced.

16.3 The foregoing contact address, email address, fax number, mobile phone number, and WeChat ID of the Parties listed herein shall be used as Party B's address for service of notary documents and judicial documents (including but not limited to the indictment/arbitration application, evidence, subpoena, notice of appearance, notice of adducing evidence, notice of court session, notice of hearing, written judgment/arbitration award, written verdict, mediation agreement, notice of time-limited performance, and legal instruments at the hearing and execution stages). Such documents shall be deemed to have been served when the court or the notary office has delivered them in written form to the address prescribed herein (refer to the preceding paragraph 17.2. for specific service provisions).

Article 17 Terms and Expressions

Unless otherwise expressly stated, the terms and expressions referred to herein shall have the same meaning as those in the Master Agreement.

Article 18 Non-waiver

During the term hereof, Party A's tolerant, postponed or delayed exercise of its interests or rights under the Master Agreement or the Agreement for any default or delay of the Debtor and Party B shall not impair, impact, or restrict any and all rights and interests that Party A is entitled to as a creditor in accordance with the relevant laws and regulations and the Agreement, nor shall it be deemed as Party A's permission or acceptance of any breach of the Agreement or be deemed as Party A's waiver of its right to take actions against existing or future defaults.

Article 19 Disputes Resolution

The disputes arising out of the performance of the Agreement between the Parties shall be settled through consultation. If no agreement can be reached through such consultation, it is agreed by the Parties hereto to solve it as per the dispute resolution method stipulated in the Master Agreement.

Article 20 Effectiveness of Pledge Agreement

The Agreement shall come into force from the date when the legal representatives/principal persons in charge of both Parties or their authorized agents sign/seal and affix their official seals/special seals for Agreements (if Party B is a natural person, the Agreement shall come into force from the date when Party A's legal representative/principal person in charge or their authorized agent signs/seals and affix the official seal/special seal for Agreements and Party B signs) and expire on the date when all the principal and interest of Party A's advances under the Master Agreement and the guarantee letter and all other related expenses are paid off.

Article 21 Other Supplementary Terms

21.1 Party B confirms that all operations of Party A in handling specific business for Party B (or the Debtor) and Party A's operations related to the Agreement can be handled at any branch of Party A, and relevant correspondence can be generated, signed or issued. The business operation and correspondence of the branches of Party A shall be deemed as acts of Party A and shall be binding on both Parties.

21.2 If the debt under the Master Agreement is not in RMB, Party A shall have the right to directly use the amount recovered as agreed herein to purchase foreign exchange/make foreign exchange transactions at the exchange rate announced by Party A at the time of settlement, so as to pay off the debts under the Master Agreement. The calculation of non-RMB debt amount under the Master Agreement shall be subject to the converted amount at the exchange rate (purchase price) announced by Party A at the time of settlement.

21.3 _____

Article 22 Supplementary Provisions

The Agreement is made in duplicate, with Party A, Party B, ___/___ and ___/___ holding each.

Special Reminder:

All terms hereof have been fully consulted by the Parties. The other Parties have been reminded by the Bank to pay special attention to and make full and good understanding of the terms with regard to the exemption or limitation on the Bank's liabilities, the rights owned by the Bank unilaterally, the increase of the other Parties' liabilities, and the limitation on the other Parties' rights. The Bank has explained the above terms as required by the other Parties concerned the other Parties. The Parties hereto have the same understanding of the terms of the Agreement.

(This is a signature page)

Party A: Beijing Branch of China Merchants Bank Co., Ltd.

Principal or authorized agent (signature/stamped name seal): /s/ Kai XIONG

Please sign below if the Pledger is concurrently a legal person:

Party B: Beijing AmazGame Age Internet Technology Co., Ltd.

Legal representative/principal or authorized agent (signature/stamped name seal): /s/ Xiaojian HONG

Please sign below if the Pledger is concurrently a natural person:

Party B (signature)

ID Card No.:

Date of Signing: January 15, 2021

Appendix 3

Maximum Mortgage Agreement
No.: 2020 Asian Games Village Credit Granting 1154-Pledge 01

Mortgagee: Beijing Branch of China Merchants Bank Co., Ltd. (hereinafter referred to as Party A)

Mortgagor: Beijing Sohu New Momentum Information Technology Co., Ltd. (hereinafter referred to as Party B)

Whereas Party A (or Party A's subsidiary) has signed or will sign a *Credit Agreement* with No. 2020 Asian Games Village Credit Granting 1154 (hereinafter referred to as the "*Credit Agreement*") with Party B or the Credit Applicant Beijing AmazGame Age Internet Technology Co., Ltd. (fill in the specific name), and agrees to provide the line of credit of USD (in words) 370 million (including the equivalent amount in other currencies) (hereinafter referred to as "line of credit") to Party B (or the Credit Applicant) during the credit period (i.e. the determination period of creditor's rights) as agreed in the *Credit Agreement*.

According to the *Credit Agreement*, subsidiaries or/and other affiliated enterprises (including company, company and company (as the case may be), hereinafter collectively referred to as "designated enterprises of the Credit Applicant") as designated by the Credit Applicant can apply to your bank for financing as required by their business needs and such financing lines shall occupy the line of credits provided by your bank to the Credit Applicant. The available line of credit is (currency) yuan only. (please tick "Ö" in if this clause is applicable).

In order to guarantee that all debts owed to Party A by Party B (or the Credit Applicant and the enterprise designated by the Credit Applicant (if any) (the Credit Applicant and the enterprise designated by the Credit Applicant are hereinafter collectively referred to as "Credit Applicant")) under the *Credit Agreement* can be repaid in full and in time, Party B is willing to use its property owned or legally entitled to be disposed of by it as mortgage. After examination, Party A agrees to accept the property owned or legally entitled to be disposed of by Party B as mortgage. Party A and Party B have hereby reached consensus on the following terms and have made and entered into the Agreement (the "Agreement") through equal consultation in accordance with the relevant laws and regulations.

1. Mortgage Used by Party B for Mortgaging

S.N.	Description	Qty. or Area	Address	Evaluate value (RMB)	Ownership No.	Certificate of Ownership
1	301, 3/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,208.63m ²	301, 3/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	114,655,098.46	Beijing (2017) Haidian Real Property Right Certificate No. 0042996	Real Property Right Certificate
2	401, 4/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,280.31m ²	401, 4/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	118,376,173.27	Beijing (2017) Haidian Real Property Right Certificate No. 0043004	Real Property Right Certificate
3	501, 5/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,280.31m ²	501, 5/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	118,376,173.27	Beijing (2017) Haidian Real Property Right Certificate No. 0043000	Real Property Right Certificate

4	601, 6/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,208.59m ²	601, 6/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	114,653,021.97	Beijing (2017) Haidian Real Property Right Certificate No. 0043001	Real Property Right Certificate
5	701, 7/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,280.31m ²	701, 7/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	124,607,371.91	Beijing (2017) Haidian Real Property Right Certificate No. 0043002	Real Property Right Certificate
6	801, 8/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,280.31m ²	801, 8/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	124,608,348.44	Beijing (2017) Haidian Real Property Right Certificate No. 0043003	Real Property Right Certificate

(Columns and contents can be added or adjusted in accordance with the actual situation of mortgage)

In case that Party B provides guarantee for the credit debt with movable property, when the market value of the mortgage during the mortgage period declines to less than % of the principal of the total amount of the credit debt, Party B shall provide the margin as required by Party A (the margin account number shall be subject to that generated or recorded by Party A's system at the time of deposit, the same below), or add/replace new mortgage/pledge to make up for the gap caused by the decline in the market value of the mortgage. Otherwise, Party A shall have the right to dispose of the mortgage as agreed herein in addition to deeming it as the event of default under the *Credit Agreement* and taking corresponding measures.

Party B undertakes that if the mortgage is the right to use the land, the buildings built on the land subsequently will be mortgaged to Party A after obtaining the property right certificate and Party B shall cooperate with Party A for the mortgage registration at the corresponding mortgage registration institutions.

2. Scope of Mortgage Guarantee

2.1 The mortgage guarantee scope of the Agreement is the sum of the principal balance of the loan and other credits provided by Party A to Party B (or the Credit Applicant) within the line of credit in accordance with the *Credit Agreement* (the maximum amount is USD (in words) 370 million), as well as interest, penalty, compound interest, liquidated damages, delay penalty, factoring fee, the cost to realize mortgage and creditor's rights and other related costs, including but not limited to:

2.1.1 The outstanding balance in the specific businesses under / (fill in the name of the agreements here) with No. / between Party A (or Party A's subsidiaries) and Party B (or the Credit Applicant);

2.1.2 The principal balance of loans issued by Party A in accordance with the specific business texts under the *Credit Agreement* and corresponding interest, penalty, compound interest, liquidated damages and delay penalty;

2.1.3 The principal balance of the external payment made by Party A in the trade financing business under the *Credit Agreement* and corresponding interest, penalty, compound interest, liquidated damages and delay penalty;

2.1.4 The creditor's rights of accounts receivable, the corresponding overdue penalty (overdue fine) and delay penalty of Party B (or the Credit Applicant) transferred by Party A under the factoring business, and/or the basic purchase money (basic underwriting money) and relevant factoring fees paid by Party A with its own funds or other funds from legitimate sources to Party B (or the Credit Applicant);

2.1.5 When Party A entrusts other branches of China Merchants Bank to transfer the letter of credit to the beneficiary after the letter of credit is issued by Party A upon the request of Party B (or the Credit Applicant), the advance payment made by Party A for Party B (or the Credit Applicant) to perform the obligations of the issuing bank under the letter of credit, and the debt principal balance of import bill advance and delivery against bank guarantee incurred from the letter of credit issuance and interest, penalty, compound interest, liquidated damages and delay penalty;

2.1.6 All debts of Party B (or the Credit Applicant) to Party A under derivatives trading business, gold leasing and other businesses;

2.1.7 When Party A handles cross-border linkage trade financing business for Party B (or the Credit Applicant) such as handling entrusted letter of credit, entrusted overseas financing or cross-border trade one-stop service under the *Credit Agreement*, bill advances or advance payments (whether occurred during the credit period or not) made to return the linkage platform financing as agreed in specific business text and interest, penalty, compound interest, liquidated damages and delay penalty;

2.1.8 The principal balance of advanced payment made by Party A for Party B (or the Credit Applicant) to perform its payment obligation of commercial draft, letter of credit, guarantee letter/customs tax payment guarantee/bill guarantee, delivery guarantee letter under the *Credit Agreement* and interest, penalty, compound interest, liquidated damages and delay penalty, as well as the debts of Party B (or the Credit Applicant) to Party A generated from providing discount guarantee for commercial bills accepted by Party B (or the Credit Applicant);

2.1.9 Expenses incurred by Party A in recovering debts from Party B (or the Credit Applicant) and realizing mortgage right (including but not limited to litigation fees, attorney fees, announcement fees, service fees, travel expenses, etc.), as well as all other relevant expenses.

2.1.10 Special Provisions for Secondary Mortgage (Please check “” in “” if applicable)

Party A (or Party A's subsidiary, i.e., China Merchants Bank Co., Ltd. Beijing ___/___) and Party B (or the Credit Applicant) signed the *Credit Agreement* with No. ___/___ originally (i.e., the “original *Credit Agreement*”). Since the mortgage registration under ___/___ (name of the newly signed agreement) with No. ___/___ is completed, the outstanding balance of the specific business under the original *Credit Agreement* (see Appendix 1 for the list of specific outstanding business) will be automatically incorporated into the Agreement and directly occupy the line of credit hereunder.

2.2 With regard to the revolving line of credit, if the principal balance of the loan or other credit provided by Party A to Party B (or the Credit Applicant) exceeds the amount of the line of credit, Party B shall not take guarantee liability for the part of credit principal balance exceeding the line of credit amount, but only take guarantee liability for the part of the principal balance of the loan or other credit not exceeding the amount of the line of credit and its interest, penalty, compound interest, liquidated damages, delay penalty, the cost to realize the mortgage and creditor's rights and other related expenses (subject to the scope specified in the preceding paragraph, the same below).

Notwithstanding the provisions above, both Parties make it clear that even if the principal balance of the loan or other credit provided by Party A to the Credit Applicant exceeds the amount of the line of credit at a certain point in the credit period, but if the sum of the principal balance of various line of credits does not exceed that of the line of credit when Party A requires Party B to undertake the mortgage guarantee liability, Party B shall not raise any defense with the above-mentioned agreement as the reason, but shall bear the mortgage guarantee liability with the balance of all credit principal and its interest, penalty, compound interest, liquidated damages, delay penalty, the cost to realize mortgage and creditor's rights and other related expenses.

2.3 If Party A releases new loans to repay or convert the old loans or debts under letter of credit, guarantee letter and bills for Party B (or the Credit Applicant) during the credit period, Party B confirms that debts arising therefrom shall be included in the scope of its guarantee liability.

2.4 When handling the import letter of credit business as applied by Party B (or Credit Applicant), if import bill purchase is actually incurred under the same letter of credit afterwards, the import letter of credit and the import bill purchase shall occupy the same line of credit at different stages. In other words, when the import bill purchase business occurs, the use of the amount recovered after the letter of credit is paid out for the import bill purchase shall be deemed as the same amount with the same line of credit used by the original import letter of credit. Party B confirms that the debts arising therefrom shall be included in the scope of its liability of guarantee.

3. Maximum Mortgage

3.1 During the credit period, Party A may issue loans or grant other line of credit to Party B (or the Credit Applicant) by installments. The specific category and amount of line of credit of credit business, whether various types of credit business are reversible, and the specific conditions of use shall be subject to the approval of Party A. If Party A adjusts its original approval opinions as required by Party B (or the Credit Applicant) through application during the credit period, the subsequent approval opinions issued by Party A shall constitute the supplementation and changes to the original or preceding approval opinions, and so on.

The maturity date of each specific business may be later than that of the credit period. Both Parties have no objection thereto.

3.2 Upon the expiration of the credit period, if there is still a balance in the loan, advance or other credit provided by Party A to Party B (or the Credit Applicant) under the *Credit Agreement*, Party B shall assume the guarantee liability with the mortgage within the scope of mortgage guarantee as determined herein; before the expiration of the credit period, if Party A recovers to Party B (or the Credit Applicant) in accordance with the *Credit Agreement* or the specific business texts, Party B shall also bear the guarantee liability with the mortgage within the scope of mortgage guarantee as determined herein.

3.3 During the credit period, Party A shall provide Party B (or the Credit Applicant) with credit business such as commercial draft acceptance, letter of credit (including entrusted and transferred letter of credit, the same below), guarantee letter, delivery guarantee, factoring, cross-border linkage trade financing, etc. **Even if Party A's advance/guarantee payment has not occurred before the expiration of the credit period, if Party A makes advance/guarantee payment under the above business after the expiration of the credit period, Party B shall also bear the guarantee liability with the mortgage within the scope of mortgage guarantee as determined herein.**

In case that the derivative transaction occurs before the credit period but there is still a balance or loss during the credit period, and in case that the derivative transaction occurs during the credit period but there is still balance or loss after the expiration of the credit period, resulting in additional occupation of the line of credit, all debts incurred by Party B (or the Credit Applicant) shall be guaranteed by Party B with the mortgage within the scope of mortgage guarantee as determined herein.

3.4 If Party A and Party B (or the Credit Applicant) agree on the extension of the term, interest rate and amount of each specific business during the performance of specific business under the *Credit Agreement* or on the modification of relevant terms, or Party A adjusts the interest rate and pricing method in accordance with the *Credit Agreement* and/or the specific business during the mortgage guarantee period, the consent of or notice to Party B is not required and Party B shall recognize it, which shall not affect Party B's mortgage guarantee liability hereunder.

3.5 In case of discrepancies of the documents received by Party A in the letter of credit business under the *Credit Agreement* as reviewed by Party A, but the Credit Applicant accepts the discrepancies, Party B shall still bear the mortgage guarantee liability for the credit principal and interest arising from Party A's acceptance or payment therefor, and shall not raise any defense to Party A's acceptance of the discrepancies without consent of or notice to Party B.

3.6 The consent of or notice to Party B is not required for the amendment of letter of credit, guarantee letter (or standby letter of credit) under the *Credit Agreement*, the acceptance of the usance letter of credit, or the extension of the payment term after the promise of payment due, and Party B shall recognize it, which shall not affect Party B's mortgage guarantee liability hereunder.

3.7 Party B confirms that each concrete business document (regardless of whether it is a single agreement/application, or framework agreement) signed and concluded by and between Party A and Party B (or the Credit Applicant) with respect to the specific businesses under the granting of the line of credit shall constitute an integral part of the *Credit Agreement*, and jointly stipulate the rights and obligations involved in specific businesses.

Party B confirms that the specific amount, length of maturity, use and other business elements for credit businesses conducted between Party A and Party B (or the Credit Applicant) shall be subject to the concrete business documents, business vouchers prepared by Party A and business records of Party A's system.

3.8 With respect to the guarantee letter/customs tax payment guarantee/bill guarantee and other businesses handled by Party A as applied by Party B (or the Credit Applicant), the transfer arrangement of guarantee letter interest/bill interest shall not affect Party B's guarantee obligation hereunder, and Party B undertakes not to raise any defense therefor.

4. Independence of the Agreement

4.1 The Agreement is independent and unconditional, and its validity is not affected by that of the *Credit Agreement* and the texts of each specific business, any agreement or document signed by Party B (or the Credit Applicant) and any entity/individual. It shall not change due to changes including fraud, reorganization, suspension, dissolution, liquidation, bankruptcy, integration (merger), division, reform or the expiration of the business term of Party B (or the Credit Applicant), or be affected by any time of grace and extension granted to Party B (or the Credit Applicant) by Party A or postponement of exercising the right to recover Party B's (or the Credit Applicant's) arrears by Party A in accordance with the relevant agreements.

4.2 In the case that Party A's creditor's rights have mortgage, pledge guarantee or guarantor otherwise at the same time, Party A shall have the right to claim guarantee rights to each mortgagor/pledger (including Party B) and guarantors respectively, successively or at the same time; Party B's guarantee liability hereunder shall not be affected if Party A waives its place in the order of mortgage rights, waives, changes or cancels other mortgage and pledge guarantees, changes or relieves the guarantor's guarantee responsibility, or delays to claim rights to any other mortgagor/pledgor/guarantor, and Party B is still obliged to bear the mortgage guarantee liability for Party A as agreed herein.

5. Mortgage Period

The mortgage period refers to the period from the effective date of the Agreement to the expiration of the limitation of actions for credit claims under the *Credit Agreement*.

6. Custody and Responsibility of Mortgage and Mortgage Ownership Certificate

6.1 During the mortgage period, the mortgage shall be kept by Party B or the agent entrusted by Party B. Party B and its agent shall keep the mortgage properly, bear the responsibility of repair, maintenance and guarantee its integrity during the mortgage period, and shall accept the inspection of Party A at any time.

6.2 During the mortgage period, Party B shall not take any action to reduce the value of the mortgage. In case of such actions, Party A shall have the right to require Party B to stop and restore the value of the mortgage, or provide new mortgage approved by Party A. Party B shall bear expenses incurred for restoring the mortgage to its original state or establishing a new mortgage.

6.3 Party B shall deliver the title certificate and other relevant supporting documents of the mortgage to Party A on the signature date of the Agreement. Party A shall keep the mortgage ownership certificate properly. In case of loss of mortgage ownership certificate due to improper storage, Party A shall bear the expenses for certificate reissuance.

7. Mortgage Registration

7.1 Party B shall cooperate with Party A for mortgage registration at the mortgage registration authority with the Agreement and relevant materials within the period required by Party A.

7.2 Party B shall actively support Party A in handling the relevant procedures in accordance with the above provisions in the principle of good faith, and Party B shall inform Party A in time of the change of registration information such as legal person information and company name. If the registration becomes invalid as the relevant procedures are not completed in time or the registration information change are not informed due to the reason of Party B, Party B shall bear joint and several liability for compensation suffered by Party A therefrom to the extent of the value of the mortgage.

8. Insurance

8.1 Party B shall be obliged to purchase full property insurance for the mortgage with Party A as the first beneficiary and submit the insurance policy to Party A for storage. In principle, the insurance period should be longer than the credit period as agreed in the *Credit Agreement*. If the credit period is extended or the credit debt is not paid off after the maturity, Party B shall handle the procedures for the insurance period extension. In case of any loss of the insured property, Party A shall have the right to recover the principal and interest of all credit claims under the *Credit Agreement* and all other related expenses from the insurance compensation, or negotiate with Party B to deposit the insurance compensation into the margin account, so as to recover the corresponding funds/pay the accounts payable when the repayment period of the credit claims under the *Credit Agreement* expires.

8.2 If Party B fails to handle the insurance purchase or extension procedures for the mortgage in accordance with the above requirements, Party A shall have the right to directly handle the insurance purchase or extension procedures on behalf of Party B with the relevant expenses borne by Party B and shall have the right to deduct such expenses directly from any account of Party B.

8.3 If Party B (or the Credit Applicant) fails to pay off all debts under the *Credit Agreement* after the expiration of the insurance period, Party B must handle the procedures of mortgage insurance extension. If Party B fails to handle the procedures of mortgage insurance extension, Party A shall have the right to directly handle it on behalf of Party B with the relevant expenses borne by Party B and shall have the right to deduct such expenses directly from any account of Party B.

8.4 The insurance premium shall be borne by Party B as the Client unless otherwise stipulated in relevant national policies and other normative documents.

9. Restrictions on the disposal of the mortgage during the mortgage period

9.1 During the mortgage period, Party B shall have no right to transfer the mortgage hereunder by selling, exchanging or donating without authorization; if Party B really needs to transfer the mortgage hereunder with compensation, it must meet the following conditions:

9.1.1 Party B shall obtain the written consent of Party A and inform the transferee of the mortgage of the transferred property; if Party B fails to obtain the written consent of Party A or fails to inform the transferee, the transfer shall be invalid.

9.1.2 If the price of the mortgage transferred by Party B is obviously lower than its value, so that the amount of line of credit and other expenses cannot be fully compensated, Party A shall have the right to require Party B to provide other properties as guarantee; if Party B fails to provide, the mortgage shall not be transferred;

9.1.3 The price obtained from Party B's transfer of the mortgage must be directly transferred to the account as designated by Party A for early repayment of the principal and interest of all credit debts under the *Credit Agreement* and other related expenses; or the full amount of relevant funds shall be deposited into the margin account opened by Party B at Party A. Such funds shall be deemed to be specialized and transferred to Party A for possession from the date of entering the margin account and shall continue to be taken as the pledge guarantee of debts of Party B (or the Credit Applicant) under the *Credit Agreement*. Party B has no objection thereto and shall cooperate to handle relevant procedures as required by Party A.

After Party B transfers the full amount of the proceeds from the transfer of the mortgage into the account as designated by Party A, Party A may assist Party B for the mortgage registration cancellation procedures and return the mortgage ownership certificate to Party B.

9.2 Without the written consent of Party A, Party B shall not transfer, lease, remortgage or dispose of the mortgage hereunder in any other improper way.

9.3 Provided that the mortgagor has provided real estate mortgage guarantee for all debts that Party B (or the Credit Applicant) owes to Party A hereunder, if Party B knows that the collateral has been or may be included in the scope of government demolition and expropriation, it shall notify Party A immediately.

9.3.1 If the demolition party compensates the mortgagor by means of property right exchange, Party B shall mortgage the real estate acquired from the demolition party through the property right exchange to Party A;

9.3.2 If the demolition party pays Party B with demolition compensation, Party A shall have the right to require Party B to open an account in the institution designated by Party A, and deposit the full amount of compensation into the account as margin to provide guarantee for debts of Party B (or the Credit Applicant) under the *Credit Agreement*;

9.3.3 If the demolition party compensates Party B in the above two ways or in other ways, Party A may adopt the above two ways or other ways that Party A considers appropriate for different compensations, and require Party B to provide guarantee for the debts of Party B (or the Credit Applicant) under the *Credit Agreement* with compensations.

9.3.4 If the compensation of the demolition party has not been provided, or it has been provided but the guarantee procedures have not been completed in accordance with the requirements of Party A, Party B shall provide other sufficient guarantee approved by Party A.

9.3.5 Party A may also require Party B to provide new guarantee directly with other properties based on actual situations.

10. Expenses Bearing

10.1 Where the Agreement involves evaluation, notarization (except for mandatory notarization) or other matters of entrusting a third party to provide services, all relevant costs and expenses incurred therefrom shall be borne by the Client independently. If both Parties act as the Clients, each Party shall bear 50%. Except as otherwise stipulated by relevant national policies and other normative documents.

10.2 If the mortgagee is required to bear the mortgage registration fee in accordance with the relevant national policies and other normative documents, the mortgage registration fee hereunder shall be borne by the mortgagee, unless otherwise specified in the relevant normative documents or due to the reasons of the registration authority.

11. Modification and Termination of the Agreement

Neither Party shall change or rescind the Agreement without the consent of the other Party after the Agreement becomes effective. If the Agreement needs to be changed or rescinded, it shall be changed or rescinded in written agreement through consultation between the Parties hereto. The terms hereof shall not be invalidated until such agreement is reached.

12. Special Undertaking of Party B

12.1 Party B is a legal person with guarantee qualification, or other organization with guarantee qualification, or Party B is a natural person with full civil capacity, willing to set up a guarantee with assets owned by Party B or legally entitled to dispose of, so as to guarantee the performance of obligations stipulated herein;

12.2 Party B is a legal person or other organization, and its signature of the Agreement has been fully authorized or approved by the superior department/board of directors and other authorities;

12.3 The signature of the Agreement is the true intention of Party B without fraud or coercion;

12.4 If Party B is an enterprise legal person or other organization, in case of division, integration (merger) and other situations of Party B during the validity period of the Agreement, the changed organization shall undertake or separately undertake the obligations hereunder. If Party B is declared to be dissolved or bankrupt, Party A shall have the right to dispose of its mortgaged property before the expiration.

If Party B is a natural person with a spouse, the letter of the spouse confirming mortgage guarantee shall be provided as required by Party A. If Party B has no spouse, Party B specially declares that by the signature of the Agreement, it has not legally married with anyone and/or has no spouse (or former spouse) with legal marriage relationship in Chinese mainland and abroad who enjoys co-ownership to the mortgage hereunder, and all the marital status information provided by Party B to Party A are true, complete and reliable. At the same time, Party B confirms that Party A can verify and investigate the marital status information provided by Party B when Party A considers it as necessary (without obtaining any further authorization), and guarantees to provide all convenience unconditionally.

13. In case of any of the following circumstances, Party A may dispose of the mortgage in accordance with law:

13.1 Party B (or the Credit Applicant) has one of the default events specified in the *Credit Agreement* or a specific Agreement under the *Credit Agreement*;

13.2 Party B or other mortgagor/guarantor has one of the default events specified in the *Credit Agreement*, or Party B fails to perform its obligations hereunder;

13.3 Party B, as a natural person, dies without any successor or devisee; or its successor or devisee waives the inheritance or legacy and refuses to perform the obligation to repay the principal and interest of credit debts;

13.4 Party B suspends its business, has its business license revoked or canceled, files for or is filed for bankruptcy, dissolution, etc. when Party B acts as a legal person or other organization;

13.5 The mortgage is damaged, or its value is reduced, which may endanger Party A's rights;

13.6 Other causes that may endanger the realization of creditor's rights under the *Credit Agreement*.

14. Liability for Breach of Agreement

14.1 If Party B violates the Agreement and neglects the maintenance and management of the mortgage, resulting in the value reduction of the mortgage, or Party B's behavior directly endangers the mortgage, leading to the value reduction of the mortgage, Party A has the right to require Party B to restore the value of the mortgage or provide other properties acceptable to Party A as guarantee. If Party B refuses to restore or provide, Party A shall have the right to dispose of the mortgage before the expiration in accordance with law.

14.2 If Party B violates the Agreement and disposes of the mortgaged property without authorization, the act shall be invalid; Party A shall have the right to require Party B to immediately stop the infringement of Party A's mortgage right and restore the mortgage to its original state, and may require Party B to provide other properties acceptable to Party A as guarantee or dispose of the mortgage before the expiration in accordance with law based on the actual situation.

14.3 Party B undertakes that there are no legal and factual obstacles to the establishment and realization of the mortgage right. If Party B conceals that the mortgage is co-owned, disputed, seized, detained, has been or will be included in the expropriation or demolition, leased, has set with the mortgage, exists the legal priority (including but not limited to the priority of construction funds) or Party B has no ownership or disposition right to the mortgage, causing economic losses to Party A, a new guarantee shall be provided as required by Party A.

14.4 If Party B fails to provide new guarantee as required by Party A in case of any breach of Agreement mentioned above, Party B shall bear the penalty of 30% of the line of credit amount under the *Credit Agreement*. If any economic loss is caused to Party A therefrom, Party B shall also compensate Party A for all economic losses.

15. Collection of Relevant Fructus

If Party B (or the Credit Applicant) fails to pay off the principal and interest of the loan, advance payment and other credit debts owed by Party B (or the Credit Applicant) to Party A and all other relevant expenses, and Party A claims the mortgage right, causing the mortgage to be seized or detained by the people's court in accordance with law, Party A shall have the right to collect the natural fructus separated from the mortgage and the legal fructus that Party B can collect from the mortgage since the date of seizure or detention.

16. Realization of Mortgage

16.1 In case of any single or multiple circumstances specified in Article 13 of the Agreement or the mortgage to be disposed of in accordance with the provisions of the liability for breach of Agreement, Party A may choose one of the following ways to realize the mortgage right:

16.1.1 Party A and Party B have reached an agreement to convert directly or auction or sell off the mortgage; if the two Parties fail to reach an agreement within 15 days after any of the circumstances specified in Article 13 of the Agreement or the date of Party A's disposal of the mortgage in accordance with the provisions of liability for breach of Agreement, Party A shall have the right to directly request the people's court to auction or sell off the mortgage;

16.1.2 The mortgage shall be disposed of by the legal procedures in accordance with the dispute settlement method agreed in the *Credit Agreement*;

16.1.3 Party A may directly apply to a competent people's court for enforcement of the debts owed by Party B under the Agreement to which a notary public has legally granted the effectiveness of forcible execution upon application by the Parties.

16.2 Party A shall have the priority to be compensated for the price obtained from disposing of the mortgage in the above method. The part of the price exceeding the principal and interest of various loans, advances owed by Party B (or the Credit Applicant) under the *Credit Agreement* and other credit debts and all relevant expenses shall belong to Party B. Party A shall claim the insufficient part otherwise.

17. Elimination of Mortgage

The mortgage right will be automatically eliminated when the principal and interest of all credit debts owed by Party B (or the Credit Applicant) to Party A under the *Credit Agreement* are paid off timely upon the expiration of the credit period. The property right certificates or evidence and property insurance policy of Party B kept by Party A shall be returned to Party B. Party A may assist Party B for mortgage registration cancellation procedures in accordance with the requirements of Party B.

18. Miscellaneous

18.1 Non-waiver

During the term hereof, Party A's tolerant, postponed or delayed exercise of its interests or rights under the *Credit Agreement* for any default or delay of Party B (or Credit Applicant) shall not impair, impact, or restrict any and all rights and interests that Party A is entitled to as a creditor in accordance with the relevant laws and regulations and the Agreement, nor shall it be deemed as Party A's permission or acceptance of any breach of the Agreement or be deemed as Party A's waiver of its right to take actions against existing or future defaults.

18.2 Notices

18.2.1 The notifications, requirements or other documents, etc. of the Parties related to the Agreement shall be sent in writing (including but not limited to letter, fax, email, E-bank function/enterprise App and other E-platforms, SMS or WeChat, etc.)

18.2.2 Any notice, request, or other document that is delivered by a specially assigned person (including but not limited to by a lawyer, notary, or courier) shall be deemed to have been served when the recipient signs on it (if the recipient refuses to accept it, it shall be deemed to have been served seven days after the date of rejection, return, or delivery (whichever is earlier)). Any notice, request, or other document that is delivered by postal service shall be deemed to have been served seven days after the date of posting. Any notice, request, or other document that is delivered by fax, email, Party A's E-platforms, SMS, WeChat, or other electronic means shall be deemed to have been served on the date when the sender's corresponding system shows successful delivery.

Where Party A notifies Party B of assignment of debts or collects funds from Party B via the announcement on the public media, the announcing date shall be regarded as the service date.

18.2.3 In case of change to either Party's contact address, email, fax number, mobile phone number or WeChat account, it shall notify the other Party within five working days as from the date of such change. Otherwise, the other Party shall have the right to use the original contact address or information. Where the service fails due to change in contact address or contact information, the returning date or seven days after posting (whichever is earlier) shall be regarded as the service date. The changing Party shall assume the possible losses resulted therefrom, and the legal validity of service shall not be prejudiced.

18.2.4 The contact addresses, emails, fax numbers, mobile phone numbers, WeChat accounts as listed herein shall also serve as the addresses for service of respective notarization documents and judicial documents (including but not limited to indictment/claim of arbitration, evidence, summons, notice of response to action, notice to produce evidence, notice of court session, written judgment/award, written verdict, mediation document, notice of due performance, and other instruments during the trial and execution phases), and that the appellate court and notarization institution serve the instruments to the aforementioned service addresses in the writing mode as stipulated herein shall be regarded as duly served (The concrete service standard shall refer to the preceding clause for execution).

18.3 Unless otherwise expressly stated, the terms and expressions referred to herein shall have the same meaning as those in the *Credit Agreement*.

18.4 Party B confirms that all operations of Party A in handling specific business for Party B (or the Credit Applicant) and Party A's operations related to the Agreement can be handled at any branch of Party A, and relevant correspondence can be generated, signed or issued. The business operation and correspondence of the branches of Party A shall be deemed as acts of Party A and shall be binding on both Parties.

18.5 If the credit debt is not in RMB, Party A shall have the right to use the amount recovered to directly purchase foreign exchange at the exchange rate announced by Party A at the time of settlement as agreed herein, so as to pay off the credit debts. The calculation of non-RMB debt amount under the specific business texts shall be subject to the converted amount at the exchange rate (purchase price) announced by Party A at the time of settlement.

18.6 In case of division, integration (merger) and other situations of Party B during the validity period of the Agreement, the changed organization shall undertake or separately undertake the obligations hereunder. If Party B is declared to be dissolved or bankrupt, Party A shall have the right to dispose of its mortgaged property before the expiration.

18.7 Special Terms and Conditions of real estate mortgage (Please check "Ö" in "□" if applicable)

Principal Creditor's Rights and Real Estate Maximum Mortgage Agreement (for Real Estate Registration only) (please fill in the Agreement name of the standard version required by the mortgage registration authority) with No. 2020 Asian Games Village Credit Granting 1154 signed by Party A and Party B is only for the purpose of handling the mortgage registration procedures. The specific rights and obligations of both Parties and the agreements on the Main Agreement and mortgage shall be subject to this Agreement. In particular, Party B shall provide guarantee within the scope of guarantee with the full value of the mortgage. At the request of the mortgage registration authority, "Maximum amount and currency of creditor's rights" / "maximum amount of guaranteed creditor's rights" (please check the content in the standard Agreement version required by the corresponding mortgage registration authority) filled in at the time of registration is tentatively set as 1.4 times of the line of credit / the evaluated value of the mortgage when mortgage is set (please choose one of them), i.e., USD_518 million. The specific amount shall be subject to the total amount obtained when the mortgage is realized.

19. Transfer of Creditor's Rights and Mortgage Right

19.1 If Party A transfers all the creditor's rights under the *Credit Agreement* to a third party, the maximum mortgage right shall be transferred to the creditor's right assignee all together, whether the creditor's rights guaranteed by the maximum mortgage are determined or not.

19.2 After the creditor's rights mortgaged hereunder are determined, if Party A transfers part of the creditor's rights, part of the mortgage will also be transferred. Party A shall share the mortgage right of the mortgage in proportion to the amount of the creditor's rights not transferred with the transferee; before the determination of the creditor's rights guaranteed by the mortgage of the Agreement, if Party A transfers part of the creditor's rights, part of the mortgage will also be transferred and the principal creditor's rights of Party A guaranteed by the original maximum mortgage shall be reduced accordingly (i.e. the maximum amount of Party A's principal creditor's rights guaranteed by the original maximum mortgage amount minus the amount of transferred creditor's rights). After the determination of Party A's non-transferred principal creditor's rights, Party A and the transferee shall jointly enjoy the mortgage right to the mortgage in proportion to the amount of creditor's rights.

20. Applicable Laws and Dispute Resolution

20.1 The conclusion, interpretation and dispute resolution of the Agreement shall be governed by the laws of the People's Republic (excluding laws of Hong Kong, Macao and Taiwan).

20.2 It is agreed by the Parties that any dispute arising out of the performance of the Agreement between the Parties shall be resolved as per the dispute resolution method stipulated in the *Credit Agreement*.

21. Effectiveness of Mortgage Agreement

The Agreement shall take effect as of the date when both Parties' legal representatives/principals or their authorized agents sign (or stamp name seals) and stamp official seals/special seals for Agreement (If Party B is a natural person, the Agreement shall take effect as of the date when Party B signs and Party A's legal representative/principal or its authorized agent signs (or stamp name seal) and stamps the official seal/special seal for Agreement) and shall be automatically nullified on the date of expiration of mortgage period or when the principal and interest of credit granting debt and all related expenses owed by Party B to Party A under the *Credit Agreement* are paid off (whichever is later).

22. Supplementary Provisions

22.1. The Agreement is made in duplicate, with Party A, Party B, ____ / ____ and ____ / ____ holding one copy and each copy being equally authentic.

22.2 Other agreed terms: ____ / _____

Appendix 1

List of Specific Outstanding Businesses

Unit: Ten Thousand

<u>S.N.</u>	<u>Business No.</u>	<u>Balance</u>	<u>Starting Date</u>	<u>Due Date</u>
1				
2				
3				
4				
5				
6				
7				

Special Reminder:

All terms hereof have been fully consulted by the Parties. Party B has been reminded by Party A to pay special attention to and make full and good understanding of the terms with regard to the exemption or restriction on Party A's liabilities, the rights owned by Party A unilaterally, the increase of Party B's liabilities, and the restriction on Party B's rights. Party A has explained the above terms as required by Party B. The Parties hereto have the same understanding of the terms of the Agreement.

(The remainder of this page is intentionally left blank)

(The following is the signature of the *Maximum Mortgage Agreement* with No. 2020 Asian Games Village Credit Granting 1154-Pledge 01)

Party A: Beijing Branch of China Merchants Bank Co., Ltd.

Principal or authorized agent (signature or stamped name seal): /s/ Kai XIONG

Contact Address: No. 156 Fuxingmennei Avenue, Xicheng District, Beijing

Corporate Email: gujing0610@cmbchina.com

Corporate Fax: /

Mobile Phone No. of Contact Person: 17600355610

Corporate WeChat Account:/

Please sign and fill it out as below if the mortgagor acts as a legal person or other organization:

Party B: Beijing Sohu New Momentum Information Technology Co., Ltd.

Legal Representative/Principal or Authorized Agent (signature/stamped name seal):/s/ Xiufeng DENG

Contact Address: Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District, Beijing

Email: puhuang@sohu-inc.com

Fax: 56412828

Mobile phone number of contact person: 13811220840

Corporate WeChat Account: /

Please sign and fill it out as below if the mortgagor is a natural person:

Party B (signature): /

Nationality and ID Certificate:/

ID Certificate No.: /

Contact Address: /

Email: /

Fax No.: /

Mobile Phone Number: /

WeChat: /

Date of Signing: December 10, 2020

Appendix 3

Maximum Mortgage Agreement

No.: 2020 Asian Games Village Credit Granting 1154-Pledge 02

Mortgagee: Beijing Branch of China Merchants Bank Co., Ltd. (hereinafter referred to as Party A)**Mortgagor:** Beijing Sohu New Media Information Technology Co., Ltd. (hereinafter referred to as Party B)

Whereas Party A (or Party A's subsidiary) has signed or will sign a *Credit Agreement* with No. 2020 Asian Games Village Credit Granting 1154 (hereinafter referred to as the "*Credit Agreement*") with Party B or the Credit Applicant Beijing AmazGame Age Internet Technology Co., Ltd. (fill in the specific name), and agrees to provide the line of credit of USD (in words) 370 million (including the equivalent amount in other currencies) (hereinafter referred to as "line of credit") to Party B (or the Credit Applicant) during the credit period (i.e. the determination period of creditor's rights) as agreed in the *Credit Agreement*.

According to the *Credit Agreement*, subsidiaries or/and other affiliated enterprises (including / company, / company and / company (as the case may be), hereinafter collectively referred to as "designated enterprises of the Credit Applicant") as designated by the Credit Applicant can apply to your bank for financing as required by their business needs and such financing lines shall occupy the line of credits provided by your bank to the Credit Applicant. The available line of credit is / (currency) / yuan only. (please tick "Ö" in if this clause is applicable).

In order to guarantee that all debts owed to Party A by Party B (or the Credit Applicant and the enterprise designated by the Credit Applicant (if any) (the Credit Applicant and the enterprise designated by the Credit Applicant are hereinafter collectively referred to as "Credit Applicant")) under the *Credit Agreement* can be repaid in full and in time, Party B is willing to use its property owned or legally entitled to be disposed of by it as mortgage. After examination, Party A agrees to accept the property owned or legally entitled to be disposed of by Party B as mortgage. Party A and Party B have hereby reached consensus on the following terms and have made and entered into the Agreement (the "Agreement") through equal consultation in accordance with the relevant laws and regulations.

1. Mortgage Used by Party B for Mortgaging

S.N.	Description	Qty. or Area	Address	Evaluate value RMB	Ownership No.	Certificate of Ownership
1	201, 2/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	853.65m ²	201, 2/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	44,314,948.54	Beijing (2017) Haidian Real Property Right Certificate No. 0043019	Real Property Right Certificate
2	901, 9/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,208.59m ²	901,9/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	120,689,183.61	Beijing (2017) Haidian Real Property Right Certificate No. 0043020	Real Property Right Certificate
3	1001, 10/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,281.38m ²	1001, 10/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	124,666,818.97	Beijing (2017) Haidian Real Property Right Certificate No. 0043021	Real Property Right Certificate

4	1101, 11/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,318.27m ²	1101, 11/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	126,682,686.09	Beijing (2017) Haidian Real Property Right Certificate No. 0043022	Real Property Right Certificate
5	1201, 12/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,246.31m ²	1201, 12/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	128,887,734.31	Beijing (2017) Haidian Real Property Right Certificate No. 0043023	Real Property Right Certificate
6	1301, 13/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,319.35m ²	1301, 13/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	133,078,589.58	Beijing (2017) Haidian Real Property Right Certificate No. 0043025	Real Property Right Certificate
7	1401, 14/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	2,247.36m ²	1401, 14/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	128,947,980.72	Beijing (2017) Haidian Real Property Right Certificate No. 0043026	Real Property Right Certificate
8	1501, 15/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	1,892.46m ²	1501, 15/F, Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District	108,584,692.97	Beijing (2017) Haidian Real Property Right Certificate No. 0043024	Real Property Right Certificate

(Columns and contents can be added or adjusted in accordance with the actual situation of mortgage)

In case that Party B provides guarantee for the credit debt with movable property, when the market value of the mortgage during the mortgage period declines to less than % of the principal of the total amount of the credit debt, Party B shall provide the margin as required by Party A (the margin account number shall be subject to that generated or recorded by Party A's system at the time of deposit, the same below), or add/replace new mortgage/pledge to make up for the gap caused by the decline in the market value of the mortgage. Otherwise, Party A shall have the right to dispose of the mortgage as agreed herein in addition to deeming it as the event of default under the *Credit Agreement* and taking corresponding measures.

Party B undertakes that if the mortgage is the right to use the land, the buildings built on the land subsequently will be mortgaged to Party A after obtaining the property right certificate and Party B shall cooperate with Party A for the mortgage registration at the corresponding mortgage registration institutions.

2. Scope of Mortgage Guarantee

2.1 The mortgage guarantee scope of the Agreement is the sum of the principal balance of the loan and other credits provided by Party A to Party B (or the Credit Applicant) within the line of credit in accordance with the *Credit Agreement* (the maximum amount is USD (in words) 370 million), as well as interest, penalty, compound interest, liquidated damages, delay penalty, factoring fee, the cost to realize mortgage and creditor's rights and other related costs, including but not limited to:

2.1.1 The outstanding balance in the specific businesses under / (fill in the name of the agreements here) with No. / between Party A (or Party A's subsidiaries) and Party B (or the Credit Applicant);

2.1.2 The principal balance of loans issued by Party A in accordance with the specific business texts under the *Credit Agreement* and corresponding interest, penalty, compound interest, liquidated damages and delay penalty;

2.1.3 The principal balance of the external payment made by Party A in the trade financing business under the *Credit Agreement* and corresponding interest, penalty, compound interest, liquidated damages and delay penalty;

2.1.4 The creditor's rights of accounts receivable, the corresponding overdue penalty (overdue fine) and delay penalty of Party B (or the Credit Applicant) transferred by Party A under the factoring business, and/or the basic purchase money (basic underwriting money) and relevant factoring fees paid by Party A with its own funds or other funds from legitimate sources to Party B (or the Credit Applicant);

2.1.5 When Party A entrusts other branches of China Merchants Bank to transfer the letter of credit to the beneficiary after the letter of credit is issued by Party A upon the request of Party B (or the Credit Applicant), the advance payment made by Party A for Party B (or the Credit Applicant) to perform the obligations of the issuing bank under the letter of credit, and the debt principal balance of import bill advance and delivery against bank guarantee incurred from the letter of credit issuance and interest, penalty, compound interest, liquidated damages and delay penalty;

2.1.6 All debts of Party B (or the Credit Applicant) to Party A under derivatives trading business, gold leasing and other businesses;

2.1.7 When Party A handles cross-border linkage trade financing business for Party B (or the Credit Applicant) such as handling entrusted letter of credit, entrusted overseas financing or cross-border trade one-stop service under the *Credit Agreement*, bill advances or advance payments (whether occurred during the credit period or not) made to return the linkage platform financing as agreed in specific business text and interest, penalty, compound interest, liquidated damages and delay penalty;

2.1.8 The principal balance of advanced payment made by Party A for Party B (or the Credit Applicant) to perform its payment obligation of commercial draft, letter of credit, guarantee letter/customs tax payment guarantee/bill guarantee, delivery guarantee letter under the *Credit Agreement* and interest, penalty, compound interest, liquidated damages and delay penalty, as well as the debts of Party B (or the Credit Applicant) to Party A generated from providing discount guarantee for commercial bills accepted by Party B (or the Credit Applicant);

2.1.9 Expenses incurred by Party A in recovering debts from Party B (or the Credit Applicant) and realizing mortgage right (including but not limited to litigation fees, attorney fees, announcement fees, service fees, travel expenses, etc.), as well as all other relevant expenses.

2.1.10 Special Provisions for Secondary Mortgage (Please check "Ö" in "□" if applicable)

Party A (or Party A's subsidiary, i.e., China Merchants Bank Co., Ltd. Beijing ___ / ___) and Party B (or the Credit Applicant) signed the *Credit Agreement* with No. ___ / ___ originally (i.e., the "original *Credit Agreement*"). Since the mortgage registration under ___ / ___ (name of the newly signed agreement) with No. ___ / ___ is completed, the outstanding balance of the specific business under the original *Credit Agreement* (see Appendix 1 for the list of specific outstanding business) will be automatically incorporated into the Agreement and directly occupy the line of credit hereunder.

2.2 With regard to the revolving line of credit, if the principal balance of the loan or other credit provided by Party A to Party B (or the Credit Applicant) exceeds the amount of the line of credit, Party B shall not take guarantee liability for the part of credit principal balance exceeding the line of credit amount, but only take guarantee liability for the part of the principal balance of the loan or other credit not exceeding the amount of the line of credit and its interest, penalty, compound interest, liquidated damages, delay penalty, the cost to realize the mortgage and creditor's rights and other related expenses (subject to the scope specified in the preceding paragraph, the same below).

Notwithstanding the provisions above, both Parties make it clear that even if the principal balance of the loan or other credit provided by Party A to the Credit Applicant exceeds the amount of the line of credit at a certain point in the credit period, but if the sum of the principal balance of various line of credits does not exceed that of the line of credit when Party A requires Party B to undertake the mortgage guarantee liability, Party B shall not raise any defense with the above-mentioned agreement as the reason, but shall bear the mortgage guarantee liability with the balance of all credit principal and its interest, penalty, compound interest, liquidated damages, delay penalty, the cost to realize mortgage and creditor's rights and other related expenses.

2.3 If Party A releases new loans to repay or convert the old loans or debts under letter of credit, guarantee letter and bills for Party B (or the Credit Applicant) during the credit period, Party B confirms that debts arising therefrom shall be included in the scope of its guarantee liability.

2.4 When handling the import letter of credit business as applied by Party B (or Credit Applicant), if import bill purchase is actually incurred under the same letter of credit afterwards, the import letter of credit and the import bill purchase shall occupy the same line of credit at different stages. In other words, when the import bill purchase business occurs, the use of the amount recovered after the letter of credit is paid out for the import bill purchase shall be deemed as the same amount with the same line of credit used by the original import letter of credit. Party B confirms that the debts arising therefrom shall be included in the scope of its liability of guarantee.

3. Maximum Mortgage

3.1 During the credit period, Party A may issue loans or grand other line of credit to Party B (or the Credit Applicant) by installments. The specific category and amount of line of credit of credit business, whether various types of credit business are reversible, and the specific conditions of use shall be subject to the approval of Party A. If Party A adjusts its original approval opinions as required by Party B (or the Credit Applicant) through application during the credit period, the subsequent approval opinions issued by Party A shall constitute the supplementation and changes to the original or preceding approval opinions, and so on.

The maturity date of each specific business may be later than that of the credit period. Both Parties have no objection thereto.

3.2 Upon the expiration of the credit period, if there is still a balance in the loan, advance or other credit provided by Party A to Party B (or the Credit Applicant) under the *Credit Agreement*, Party B shall assume the guarantee liability with the mortgage within the scope of mortgage guarantee as determined herein; before the expiration of the credit period, if Party A recovers to Party B (or the Credit Applicant) in accordance with the *Credit Agreement* or the specific business texts, Party B shall also bear the guarantee liability with the mortgage within the scope of mortgage guarantee as determined herein.

3.3 During the credit period, Party A shall provide Party B (or the Credit Applicant) with credit business such as commercial draft acceptance, letter of credit (including entrusted and transferred letter of credit, the same below), guarantee letter, delivery guarantee, factoring, cross-border linkage trade financing, etc. **Even if Party A's advance/guarantee payment has not occurred before the expiration of the credit period, if Party A makes advance/guarantee payment under the above business after the expiration of the credit period, Party B shall also bear the guarantee liability with the mortgage within the scope of mortgage guarantee as determined herein.**

In case that the derivative transaction occurs before the credit period but there is still a balance or loss during the credit period, and in case that the derivative transaction occurs during the credit period but there is still balance or loss after the expiration of the credit period, resulting in additional occupation of the line of credit, all debts incurred by Party B (or the Credit Applicant) shall be guaranteed by Party B with the mortgage within the scope of mortgage guarantee as determined herein.

3.4 If Party A and Party B (or the Credit Applicant) agree on the extension of the term, interest rate and amount of each specific business during the performance of specific business under the *Credit Agreement* or on the modification of relevant terms, or Party A adjusts the interest rate and pricing method in accordance with the *Credit Agreement* and/or the specific business during the mortgage guarantee period, the consent of or notice to Party B is not required and Party B shall recognize it, which shall not affect Party B's mortgage guarantee liability hereunder.

3.5 In case of discrepancies of the documents received by Party A in the letter of credit business under the *Credit Agreement* as reviewed by Party A, but the Credit Applicant accepts the discrepancies, Party B shall still bear the mortgage guarantee liability for the credit principal and interest arising from Party A's acceptance or payment therefor, and shall not raise any defense to Party A's acceptance of the discrepancies without consent of or notice to Party B.

3.6 The consent of or notice to Party B is not required for the amendment of letter of credit, guarantee letter (or standby letter of credit) under the *Credit Agreement*, the acceptance of the usance letter of credit, or the extension of the payment term after the promise of payment due, and Party B shall recognize it, which shall not affect Party B's mortgage guarantee liability hereunder.

3.7 Party B confirms that each concrete business document (regardless of whether it is a single agreement/application, or framework agreement) signed and concluded by and between Party A and Party B (or the Credit Applicant) with respect to the specific businesses under the granting of the line of credit shall constitute an integral part of the *Credit Agreement*, and jointly stipulate the rights and obligations involved in specific businesses.

Party B confirms that the specific amount, length of maturity, use and other business elements for credit businesses conducted between Party A and Party B (or the Credit Applicant) shall be subject to the concrete business documents, business vouchers prepared by Party A and business records of Party A's system.

3.8 With respect to the guarantee letter/customs tax payment guarantee/bill guarantee and other businesses handled by Party A as applied by Party B (or the Credit Applicant), the transfer arrangement of guarantee letter interest/bill interest shall not affect Party B's guarantee obligation hereunder, and Party B undertakes not to raise any defense therefor.

4. Independence of the Agreement

4.1 The Agreement is independent and unconditional, and its validity is not affected by that of the *Credit Agreement* and the texts of each specific business, any agreement or document signed by Party B (or the Credit Applicant) and any entity/individual. It shall not change due to changes including fraud, reorganization, suspension, dissolution, liquidation, bankruptcy, integration (merger), division, reform or the expiration of the business term of Party B (or the Credit Applicant), or be affected by any time of grace and extension granted to Party B (or the Credit Applicant) by Party A or postponement of exercising the right to recover Party B's (or the Credit Applicant's) arrears by Party A in accordance with the relevant agreements.

4.2 In the case that Party A's creditor's rights have mortgage, pledge guarantee or guarantor otherwise at the same time, Party A shall have the right to claim guarantee rights to each mortgagor/pledger (including Party B) and guarantors respectively, successively or at the same time; Party B's guarantee liability hereunder shall not be affected if Party A waives its place in the order of mortgage rights, waives, changes or cancels other mortgage and pledge guarantees, changes or relieves the guarantor's guarantee responsibility, or delays to claim rights to any other mortgagor/pledgor/guarantor, and Party B is still obliged to bear the mortgage guarantee liability for Party A as agreed herein.

5. Mortgage Period

The mortgage period refers to the period from the effective date of the Agreement to the expiration of the limitation of actions for credit claims under the *Credit Agreement*.

6. Custody and Responsibility of Mortgage and Mortgage Ownership Certificate

6.1 During the mortgage period, the mortgage shall be kept by Party B or the agent entrusted by Party B. Party B and its agent shall keep the mortgage properly, bear the responsibility of repair, maintenance and guarantee its integrity during the mortgage period, and shall accept the inspection of Party A at any time.

6.2 During the mortgage period, Party B shall not take any action to reduce the value of the mortgage. In case of such actions, Party A shall have the right to require Party B to stop and restore the value of the mortgage, or provide new mortgage approved by Party A. Party B shall bear expenses incurred for restoring the mortgage to its original state or establishing a new mortgage.

6.3 Party B shall deliver the title certificate and other relevant supporting documents of the mortgage to Party A on the signature date of the Agreement. Party A shall keep the mortgage ownership certificate properly. In case of loss of mortgage ownership certificate due to improper storage, Party A shall bear the expenses for certificate reissuance.

7. Mortgage Registration

7.1 Party B shall cooperate with Party A for mortgage registration at the mortgage registration authority with the Agreement and relevant materials within the period required by Party A.

7.2 Party B shall actively support Party A in handling the relevant procedures in accordance with the above provisions in the principle of good faith, and Party B shall inform Party A in time of the change of registration information such as legal person information and company name. If the registration becomes invalid as the relevant procedures are not completed in time or the registration information change are not informed due to the reason of Party B, Party B shall bear joint and several liability for compensation suffered by Party A therefrom to the extent of the value of the mortgage.

8. Insurance

8.1 Party B shall be obliged to purchase full property insurance for the mortgage with Party A as the first beneficiary and submit the insurance policy to Party A for storage. In principle, the insurance period should be longer than the credit period as agreed in the *Credit Agreement*. If the credit period is extended or the credit debt is not paid off after the maturity, Party B shall handle the procedures for the insurance period extension. In case of any loss of the insured property, Party A shall have the right to recover the principal and interest of all credit claims under the *Credit Agreement* and all other related expenses from the insurance compensation, or negotiate with Party B to deposit the insurance compensation into the margin account, so as to recover the corresponding funds/pay the accounts payable when the repayment period of the credit claims under the *Credit Agreement* expires.

8.2 If Party B fails to handle the insurance purchase or extension procedures for the mortgage in accordance with the above requirements, Party A shall have the right to directly handle the insurance purchase or extension procedures on behalf of Party B with the relevant expenses borne by Party B and shall have the right to deduct such expenses directly from any account of Party B.

8.3 If Party B (or the Credit Applicant) fails to pay off all debts under the *Credit Agreement* after the expiration of the insurance period, Party B must handle the procedures of mortgage insurance extension. If Party B fails to handle the procedures of mortgage insurance extension, Party A shall have the right to directly handle it on behalf of Party B with the relevant expenses borne by Party B and shall have the right to deduct such expenses directly from any account of Party B.

8.4 The insurance premium shall be borne by Party B as the Client unless otherwise stipulated in relevant national policies and other normative documents.

9. Restrictions on the disposal of the mortgage during the mortgage period

9.1 During the mortgage period, Party B shall have no right to transfer the mortgage hereunder by selling, exchanging or donating without authorization; if Party B really needs to transfer the mortgage hereunder with compensation, it must meet the following conditions:

9.1.1 Party B shall obtain the written consent of Party A and inform the transferee of the mortgage of the transferred property; if Party B fails to obtain the written consent of Party A or fails to inform the transferee, the transfer shall be invalid.

9.1.2 If the price of the mortgage transferred by Party B is obviously lower than its value, so that the amount of line of credit and other expenses cannot be fully compensated, Party A shall have the right to require Party B to provide other properties as guarantee; if Party B fails to provide, the mortgage shall not be transferred;

9.1.3 The price obtained from Party B's transfer of the mortgage must be directly transferred to the account as designated by Party A for early repayment of the principal and interest of all credit debts under the *Credit Agreement* and other related expenses; or the full amount of relevant funds shall be deposited into the margin account opened by Party B at Party A. Such funds shall be deemed to be specialized and transferred to Party A for possession from the date of entering the margin account and shall continue to be taken as the pledge guarantee of debts of Party B (or the Credit Applicant) under the *Credit Agreement*. Party B has no objection thereto and shall cooperate to handle relevant procedures as required by Party A.

After Party B transfers the full amount of the proceeds from the transfer of the mortgage into the account as designated by Party A, Party A may assist Party B for the mortgage registration cancellation procedures and return the mortgage ownership certificate to Party B.

9.2 Without the written consent of Party A, Party B shall not transfer, lease, remortgage or dispose of the mortgage hereunder in any other improper way.

9.3 Provided that the mortgagor has provided real estate mortgage guarantee for all debts that Party B (or the Credit Applicant) owes to Party A hereunder, if Party B knows that the collateral has been or may be included in the scope of government demolition and expropriation, it shall notify Party A immediately.

9.3.1 If the demolition party compensates the mortgagor by means of property right exchange, Party B shall mortgage the real estate acquired from the demolition party through the property right exchange to Party A;

9.3.2 If the demolition party pays Party B with demolition compensation, Party A shall have the right to require Party B to open an account in the institution designated by Party A, and deposit the full amount of compensation into the account as margin to provide guarantee for debts of Party B (or the Credit Applicant) under the *Credit Agreement*;

9.3.3 If the demolition party compensates Party B in the above two ways or in other ways, Party A may adopt the above two ways or other ways that Party A considers appropriate for different compensations, and require Party B to provide guarantee for the debts of Party B (or the Credit Applicant) under the *Credit Agreement* with compensations.

9.3.4 If the compensation of the demolition party has not been provided, or it has been provided but the guarantee procedures have not been completed in accordance with the requirements of Party A, Party B shall provide other sufficient guarantee approved by Party A.

9.3.5 Party A may also require Party B to provide new guarantee directly with other properties based on actual situations.

10. Expenses Bearing

10.1 Where the Agreement involves evaluation, notarization (except for mandatory notarization) or other matters of entrusting a third party to provide services, all relevant costs and expenses incurred therefrom shall be borne by the Client independently. If both Parties act as the Clients, each Party shall bear 50%. Except as otherwise stipulated by relevant national policies and other normative documents.

10.2 If the mortgagee is required to bear the mortgage registration fee in accordance with the relevant national policies and other normative documents, the mortgage registration fee hereunder shall be borne by the mortgagee, unless otherwise specified in the relevant normative documents or due to the reasons of the registration authority.

11. Modification and Termination of the Agreement

Neither Party shall change or rescind the Agreement without the consent of the other Party after the Agreement becomes effective. If the Agreement needs to be changed or rescinded, it shall be changed or rescinded in written agreement through consultation between the Parties hereto. The terms hereof shall not be invalidated until such agreement is reached.

12. Special Undertaking of Party B

12.1 Party B is a legal person with guarantee qualification, or other organization with guarantee qualification, or Party B is a natural person with full civil capacity, willing to set up a guarantee with assets owned by Party B or legally entitled to dispose of, so as to guarantee the performance of obligations stipulated herein;

12.2 Party B is a legal person or other organization, and its signature of the Agreement has been fully authorized or approved by the superior department/board of directors and other authorities;

12.3 The signature of the Agreement is the true intention of Party B without fraud or coercion;

12.4 If Party B is an enterprise legal person or other organization, in case of division, integration (merger) and other situations of Party B during the validity period of the Agreement, the changed organization shall undertake or separately undertake the obligations hereunder. If Party B is declared to be dissolved or bankrupt, Party A shall have the right to dispose of its mortgaged property before the expiration.

If Party B is a natural person with a spouse, the letter of the spouse confirming mortgage guarantee shall be provided as required by Party A. If Party B has no spouse, Party B specially declares that by the signature of the Agreement, it has not legally married with anyone and/or has no spouse (or former spouse) with legal marriage relationship in Chinese mainland and abroad who enjoys co-ownership to the mortgage hereunder, and all the marital status information provided by Party B to Party A are true, complete and reliable. At the same time, Party B confirms that Party A can verify and investigate the marital status information provided by Party B when Party A considers it as necessary (without obtaining any further authorization), and guarantees to provide all convenience unconditionally.

13. In case of any of the following circumstances, Party A may dispose of the mortgage in accordance with law:

13.1 Party B (or the Credit Applicant) has one of the default events specified in the *Credit Agreement* or a specific Agreement under the *Credit Agreement*;

13.2 Party B or other mortgagor/guarantor has one of the default events specified in the *Credit Agreement*, or Party B fails to perform its obligations hereunder;

13.3 Party B, as a natural person, dies without any successor or devisee; or its successor or devisee waives the inheritance or legacy and refuses to perform the obligation to repay the principal and interest of credit debts;

13.4 Party B suspends its business, has its business license revoked or canceled, files for or is filed for bankruptcy, dissolution, etc. when Party B acts as a legal person or other organization;

13.5 The mortgage is damaged, or its value is reduced, which may endanger Party A's rights;

13.6 Other causes that may endanger the realization of creditor's rights under the *Credit Agreement*.

14. Liability for Breach of Agreement

14.1 If Party B violates the Agreement and neglects the maintenance and management of the mortgage, resulting in the value reduction of the mortgage, or Party B's behavior directly endangers the mortgage, leading to the value reduction of the mortgage, Party A has the right to require Party B to restore the value of the mortgage or provide other properties acceptable to Party A as guarantee. If Party B refuses to restore or provide, Party A shall have the right to dispose of the mortgage before the expiration in accordance with law.

14.2 If Party B violates the Agreement and disposes of the mortgaged property without authorization, the act shall be invalid; Party A shall have the right to require Party B to immediately stop the infringement of Party A's mortgage right and restore the mortgage to its original state, and may require Party B to provide other properties acceptable to Party A as guarantee or dispose of the mortgage before the expiration in accordance with law based on the actual situation.

14.3 Party B undertakes that there are no legal and factual obstacles to the establishment and realization of the mortgage right. If Party B conceals that the mortgage is co-owned, disputed, seized, detained, has been or will be included in the expropriation or demolition, leased, has set with the mortgage, exists the legal priority (including but not limited to the priority of construction funds) or Party B has no ownership or disposition right to the mortgage, causing economic losses to Party A, a new guarantee shall be provided as required by Party A.

14.4 If Party B fails to provide new guarantee as required by Party A in case of any breach of Agreement mentioned above, Party B shall bear the penalty of 30% of the line of credit amount under the *Credit Agreement*. If any economic loss is caused to Party A therefrom, Party B shall also compensate Party A for all economic losses.

15. Collection of Relevant Fructus

If Party B (or the Credit Applicant) fails to pay off the principal and interest of the loan, advance payment and other credit debts owed by Party B (or the Credit Applicant) to Party A and all other relevant expenses, and Party A claims the mortgage right, causing the mortgage to be seized or detained by the people's court in accordance with law, Party A shall have the right to collect the natural fructus separated from the mortgage and the legal fructus that Party B can collect from the mortgage since the date of seizure or detention.

16. Realization of Mortgage

16.1 In case of any single or multiple circumstances specified in Article 13 of the Agreement or the mortgage to be disposed of in accordance with the provisions of the liability for breach of Agreement, Party A may choose one of the following ways to realize the mortgage right:

16.1.1 Party A and Party B have reached an agreement to convert directly or auction or sell off the mortgage; if the two Parties fail to reach an agreement within 15 days after any of the circumstances specified in Article 13 of the Agreement or the date of Party A's disposal of the mortgage in accordance with the provisions of liability for breach of Agreement, Party A shall have the right to directly request the people's court to auction or sell off the mortgage;

16.1.2 The mortgage shall be disposed of by the legal procedures in accordance with the dispute settlement method agreed in the *Credit Agreement*;

16.1.3 Party A may directly apply to a competent people's court for enforcement of the debts owed by Party B under the Agreement to which a notary public has legally granted the effectiveness of forcible execution upon application by the Parties.

16.2 Party A shall have the priority to be compensated for the price obtained from disposing of the mortgage in the above method. The part of the price exceeding the principal and interest of various loans, advances owed by Party B (or the Credit Applicant) under the *Credit Agreement* and other credit debts and all relevant expenses shall belong to Party B. Party A shall claim the insufficient part otherwise.

17. Elimination of Mortgage

The mortgage right will be automatically eliminated when the principal and interest of all credit debts owed by Party B (or the Credit Applicant) to Party A under the *Credit Agreement* are paid off timely upon the expiration of the credit period. The property right certificates or evidence and property insurance policy of Party B kept by Party A shall be returned to Party B. Party A may assist Party B for mortgage registration cancellation procedures in accordance with the requirements of Party B.

18. Miscellaneous

18.1 Non-waiver

During the term hereof, Party A's tolerant, postponed or delayed exercise of its interests or rights under the *Credit Agreement* for any default or delay of Party B (or Credit Applicant) shall not impair, impact, or restrict any and all rights and interests that Party A is entitled to as a creditor in accordance with the relevant laws and regulations and the Agreement, nor shall it be deemed as Party A's permission or acceptance of any breach of the Agreement or be deemed as Party A's waiver of its right to take actions against existing or future defaults.

18.2 Notices

18.2.1 The notifications, requirements or other documents, etc. of the Parties related to the Agreement shall be sent in writing (including but not limited to letter, fax, email, E-bank function/enterprise App and other E-platforms, SMS or WeChat, etc.)

18.2.2 Any notice, request, or other document that is delivered by a specially assigned person (including but not limited to by a lawyer, notary, or courier) shall be deemed to have been served when the recipient signs on it (if the recipient refuses to accept it, it shall be deemed to have been served seven days after the date of rejection, return, or delivery (whichever is earlier)). Any notice, request, or other document that is delivered by postal service shall be deemed to have been served seven days after the date of posting. Any notice, request, or other document that is delivered by fax, email, Party A's E-platforms, SMS, WeChat, or other electronic means shall be deemed to have been served on the date when the sender's corresponding system shows successful delivery.

Where Party A notifies Party B of assignment of debts or collects funds from Party B via the announcement on the public media, the announcing date shall be regarded as the service date.

18.2.3 In case of change to either Party's contact address, email, fax number, mobile phone number or WeChat account, it shall notify the other Party within five working days as from the date of such change. Otherwise, the other Party shall have the right to use the original contact address or information. Where the service fails due to change in contact address or contact information, the returning date or seven days after posting (whichever is earlier) shall be regarded as the service date. The changing Party shall assume the possible losses resulted therefrom, and the legal validity of service shall not be prejudiced.

18.2.4 The contact addresses, emails, fax numbers, mobile phone numbers, WeChat accounts as listed herein shall also serve as the addresses for service of respective notarization documents and judicial documents (including but not limited to indictment/claim of arbitration, evidence, summons, notice of response to action, notice to produce evidence, notice of court session, written judgment/award, written verdict, mediation document, notice of due performance, and other instruments during the trial and execution phases), and that the appellate court and notarization institution serve the instruments to the aforementioned service addresses in the writing mode as stipulated herein shall be regarded as duly served (The concrete service standard shall refer to the preceding clause for execution).

18.3 Unless otherwise expressly stated, the terms and expressions referred to herein shall have the same meaning as those in the *Credit Agreement*.

18.4 Party B confirms that all operations of Party A in handling specific business for Party B (or the Credit Applicant) and Party A's operations related to the Agreement can be handled at any branch of Party A, and relevant correspondence can be generated, signed or issued. The business operation and correspondence of the branches of Party A shall be deemed as acts of Party A and shall be binding on both Parties.

18.5 If the credit debt is not in RMB, Party A shall have the right to use the amount recovered to directly purchase foreign exchange at the exchange rate announced by Party A at the time of settlement as agreed herein, so as to pay off the credit debts. The calculation of non-RMB debt amount under the specific business texts shall be subject to the converted amount at the exchange rate (purchase price) announced by Party A at the time of settlement.

18.6 In case of division, integration (merger) and other situations of Party B during the validity period of the Agreement, the changed organization shall undertake or separately undertake the obligations hereunder. If Party B is declared to be dissolved or bankrupt, Party A shall have the right to dispose of its mortgaged property before the expiration.

18.7 Special Terms and Conditions of real estate mortgage (Please check "Ö" in "□" if applicable)

Principal Creditor's Rights and Real Estate Maximum Mortgage Agreement (for Real Estate Registration only) (please fill in the Agreement name of the standard version required by the mortgage registration authority) with No. 2020 Asian Games Village Credit Granting 1154 signed by Party A and Party B is only for the purpose of handling the mortgage registration procedures. The specific rights and obligations of both Parties and the agreements on the Main Agreement and mortgage shall be subject to this Agreement. In particular, Party B shall provide guarantee within the scope of guarantee with the full value of the mortgage. At the request of the mortgage registration authority, "Maximum amount and currency of creditor's rights" / "maximum amount of guaranteed creditor's rights" (please check the content in the standard Agreement version required by the corresponding mortgage registration authority) filled in at the time of registration is tentatively set as 1.4 times of the line of credit / the evaluated value of the mortgage when mortgage is set (please choose one of them), i.e., USD_518 million. The specific amount shall be subject to the total amount obtained when the mortgage is realized.

19. Transfer of Creditor's Rights and Mortgage Right

19.1 If Party A transfers all the creditor's rights under the *Credit Agreement* to a third party, the maximum mortgage right shall be transferred to the creditor's right assignee all together, whether the creditor's rights guaranteed by the maximum mortgage are determined or not.

19.2 After the creditor's rights mortgaged hereunder are determined, if Party A transfers part of the creditor's rights, part of the mortgage will also be transferred. Party A shall share the mortgage right of the mortgage in proportion to the amount of the creditor's rights not transferred with the transferee; before the determination of the creditor's rights guaranteed by the mortgage of the Agreement, if Party A transfers part of the creditor's rights, part of the mortgage will also be transferred and the principal creditor's rights of Party A guaranteed by the original maximum mortgage shall be reduced accordingly (i.e. the maximum amount of Party A's principal creditor's rights guaranteed by the original maximum mortgage amount minus the amount of transferred creditor's rights). After the determination of Party A's non-transferred principal creditor's rights, Party A and the transferee shall jointly enjoy the mortgage right to the mortgage in proportion to the amount of creditor's rights.

20. Applicable Laws and Dispute Resolution

20.1 The conclusion, interpretation and dispute resolution of the Agreement shall be governed by the laws of the People's Republic (excluding laws of Hong Kong, Macao and Taiwan).

20.2 It is agreed by the Parties that any dispute arising out of the performance of the Agreement between the Parties shall be resolved as per the dispute resolution method stipulated in the *Credit Agreement*.

21. Effectiveness of Mortgage Agreement

The Agreement shall take effect as of the date when both Parties' legal representatives/principals or their authorized agents sign (or stamp name seals) and stamp official seals/special seals for Agreement (If Party B is a natural person, the Agreement shall take effect as of the date when Party B signs and Party A's legal representative/principal or its authorized agent signs (or stamp name seal) and stamps the official seal/special seal for Agreement) and shall be automatically nullified on the date of expiration of mortgage period or when the principal and interest of credit granting debt and all related expenses owed by Party B to Party A under the *Credit Agreement* are paid off (whichever is later).

22. Supplementary Provisions

22.1. The Agreement is made in duplicate, with Party A, Party B, ____/____ and ____/____ holding one copy and each copy being equally authentic.

22.2 Other agreed terms: ____/____

Appendix 1

List of Specific Outstanding Businesses

Unit: Ten Thousand

<u>S.N.</u>	<u>Business No.</u>	<u>Balance</u>	<u>Starting Date</u>	<u>Due Date</u>
1				
2				
3				
4				
5				
6				
7				

Special Reminder:

All terms hereof have been fully consulted by the Parties. Party B has been reminded by Party A to pay special attention to and make full and good understanding of the terms with regard to the exemption or restriction on Party A's liabilities, the rights owned by Party A unilaterally, the increase of Party B's liabilities, and the restriction on Party B's rights. Party A has explained the above terms as required by Party B. The Parties hereto have the same understanding of the terms of the Agreement.

(The remainder of this page is intentionally left blank)

(The following is the signature of the *Maximum Mortgage Agreement* with No. 2020 Asian Games Village Credit Granting 1154-Pledge 02)

Party A: Beijing Branch of China Merchants Bank Co., Ltd.

Principal or authorized agent (signature or stamped name seal):/s/ Kai XIONG

Contact Address: No. 156 Fuxingmennei Avenue, Xicheng District, Beijing

Corporate Email: gujing0610@cmbchina.com

Corporate Fax: /

Mobile Phone No. of Contact Person: 17600355610

Corporate WeChat Account:/

Please sign and fill it out as below if the mortgagor acts as a legal person or other organization:

Party B: Beijing Sohu New Media Information Technology Co., Ltd.

Legal Representative/Principal or Authorized Agent (signature/stamped name seal):/s/ ChaoyangZHANG

Contact Address: Building 3, No. 2 Yard of Kexueyuan Nanlu, Haidian District, Beijing

Email: puhuang@sohu-inc.com

Fax: 56412828

Mobile phone number of contact person: 13811220840

Corporate WeChat Account: /

Please sign and fill it out as below if the mortgagor is a natural person:

Party B (signature): /

Nationality and ID Certificate:/

ID Certificate No.: /

Contact Address: /

Email: /

Fax No.: /

Mobile Phone Number: /

WeChat: /

Date of Signing: December 10, 2020

Letter of Comfort

No.: 2020 Asian Games Village Credit Granting 1154

To: Beijing Branch of China Merchants Bank Co., Ltd.

Whereas, Beijing AmazGame Age Internet Technology Co., Ltd. has applied for external guarantee business in your bank and signed the *Credit Agreement* with No. [2020 Asian Games Village Credit Granting 1154] (hereinafter referred to as “*Credit Agreement*”) and the *Guarantee Cooperation Agreement* with No. [2020 Asian Games Village External Guarantee Cooperation Agreement No. 016, and 2020 Asian Games Village External Guarantee Cooperation Agreement No.017] (hereinafter referred to as “*Cooperation Agreement*”) with your bank. The Letter of Comfort is hereby issued by [Changyou.com Limited] (hereinafter referred to as “we” or “us”) to guarantee the realization of your bank’s creditor’s rights under the *Credit Agreement* and the *Cooperation Agreement* and to confirm to your bank that we may actively assist your bank in obtaining the disposable funds of affiliates inside and outside the group for repayment.

The *Letter of Comfort* shall take effect and become legally binding upon us after being signed by our authorized representative and sealed with official seal, which shall remain in force until all debts under the *Credit Agreement* and the *Cooperation Agreement* have been paid off. The *Letter of Comfort* cannot be unilaterally revoked, withdrawn or changed. We have obtained and performed all necessary internal and external approval, authorization or other relevant procedures required for signing and performance of the *Letter of Comfort*. We shall not defend against your bank on grounds including but not limited to failing to pass the internal examination and approval procedure, failing to meet other conditions stipulated in other contracts, failing to comply with the laws, regulations and regulatory provisions, etc.

Authorized signatory: /s/ Changyou.com Limited

Date: December 9, 2020

Statement of Undertaking

No.: 2020 Asian Games Village Credit Granting 1154

To: Beijing Branch of China Merchants Bank Co., Ltd.

Whereas, Beijing AmazGame Age Internet Technology Co., Ltd. has applied for external guarantee business in your bank and signed the *Credit Agreement* with No. [2020 Asian Games Village Credit Granting 1154] (hereinafter referred to as "*Credit Agreement*") and the *Guarantee Cooperation Agreement* with No. [2020 Asian Games Village External Guarantee Cooperation Agreement No. 016, and 2020 Asian Games Village External Guarantee Cooperation Agreement No.017] (hereinafter referred to as "*Cooperation Agreement*") with your bank. In order to guarantee the realization of your bank's creditor's rights under the *Credit Agreement* and the *Cooperation Agreement*, Sohu.com Ltd (hereinafter referred to as "we" or "us") hereby irrevocably undertakes and confirms the following matters:

Until all debts under the *Credit Agreement* and the *Cooperation Agreement* have been paid off, we shall not pledge the equity of Changyou.com HK Limited and Changyou.com Limited to any third party or set burden of rights in any other form without the written consent of your bank.

The *Statement of Undertaking* shall take immediate effect and become legally binding upon us after being signed by our authorized representative and sealed with official seal, which shall remain in force until all debts under the *Credit Agreement* and the *Cooperation Agreement* are paid off. The *Statement of Undertaking* cannot be unilaterally revoked, withdrawn or changed. We have obtained and performed all necessary internal and external approval, authorization or other relevant procedures required for signing and performance of the *Statement of Undertaking*. We shall not defend against your bank on grounds including but not limited to failing to pass the internal examination and approval procedure, failing to meet other conditions stipulated in other contracts, failing to comply with the laws, regulations and regulatory provisions, etc. If we violate any contents hereof to cause losses to your bank, your bank shall have the right to request us to compensate for all losses thus incurred.

Sohu.com Ltd

Authorized signatory: /s/Joanna Lv

Date: December 10, 2020

EXECUTIVE EMPLOYMENT AGREEMENT

EXECUTIVE EMPLOYMENT AGREEMENT (this “Agreement”), effective as of January 1, 2021, by and between Changyou.com Limited, a Cayman Islands company (the “Company”), and Dewen Chen, an individual (the “Employee”).

1. Definitions. Capitalized terms used herein and not otherwise defined in the text below will have the meanings ascribed thereto on Annex 1.

2. Employment; Duties.

(a) The Company agrees to employ the Employee in the capacity and with such responsibilities as are generally set forth on Annex 2.

(b) The Employee hereby agrees to devote his full time and best efforts in such capacities as are set forth on Annex 2 on the terms and conditions set forth herein. Notwithstanding the foregoing, the Employee may engage in other activities, such as activities involving professional, charitable, educational, religious and similar types of organizations, provided that the Employee complies with the Executive Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement, in the form attached hereto as Annex 3 (the “Employee Obligations Agreement”) and such other activities do not interfere with or prohibit the performance of the Employee’s duties under this Agreement, or conflict in any material way with the business of the Company or of its subsidiaries and affiliates (including the Company’s variable interest entities). The provisions of the Employee Obligations Agreement between the Company and the Employee as in effect prior to January 1, 2021 will continue with full force and effect with respect to all matters arising with respect to periods through December 31, 2020. The Employee Obligations Agreement will be effective as of January 1, 2021 and will have full force and effect on and after such date.

(c) The Employee will use best efforts during the Term to ensure that the Company’s business and those of its subsidiaries and variable interest entities are conducted in accordance with all applicable laws and regulations of all jurisdictions in which such businesses are conducted.

3. Compensation.

(a) Base Annual Income. During the Term, the Company will pay the Employee an annual base salary as set forth on Annex 2, payable monthly pursuant to the Company’s normal payroll practices.

(b) Discretionary Bonus. During the Term, the Company, in its sole discretion, may award to the Employee an annual bonus based on the Employee’s performance and other factors deemed relevant by the Company’s Board of Directors.

(c) Share Incentive Awards. The Employee will be eligible to participate in any share incentive programs available to officers or employees of the Company.

(d) Reimbursement of Expenses. The Company will reimburse the Employee for reasonable expenses incurred by the Employee in the course of, and necessary in connection with, the performance by the Employee of his or her duties to the Company, provided that such expenses are substantiated in accordance with the Company's policies.

4. Other Employee Benefits.

(a) Vacation; Sick Leave. The Employee will be entitled to such number of weeks of paid vacation each year as are set forth on Annex 2, the taking of which must be coordinated with the Employee's supervisor in accordance with the Company's standard vacation policy. Unless otherwise approved by the Company's Board of Directors, vacation that is not used in a particular year may only be carried forward to subsequent years in accordance with the Company's policies in effect from time to time. The Employee will be eligible for sick leave in accordance with the Company's policies in effect from time to time.

(b) Healthcare Plan. The Company will arrange for membership in the Company's group healthcare plan for the Employee and the Employee's spouse, in accordance with the Company's standard policies from time to time with respect to health insurance and in accordance with the rules established for individual participation in such plan and under applicable law.

(c) Life and Disability Insurance. The Company will provide term life and disability insurance payable to the Employee, in each case in an amount up to a maximum of one times the Employee's base salary in effect from time to time, provided however, that such amount will be reduced by the amount of any life insurance or death or disability benefit coverage, as applicable, that is provided to the Employee under any other benefit plans or arrangements of the Company. Such policies will be in accordance with the Company's standard policies from time to time with respect to such insurance and the rules established for individual participation in such plans and under applicable law.

(d) Other Benefits. Pursuant to the Company's policies in effect from time to time and the applicable plan rules, the Employee will be eligible to participate in the other employee benefit plans of general application, which may include, without limitation, housing allowance or reimbursement and in which, in any event, will include the benefits at the levels set forth on Annex 2.

5. Certain Representations, Warranties and Covenants of the Employee.

(a) Related Company Positions. The Employee agrees that the Employee and members of the Employee's immediate family will not have any financial interest directly or indirectly (including through any entity in which the Employee or any member of the Employee's immediate family has a position or financial interest) in any transactions with the Company or any subsidiaries or affiliates (including the Company's variable interest entities) thereof unless all such transactions, prior to being entered into, have been disclosed to the Board of Directors and approved by a majority of the independent members of the Board of Directors and comply with all other Company policies and applicable law as may be in effect from time to time. The Employee also agrees that he will inform the Board of Directors of the Company of any transactions involving the Company or any of its subsidiaries or affiliates (including the Company's variable interest entities) in which senior officers, including but not limited to the Employee, or their immediate family members have a financial interest.

(b) Discounts, Rebates or Commissions. Unless expressly permitted by written policies and procedures of the Company in effect from time to time that may be applicable to the Employee, neither the Employee nor any immediate family member will be entitled to receive or obtain directly or indirectly any discount, rebate or commission in respect of any sale or purchase of goods or services effected or other business transacted (whether or not by the Employee) by or on behalf of the Company or any of its subsidiaries or affiliates (including the Company's variable interest entities), and if the Employee or any immediate family member (or any firm or company in which the Employee or any immediate family member is interested) obtains any such discount, rebate or commission, the Employee will pay to the Company an amount equal to the amount so received (or the proportionate amount received by any such firm or company to the extent of the Employee's or family member's interest therein).

6. Term; Termination.

(a) Unless sooner terminated pursuant to the provisions of this Section 6, the term of this Agreement (the "Term") will commence on the date hereof and end on December 31, 2023.

(b) Voluntary Termination by the Employee. The Employee may voluntarily Terminate this Agreement by providing the Company with ninety (90) days' advance written notice ("Voluntary Termination"), in which case, the Employee will not be entitled to receive payment of any severance benefits or other amounts by reason of the Termination other than accrued salary and vacation through the date of the Termination. The Employee's right to all other benefits will terminate as of the date of Termination, other than any continuation required by applicable law. Without limiting the foregoing, if, in connection with a Change in Control, the surviving entity or successor to the Company's business offers the Employee employment on substantially equivalent terms to those set forth in this Agreement and such offer is not accepted by the Employee, the refusal by the Employee to accept such offer and the subsequent termination of the Employee's employment by the Company will be deemed to be a voluntary termination of employment by the Employee and will not be treated as a termination by the Company without Cause.

(c) Termination by the Company for Cause. The Company may Terminate this Agreement for Cause by written notice to the Employee, effective immediately upon the delivery of such notice. In such case, the Employee will not be entitled to receive payment of any severance benefits or other amounts by reason of the Termination other than accrued salary and vacation through the date of the Termination. The Employee's right to all other benefits will terminate, other than any continuation required by applicable law.

(d) Termination by the Employee with Good Reason or Termination by the Company without Cause. The Employee may Terminate this Agreement for Good Reason, and the Company may Terminate this Agreement without Cause, in either case upon thirty (30) days' advance written notice by the party Terminating this Agreement to the other party and the Termination will be effective as of the expiration of such thirty (30) day period. If the Employee Terminates with Good Reason or the Company Terminates without Cause, the Employee will be entitled to continue to receive payment of severance benefits equal to the Employee's monthly base salary in effect on the date of Termination for the shorter of (i) six (6) months and (ii) the remainder of the Term of this Agreement (the "Severance Period"), provided that the Employee complies with the Employee Obligations Agreement during the Severance Period and executes a release agreement in the form requested by the Company at the time of such Termination that releases the Company from any and all claims arising from or related to the employment relationship and/or such Termination. Such payments will be made ratably over the Severance Period according to the Company's standard payroll schedule. The Employee will also receive payment of a bonus for the remainder of the year of the Termination, but only to the extent that a bonus would have been earned had the Employee continued in employment through the end of such year, as determined in good faith by the Company's Board of Directors or its Compensation Committee based on the specific corporate and individual performance targets established for such fiscal year, and only to the extent that bonuses are paid for such fiscal year to other similarly situated employees. Health insurance benefits with the same coverage (i.e., medical, dental, optical and/or mental health coverage) provided to the Employee prior to the Termination and in all other material respects comparable to those in place immediately prior to the Termination will be provided at the Company's expense during the Severance Period. The Company will also continue to carry the Employee on its Directors and Officers insurance policy for six (6) years following the Date of Termination at the Company's expense with respect to insurable events which occurred during the Employee's term as a director or officer of the Company, with such coverage being at least comparable to that in effect immediately prior to the Termination Date; provided, however, that (i) such terms, conditions and exceptions will not be, in the aggregate, materially less favorable to the Employee than those in effect on the Termination Date and (ii) if the aggregate annual premiums for such insurance at any time during such period exceed two hundred percent (200%) of the per annum rate of premium currently paid by the Company for such insurance, then the Company will provide the maximum coverage that will then be available at an annual premium equal to two hundred percent (200%) of such rate.

(e) Termination by Reason of Death or Disability. A Termination of the Employee's employment by reason of death or Disability shall not be deemed to be a Termination by the Company (for or without Cause) or by the Employee (for or without Good Reason). In the event that the Employee's employment with the Company Terminates as a result of the Employee's death or Disability, the Employee or the Employee's estate or representative, as applicable, will receive all accrued salary and accrued vacation as of the date of the Employee's death or Disability and any other benefits payable under the Company's then existing benefit plans and policies in accordance with such plans and policies in effect on the date of death or Disability and in accordance with applicable law. In addition, the Employee or the Employee's estate or representative, as applicable, will receive a bonus for the year in which the death or Disability occurs to the extent that a bonus would have been earned had the Employee continued in employment through the end of such year, as determined in good faith by the Company's Board of Directors or by the Board of Directors of Sohu.com Limited, a Cayman Islands company and the ultimate parent of the Company ("Sohu"), or Sohu's Compensation Committee based on the specific corporate and individual performance targets established for such fiscal year, and only to the extent that bonuses are paid for such fiscal year to other similarly situated employees.

(f) Misconduct After Termination of Employment. Notwithstanding the foregoing, if the Employee after the termination of his employment violates or fails to fully comply with the Employee Obligations Agreement, thereafter (i) the Employee will not be entitled to any payments from the Company, (ii) any insurance or other benefits that have continued will terminate immediately, (iii) the Employee will promptly reimburse to the Company all amounts that have been paid to the Employee pursuant to this Section 6; and (iv) if the Employee would not, in the absence of such violation or failure to comply, have been entitled to severance payments from the Company equal to at least six (6) months' base salary, the Employee must pay to the Company an amount equal to the difference between six (6) months' base salary and the amount of severance pay measured by base salary reimbursed to the Company by the Employee pursuant to clause (iii) of this sentence.

7. Employee Obligations Agreement. By signing this Agreement, the Employee hereby agrees to execute and deliver to the Company the Employee Obligations Agreement, and such execution and delivery will be a condition to the Employee's entitlement to his or her rights under this Agreement.

8. Governing Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York without regard to the conflicts of law principles thereof.

9. Dispute Resolution.

(a) At the option of the party initiating the claim, any dispute, controversy, difference or claim arising out of or relating to this Agreement may be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre ("HKIAC") under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted. The award rendered in such an arbitration proceeding will be final and binding and judgment on the award rendered may be entered in any court having jurisdiction over the parties.

(b) The number of arbitrators will be three, one of whom will be appointed by the party asserting a claim against the other party or parties, one of whom will be appointed by the party or parties (acting together), as the case may be, against whom a claim has been asserted, and the third of whom will be selected by mutual agreement, if possible, within thirty days after the selection of the second arbitrator.

(c) The language of the arbitration will be Mandarin Chinese and any foreign language documents presented at such arbitration will be accompanied by a Mandarin Chinese translation thereof prepared at the expense of the party seeking to present such document.

(d) Any award of the arbitrators (i) will be in writing, (ii) will state the reasons upon which such award is based and (iii) may include an award of costs, including reasonable attorneys' fees and disbursements.

(e) The arbitrators will have no authority to award punitive damages or any other damages not measured by the prevailing party's actual damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement.

(f) Notwithstanding the foregoing, any party may apply to any court having jurisdiction over the parties to obtain injunctive relief in order to maintain the status quo until such time as an arbitration award is rendered or the dispute, controversy or claim is otherwise resolved.

10. Notices. All notices, requests and other communications under this Agreement must be in writing (including email and express mail or courier delivery or in person delivery, but excluding ordinary mail delivery) and given to the address stated below:

(a) if to the Employee, to the email address or the physical address, as applicable, that is on file with the Company from time to time, as may be updated by the Employee;

(b) if to the Company:

Changyou.com Limited
Changyou Building, Raycom Creative Industrial Park,
65 Bajiao East Road, Shijingshan District
Beijing, People's Republic of China 100043

Attention: Yanfeng Lyu

Director

Email: joannalu@sohu-inc.com

or to such other email address or physical address as either party may hereafter specify for the purpose by written notice to the other party in the manner provided in this Section 10. All such notices, requests and other communications will be deemed received: (i) if given by email, when transmitted to the email address specified in this Section 10 if confirmation of receipt is received; (ii) if sent by express courier delivery, or delivered in person, when delivered.

11. Miscellaneous.

(a) Entire Agreement. This Agreement, together with the Employee Obligations Agreement, constitutes the entire understanding between the Company and the Employee relating to the subject matter hereof with respect to periods on and after January 1, 2021 and supersedes and cancels all prior and contemporaneous written and oral agreements and understandings with respect to the subject matter of this Agreement with respect to periods on and after January 1, 2021. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement with respect to periods on and after January 1, 2021.

(b) Modification; Waiver. No provision of this Agreement may be modified, waived or discharged unless modification, waiver or discharge is agreed to in a writing signed by the Employee and such officer of the Company as may be specifically authorized by the Company's Board of Directors. No waiver by either party at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(c) Successors; Binding Agreement. This Agreement will be binding upon and will inure to the benefit of the Employee, the Employee's heirs, executors, administrators and beneficiaries, and the Company and its successors (whether direct or indirect, by purchase, merger, consolidation or otherwise), subject to the terms and conditions set forth herein.

(d) Withholding Taxes. All amounts payable to the Employee under this Agreement will be subject to applicable withholding of income, wage and other taxes to the extent required by applicable law.

(e) Validity. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, which will remain in full force and effect.

(f) Language. This Agreement is written in the English language only. The English language also will be the controlling language for all future communications between the parties hereto concerning this Agreement.

(g) Counterparts. This Agreement may be signed in any number of counterparts, each of which will be deemed an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[Signature page follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of January 1, 2021.

Signature of Employee:

Changyou.com Limited

/s/ Dewen Chen

Dewen Chen

By: /s/ Yanfeng Lyu

Name: Yanfeng Lyu
Title: Director

Annex 1

Certain Definitions

“Cause” means:

- (i) willful misconduct or gross negligence by the Employee, or any willful or grossly negligent omission to perform any act, resulting in injury to the Company or any subsidiaries or affiliates (including the Company’s variable interest entities) thereof;
- (ii) misconduct or negligence of the Employee that results in gain or personal enrichment of the Employee to the detriment of the Company or any subsidiaries or affiliates (including the Company’s variable interest entities) thereof;
- (iii) breach of any of the Employee’s agreements with the Company, including those set forth herein and in the Employee Obligations Agreement, and including, but not limited to, the repeated failure to perform substantially the Employee’s duties to the Company or any subsidiaries or affiliates (including the Company’s variable interest entities) thereof, excessive absenteeism or dishonesty;
- (iv) any attempt by the Employee to assign or delegate this Agreement or any of the rights, duties, responsibilities, privileges or obligations hereunder without the prior consent of the Company (except in respect of any delegation by the Employee of his employment duties hereunder to other employees of the Company in accordance with its usual business practice);
- (v) the Employee’s indictment or conviction for, or confession of, a felony or any crime involving moral turpitude under the laws of the United States or any State thereof, or under the laws of China, or Hong Kong;
- (vi) declaration by a court that the Employee is insane or incompetent to manage his business affairs;
- (vii) habitual drug or alcohol abuse which materially impairs the Employee’s ability to perform his duties; or
- (viii) filing of any petition or other proceeding seeking to find the Employee bankrupt or insolvent.

“Change in Control” means the occurrence of any of the following events:

- (i) any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Securities Exchange Act of 1934) other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, becomes the direct or beneficial owner of securities representing fifty percent (50%) or more of the combined voting power of the Company’s then-outstanding securities;

- (ii) during any period of two (2) consecutive years after the date of this Agreement, individuals who at the beginning of such period constitute the Board of Directors of the Company, and all new directors (other than directors designated by a person who has entered into an agreement with the Company to effect a transaction described in (i), (iii), or (iv) of this definition) whose election or nomination to the Board was approved by a vote of at least two-thirds of the directors then in office, cease for any reason to constitute at least a majority of the members of the Board;
- (iii) the effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity;
- (iv) the complete liquidation of the Company or the sale or disposition by the Company of all or substantially all of the Company's assets; or
- (v) there occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act (as defined below), whether or not the Company is then subject to such reporting requirement.

"Company" means Changyou.com Limited and, unless the context suggests to the contrary, all of its subsidiaries and related companies.

"Disability" means the Employee becomes physically or mentally impaired to an extent which renders him or her unable to perform the essential functions of his or her job, with or without reasonable accommodation, for a period of six consecutive months, or an aggregate of nine months in any two year period.

"Good Reason" means the occurrence of any of the following events without the Employee's express written consent, provided that the Employee has given notice to the Company of such event and the Company has not remedied the problem within fifteen (15) days:

- (i) any significant change in the duties and responsibilities of the Employee inconsistent in any material and adverse respect with the Employee's title and position (including status, officer positions and reporting requirements), authority, duties or responsibilities as contemplated by Annex 2 to this Agreement. For the purposes of this Agreement, because of the evolving nature of the Employer's business, the Company's changing of Employee's reporting relationships and department(s) will not be considered a significant change in duties and responsibilities;

- (ii) any material breach by the Company of this Agreement, including without limitation any reduction of the Employee's base salary or the Company's failure to pay to the Employee any portion of the Employee's compensation; or
- (iii) the failure, in the event of a Change in Control in which the Company is not the surviving entity, of the surviving entity or the successor to the Company's business to assume this Agreement pursuant to its terms or to offer the Employee employment on substantially equivalent terms to those set forth in this Agreement.

"Termination" (and any similar, capitalized use of the term, such as "Terminate") means, according to the context, the termination of this Agreement or the Employee's ceasing to render employment services.

Annex 2

Particular Terms of Employee's Employment

Title(s): Chief Executive Officer.

Reporting Requirement: The Employee will report to the Company's Board of Directors.

Responsibilities: Such duties and responsibilities as are ordinarily associated with the Employee's title(s) in a United States publicly-traded corporation and such other duties as may be specified by the Company's Board of Directors from time to time.

Job Location: The Employee's duties will be rendered at the Company's headquarters located in Beijing, China, or at such other place or places and at such times as the needs of the Company may from time-to-time dictate.

Base Salary: _____ [RMB 4,000,000] per year (after-tax), as adjusted by the Board of Directors from time to time

of Weeks of Paid Vacation per Year: [three weeks] (per year)

Other Benefits:

EXECUTIVE EMPLOYEE NON-COMPETITION, NON-SOLICITATION, CONFIDENTIAL INFORMATION AND WORK PRODUCT AGREEMENT

In consideration of my employment and the compensation paid to me by Changyou.com Limited, a Cayman Island company, or a subsidiary or variable interest entity thereof (Changyou.com Limited or any such subsidiary or variable interest entity will be referred to herein individually and collectively as “Changyou” and the term “Changyou” will also be deemed to include Sohu.com Limited and its subsidiaries or variable interest entities, unless the context requires otherwise), and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, I agree as follows:

1. **Non-Competition.** During the term of my employment agreement with Changyou.com Limited and continuing after the termination of such employment agreement for the longer of (i) one year after the termination of such employment agreement for any reason and (ii) such period of time as Changyou is paying to me any severance benefits (the “Noncompete Period”), I will not, on my own behalf, or as owner, manager, stockholder (other than as stockholder of less than 2% of the outstanding stock of a company that is publicly traded or listed on a stock exchange), consultant, director, officer or employee of or in any other manner connected with any business entity, participate or be involved in any Competitor without the prior written authorization of Changyou. “Competitor” means any business of the type and character of business in which Changyou engages or proposes to engage and may include, without limitation, an individual, company, enterprise, partnership enterprise, government office, committee, social organization or other organization that, in any event, produces, distributes or provides the same or substantially similar kind of product or service as Changyou. On the date of this Executive Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement (this “Agreement”), “Competitors” of Changyou include without limitation: ShengQuanda Interactive Entertainment Limited, Netease.com Inc., Tencent Holdings Ltd., Perfect World Co. Ltd, Giant Interactive Group, Inc., The9 Limited, Netdragon Websoft, Inc., Taomee Holdings Limited, Shenzhen ZQ Game Technology Corporation, Guangzhou Huaduo Network Technology Co., Ltd (duowan.com), Kongzhong Corp, KingSoft Corporation Limited, SINA Corporation and Beijing Byte Dance Technology Co. LTD . Such list of examples of “Competitors” of Changyou may be updated by Changyou from time to time.

2. **Nonsolicitation.** During the Noncompete Period, I will not, either for my own account or for the account of any other person: (i) solicit, induce, attempt to hire, or hire any employee or contractor of Changyou or any other person who may have been employed or engaged by Changyou during the term of my employment with Changyou unless that person has not worked with Changyou within the six months following my last day of employment with Changyou; (ii) solicit business or relationship in competition with Changyou from any of Changyou’s customers, suppliers or partners or any other entity with which Changyou does business; (iii) assist in such hiring or solicitation by any other person or business entity or encourage any such employee to terminate his or her employment with Changyou; or (iv) encourage any such customer, supplier or partner or any other entity to terminate its relationship with Changyou.

3. Confidential Information.

(a) While employed by Changyou and indefinitely thereafter, I will not, directly or indirectly, use any Confidential Information (as hereinafter defined) other than pursuant to my employment by and for the benefit of Changyou, or disclose any such Confidential Information to anyone outside of Changyou or to anyone within Changyou who has not been authorized to receive such information, except as directed in writing by an authorized representative of Changyou.

(b) "Confidential Information" means all trade secrets, proprietary information, and other data and information, in any form, belonging to Changyou or any of their respective clients, customers, consultants, licensees or affiliates that is held in confidence by Changyou. Confidential Information includes, but is not limited to computer software, the structure of Changyou's online game development platform, business plans and arrangements, customer lists, marketing materials, financial information, research, and any other information identified or treated as confidential by Changyou or any of their respective clients, customer, consultants, licensees or affiliates. Notwithstanding the foregoing, Confidential Information does not include information which Changyou has voluntarily disclosed to the public without restriction, or which is otherwise known to the public at large.

4. Rights in Work Product.

(a) I agree that all Work Product (as hereinafter defined) will be the sole property of Changyou. I agree that all Work Product that constitutes original works of authorship protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act and, therefore, the property of Changyou. I agree to waive, and hereby waive and irrevocably and exclusively assign to Changyou, all right, title and interest I may have in or to any other Work Product and, to the extent that such rights may not be waived or assigned, I agree not to assert such rights against Changyou or its licensees (and sublicensees), successors or assigns.

(b) I agree to promptly disclose all Work Product to the appropriate individuals in Changyou as such Work Product is created in accordance with the requirements of my job and as directed by Changyou.

(c) "Work Product" means any and all inventions, improvements, developments, concepts, ideas, expressions, processes, prototypes, plans, drawings, designs, models, formulations, specifications, methods, techniques, shop-practices, discoveries, innovations, creations, technologies, formulas, algorithms, data, computer databases, reports, laboratory notebooks, papers, writings, photographs, source and object codes, software programs, other works of authorship, and know-how and show-how, or parts thereof conceived, developed, or otherwise made by me alone or jointly with others (i) during the period of my employment with Changyou or (ii) during the six month period next succeeding the termination of my employment with Changyou if the same in any way relates to the present or proposed products, programs or services of Changyou or to tasks assigned to me during the course of my employment, whether or not patentable or subject to copyright or trademark protection, whether or not reduced to tangible form or reduced to practice, whether or not made during my regular working hours, and whether or not made on Changyou premises.

5. Employee's Prior Obligations. I hereby certify I have no continuing obligation to any previous employer or other person or entity which requires me not to disclose any information to Changyou.

6. Employee's Obligation to Cooperate. At any time during my employment with Changyou and thereafter upon the request of Changyou, I will execute all documents and perform all lawful acts that Changyou considers necessary or advisable to secure its rights hereunder and to carry out the intent of this Agreement. Without limiting the generality of the foregoing, I agree to render to Changyou or its nominee all reasonable assistance as may be required:

- (a) In the prosecution or applications for letters patent, foreign and domestic, or re-issues, extensions and continuations thereof;
- (b) In the prosecution or defense of interferences which may be declared involving any of said applications or patents;
- (c) In any administrative proceeding or litigation in which Changyou may be involved relating to any Work Product; and
- (d) In the execution of documents and the taking of all other lawful acts which Changyou considers necessary or advisable in creating and protecting its copyright, patent, trademark, trade secret and other proprietary rights in any Work Product.

The reasonable out-of-pocket expenses incurred by me in rendering such assistance at the request of Changyou will be reimbursed by Changyou. If I am no longer an employee of Changyou at the time I render such assistance, Changyou will pay me a reasonable fee for my time.

7. Termination; Return of Changyou Property. Upon the termination of my employment with Changyou for any reason, or at any time upon Changyou's request, I will return to Changyou all Work Product and Confidential Information and notes, memoranda, records, customer lists, proposals, business plans and other documents, computer software, materials, tools, equipment and other property in my possession or under my control, relating to any work done for Changyou, or otherwise belonging to Changyou, it being acknowledged that all such items are the sole property of Changyou. Further, before obtaining my final paycheck, I agree to sign a certificate stating the following:

"Termination Certificate

This is to certify that I do not have in my possession or custody, nor have I failed to return, any Work Product (as defined in the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement between Changyou.com Limited ("Changyou") and me) or any notes, memoranda, records, customer lists, proposals, business plans or other documents or any computer software, materials, tools, equipment or other property (or copies of any of the foregoing) belonging to Changyou."

8. General Provisions.

(a) This Agreement contains the entire agreement between me and Changyou with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings related to the subject matter hereof, whether written or oral; *provided however*, that this Agreement will not supersede (i) the Trade Secret and Confidentiality Agreement dated as of ____ and (ii) the Non-Compete Agreement date as of ____, each between Beijing AmazGame Age Internet Technology Co., Ltd., a company incorporated in the People's Republic of China (the "Beijing AmazGame"), and me (collectively, the "Beijing AmazGame Agreements"), and (iii) the Employee Obligations Agreement between Changyou and me in effect prior to the date hereof (the "Prior Employee Obligations Agreement"), which will continue in full force and effect with respect to, or arising in connection with, all matters within the subject thereof through the date immediately prior to the date hereof; *provided, however* that in the event of a conflict between any provision of this Agreement and any provision of either of the Beijing AmazGame Agreements or any provision of the Prior Employee Obligations Agreement, the provision of this Agreement will prevail. This Agreement may not be modified except by a written agreement signed by Changyou and me.

(b) This Agreement will be governed by and construed in accordance with the laws of the State of New York without regard to the conflicts of law principles thereof. At the option of the party initiating the claim, any dispute, controversy, difference or claim arising out of or relating to this Agreement may be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre ("HKIAC") under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted. The award rendered in such an arbitration proceeding will be final and binding and judgment on the award rendered may be entered in any court having jurisdiction over the parties. The number of arbitrators will be three, one of whom will be appointed by the party asserting a claim against the other party or parties, one of whom will be appointed by the party or parties (acting together), as the case may be, against whom a claim has been asserted, and the third of whom will be selected by mutual agreement, if possible, within thirty days after the selection of the second arbitrator. The language of the arbitration will be Mandarin Chinese and any foreign language documents presented at such arbitration will be accompanied by a Mandarin Chinese translation thereof prepared at the expense of the party seeking to present such document. Any award of the arbitrators (i) will be in writing, (ii) will state the reasons upon which such award is based and (iii) may include an award of costs, including reasonable attorneys' fees and disbursements. The arbitrators will have no authority to award punitive damages or any other damages not measured by the prevailing party's actual damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Agreement. Notwithstanding the foregoing, any party may apply to any court having jurisdiction over the parties to obtain injunctive relief in order to maintain the status quo until such time as an arbitration award may be rendered or the dispute, controversy or claim may be otherwise resolved.

(c) In the event that any provision of this Agreement is determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time, over too large a geographic area, or over too great a range of activities, it will be interpreted to extend only over the maximum period of time, geographic area or range of activities as to which it may be enforceable.

(d) If, after application of paragraph (c) above, any provision of this Agreement will be determined to be invalid, illegal or otherwise unenforceable by any court of competent jurisdiction, the validity, legality and enforceability of the other provisions of this Agreement will not be affected thereby. Any invalid, illegal or unenforceable provision of this Agreement will be severed, and after any such severance, all other provisions hereof will remain in full force and effect.

(e) Changyou and I agree that either of us may waive or fail to enforce violations of any part of this Agreement without waiving the right in the future to insist on strict compliance with all or parts of this Agreement.

(f) My obligations under this Agreement will survive the termination of my employment with Changyou regardless of the manner of or reasons for such termination, and regardless of whether such termination constitutes a breach of any other agreement I may have with Changyou. My obligations under this Agreement will be binding upon my heirs, executors and administrators, and the provisions of this Agreement will inure to the benefit of the successors and assigns of Changyou.

(g) I agree and acknowledge that the rights and obligations set forth in this Agreement are of a unique and special nature and necessary to ensure the preservation, protection and continuity of Changyou's business, employees, Confidential Information, and intellectual property rights. Accordingly, Changyou is without an adequate legal remedy in the event of my violation of any of the covenants set forth in this Agreement. I agree, therefore, that, in addition to all other rights and remedies, at law or in equity or otherwise, that may be available to Changyou, each of the covenants made by me under this Agreement will be enforceable by injunction, specific performance or other equitable relief, without any requirement that Changyou post a bond or that Changyou prove any damages.

[Signature page follows]

IN WITNESS WHEREOF, the undersigned employee and Changyou have executed this Executive Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement effective as of January 1, 2021.

Signature of Employee:

Changyou.com Limited

/s/ Dewen Chen

Dewen Chen

By: /s/ Yanfeng Lyu

Name: Yanfeng Lyu

Title: Director

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, effective as of January 1, 2021, by and between Sohu.com Limited, a Cayman Islands company, and Charles Zhang, an individual (the “Employee”).

1. Definitions. Capitalized terms used herein and not otherwise defined in the text below will have the meanings ascribed thereto on Annex 1.

2. Employment; Duties.

(a) The Company agrees to employ the Employee in the capacity and with such responsibilities as are generally set forth on Annex 2.

(b) The Employee hereby agrees to devote his full time and best efforts in such capacities as are set forth on Annex 2 on the terms and conditions set forth herein. Notwithstanding the foregoing, the Employee may engage in other activities, such as activities involving professional, charitable, educational, religious and similar types of organizations, provided the Employee complies with the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement, in the form attached hereto as Annex 3 (the “Employee Obligations Agreement”) and such other activities do not interfere with or prohibit the performance of the Employee’s duties under this Agreement, or conflict in any material way with the business of the Company or of its subsidiaries and affiliates (including the Company’s variable interest entities). The provisions of the Employee Obligations Agreements between the Company and the Employee as in effect prior to January 1, 2021 (the “Prior Employee Obligations Agreements”) will continue in full force and effect with respect to all matters arising with respect to periods through December 31, 2020. The Employee Obligations Agreement effective as of January 1, 2021 and will be in full force and effect on and after such date.

(c) The Employee will use best efforts during the Term to ensure that the Company’s business and the businesses of its subsidiaries and affiliates (including the Company’s variable interest entities) are conducted in accordance with all applicable laws and regulations of all jurisdictions in which such businesses are conducted.

3. Compensation.

(a) Base Annual Income. During the Term, the Company will pay the Employee an annual base salary as set forth on Annex 2, payable monthly pursuant to the Company’s normal payroll practices.

(b) Discretionary Bonus. During the Term, the Company, in its sole discretion, may award to the Employee an annual bonus based on the Employee’s performance and other factors deemed relevant by the Company’s Board of Directors.

(c) Share Incentive Awards. The Employee will be eligible to participate in any share incentive programs available to officers or employees of the Company.

(d) Reimbursement of Expenses. The Company will reimburse the Employee for reasonable expenses incurred by the Employee in the course of, and necessary in connection with, the performance by the Employee of his duties to the Company, provided that such expenses are substantiated in accordance with the Company's policies.

4. Other Employee Benefits.

(a) Vacation; Sick Leave. The Employee will be entitled to such number of weeks of paid vacation each year as are set forth on Annex 2, the taking of which must be in accordance with the Company's standard vacation policy. Unless otherwise approved by the Company's Board of Directors, vacation that is not used in a particular year may only be carried forward to subsequent years in accordance with the Company's policies in effect from time to time. The Employee will be eligible for sick leave in accordance with the Company's policies in effect from time to time.

(b) Healthcare Plan. The Company will arrange for membership in the Company's group healthcare plan for the Employee, the Employee's spouse and, if applicable, the Employee's children under 18 years old, in accordance with the Company's standard policies from time to time with respect to health insurance and in accordance with the rules established for individual participation in such plan and under applicable law.

(c) Life and Disability Insurance. The Company will provide term life and disability insurance payable to the Employee, in each case initially in a maximum amount of RMB2,000,000, but subject to adjustment from time to time, provided however, that such amount will be reduced by the amount of any life insurance or death or disability benefit coverage, as applicable, that is provided to the Employee under any other benefit plans or arrangements of the Company. Such policies will be in accordance with the Company's standard policies from time to time with respect to such insurance and the rules established for individual participation in such plans and under applicable law.

(d) Other Benefits. Pursuant to the Company's policies in effect from time to time and the applicable plan rules, the Employee will be eligible to participate in other employee benefit plans of general application, which may include, without limitation, housing allowance or reimbursement, tuition fees for the Employee's children, if any, at an international school and tax equalization, which will include, in any event, benefits at the levels set forth on Annex 2.

5. Certain Representations, Warranties and Covenants of the Employee.

(a) Related Company Positions. The Employee agrees that the Employee and members of the Employee's immediate family will not have any financial interest directly or indirectly (including through any entity in which the Employee or any member of the Employee's immediate family has a position or financial interest) in any transactions with the Company or any subsidiaries or affiliates (including the Company's variable interest entities) thereof unless all such transactions, prior to being entered into, have been disclosed to the Board of Directors and approved by a majority of the independent members of the Board of Directors and comply with all other Company policies and applicable law as may be in effect from time to time. The Employee also agrees that he will inform the Board of Directors of the Company of any transactions involving the Company or any of its subsidiaries or affiliates (including the Company's variable interest entities) in which senior officers, including but not limited to the Employee, or their immediate family members have a financial interest.

(b) Discounts, Rebates or Commissions. Unless expressly permitted by written policies and procedures of the Company in effect from time to time that may be applicable to the Employee, neither the Employee nor any immediate family member will be entitled to receive or obtain directly or indirectly any discount, rebate or commission in respect of any sale or purchase of goods or services effected or other business transacted (whether or not by the Employee) by or on behalf of the Company or any of its subsidiaries or affiliates (including the Company's variable interest entities), and if the Employee or any immediate family member (or any firm or company in which the Employee or any immediate family member is interested) obtains any such discount, rebate or commission, the Employee will pay to the Company an amount equal to the amount so received (or the proportionate amount received by any such firm or company to the extent of the Employee's or family member's interest therein).

6. Term; Termination.

(a) Unless sooner terminated pursuant to the provisions of this Section 6, the term of this Agreement (the "Term") will commence on the date hereof and end on December 31, 2023.

(b) Voluntary Termination by the Employee. The Employee may voluntarily Terminate this Agreement by providing the Company with ninety (90) days' advance written notice ("Voluntary Termination"), in which case, the Employee will not be entitled to receive payment of any severance benefits or other amounts by reason of the Termination other than accrued salary and vacation through the date of the Termination. The Employee's right to all other benefits will terminate as of the date of Termination, other than any continuation required by applicable law. Without limiting the foregoing, if, in connection with a Change in Control, the surviving entity or successor to the Company's business offers the Employee employment on substantially equivalent terms to those set forth in this Agreement and such offer is not accepted by the Employee, the refusal by the Employee to accept such offer and the subsequent termination of the Employee's employment by the Company will be deemed to be a voluntary termination of employment by the Employee and will not be treated as a termination by the Company without Cause.

(c) Termination by the Company for Cause. The Company may Terminate this Agreement for Cause by written notice to the Employee, effective immediately upon the delivery of such notice. In such case, the Employee will not be entitled to receive payment of any severance benefits or other amounts by reason of the Termination other than accrued salary and vacation through the date of the Termination. The Employee's right to all other benefits will terminate, other than any continuation required by applicable law.

(d) Termination by the Employee with Good Reason or Termination by the Company without Cause. The Employee may Terminate this Agreement for Good Reason, and the Company may Terminate this Agreement without Cause, in either case upon thirty (30) days' advance written notice by the party Terminating this Agreement to the other party and the Termination will be effective as of the expiration of such thirty (30) day period. If the Employee Terminates with Good Reason or the Company Terminates without Cause, the Employee will be entitled to continue to receive payment of severance benefits equal to the Employee's monthly base salary in effect on the date of Termination for the shorter of (i) six (6) months and (ii) the remainder of the Term of this Agreement (the "Severance Period"), provided that the Employee complies with the Employee Obligations Agreement during the Severance Period and executes a release agreement in the form requested by the Company at the time of such Termination that releases the Company from any and all claims arising from or related to the employment relationship and/or such Termination. Such payments will be made ratably over the Severance Period according to the Company's standard payroll schedule. The Employee will also receive payment of a bonus for the remainder of the year of the Termination, but only to the extent that a bonus would have been earned had the Employee continued in employment through the end of such year, as determined in good faith by the Company's, Board of Directors or its Compensation Committee based on the specific corporate and individual performance targets established for such fiscal year, and only to the extent that bonuses are paid for such fiscal year to other similarly situated employees. Health insurance benefits with the same coverage (i.e., medical, dental, optical and mental health coverage) provided to the Employee prior to the Termination and in all other material respects comparable to those in place immediately prior to the Termination will be provided at the Company's expense during the Severance Period. The Company will also continue to carry the Employee on its Directors and Officers insurance policy for six (6) years following the Date of Termination at the Company's expense with respect to insurable events which occurred during the Employee's term as a director or officer of the Company, with such coverage being at least comparable to that in effect immediately prior to the Termination Date; provided, however, that (i) such terms, conditions and exceptions will not be, in the aggregate, materially less favorable to the Employee than those in effect on the Termination Date and (ii) if the aggregate annual premiums for such insurance at any time during such period exceed two hundred percent (200%) of the per annum rate of premium currently paid by the Company for such insurance, then the Company will provide the maximum coverage that is then available at an annual premium equal to two hundred percent (200%) of such rate.

(e) Termination by Reason of Death or Disability. A Termination of the Employee's employment by reason of death or Disability will not be deemed to be a Termination by the Company (for or without Cause) or by the Employee (for or without Good Reason). In the event that the Employee's employment with the Company Terminates as a result of the Employee's death or Disability, the Employee or the Employee's estate or representative, as applicable, will receive all accrued salary and accrued vacation as of the date of the Employee's death or Disability and any other benefits payable under the Company's then existing benefit plans and policies in accordance with such plans and policies in effect on the date of death or Disability and in accordance with applicable law. In addition, the Employee or the Employee's estate or representative, as applicable, will receive a bonus for the year in which the death or Disability occurs to the extent that a bonus would have been earned had the Employee continued in employment through the end of such year, as determined in good faith by the Company's Board of Directors or its Compensation Committee based on the specific corporate and individual performance targets established for such fiscal year, and only to the extent that bonuses are paid for such fiscal year to other similarly situated employees.

(f) Misconduct After Termination of Employment. Notwithstanding the foregoing, if the Employee after the termination of his employment violates or fails to fully comply with the Employee Obligations Agreement, thereafter (i) the Employee will not be entitled to any payments from the Company, (ii) any insurance or other benefits that have continued will terminate immediately, (iii) the Employee will promptly reimburse to the Company all amounts that have been paid to the Employee pursuant to this Section 6; and (iv) if the Employee would not, in the absence of such violation or failure to comply, have been entitled to severance payments from the Company equal to at least six (6) months' base salary, the Employee will pay to the Company an amount equal to the difference between six (6) months' base salary and the amount of severance pay measured by base salary reimbursed to the Company by the Employee pursuant to clause (iii) of this sentence.

7. Equity-Based Compensation-Related Provisions.

(a) Termination by the Company Without Cause after a Change in Control. If Company Terminates this Agreement without Cause within twelve (12) months following a Change in Control, the vesting and exercisability of each of the Employee's outstanding stock options or other equity-based incentive awards ("Awards") will accelerate such that the Award will become fully vested and exercisable upon the effectiveness of the Termination, and any repurchase right of the Company with respect to shares of stock or other equity issued upon exercise of the Award will completely lapse, in each case subject to paragraph (c) below ("Forfeiture of Options for Misconduct").

(b) Termination other than by the Company Without Cause after a Change in Control. If the Employee's employment with the Company Terminates for any reason, unless the Company Terminates this Agreement without Cause within twelve (12) months following a Change in Control, the vesting and exercisability of each of the Employee's outstanding Awards will cease upon the effectiveness of the Termination, such that any unvested Award will be cancelled.

(c) Forfeiture of Options for Misconduct. If the Employee fails to comply with the terms of this Agreement, the Employee Obligations Agreement, or the written policies and procedures of the Company, as the same may be amended from time to time, or acts against the specific instructions of the Board of Directors of the Company or if this Agreement is terminated by the Company for Cause (each a "Penalty Breach"), the Employee will forfeit any Awards that have been granted to him or to which the Employee may be entitled, whether the same are then vested or not, and the same will not thereafter be exercisable at all, and all shares of common stock of the Company, if any, purchased by the Employee pursuant to the exercise of Awards and still then owned by the Employee may be repurchased by the Company, at its sole discretion, at the price paid by the Employee for such shares of common stock. The terms of all outstanding option grants are hereby amended to conform with this provision.

8. Employee Obligations Agreement. By signing this Agreement, the Employee hereby agrees to execute and deliver to the Company the Employee Obligations Agreement, and such execution and delivery will be a condition to the Employee's entitlement to his rights under this Agreement.

9. Governing Law; Resolution of Disputes. This Agreement will be governed by and construed and enforced in accordance with the laws of the State of New York if the Employee is not a citizen of the People's Republic of China (the "PRC"), and in accordance with the laws of the PRC if the Employee is a citizen of the PRC, in each case exclusive of such jurisdiction's principles of conflicts of law. If, under the applicable law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion will be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement; the invalidity of any such portion will not affect the force, effect and validity of the remaining portion hereof. Each of the parties hereto irrevocably agrees that any dispute, controversy, difference or claim arising out of, relating to, or concerning any interpretation, construction, performance or breach of this Agreement may be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre ("HKIAC") under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted,. There will be one arbitrator, selected in accordance with the Arbitration Rules. The decision of the arbitrator will be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction. The parties to the arbitration will each pay an equal share of the costs and expenses of such arbitration, and each party will separately pay for its respective counsel fees and expenses; provided, however, that the prevailing party in any such arbitration will be entitled to recover from the non-prevailing party its reasonable costs and attorney fees.

10. Notices. All notices, requests and other communications under this Agreement must be in writing (including email or similar writing and express mail or courier delivery or in person delivery, but excluding ordinary mail delivery) and given to the address stated below:

(a) if to the Employee, to the address or email address that is on file with the Company from time to time, as may be updated by the Employee;

(b) if to the Company, to:

Sohu.com limited
Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road, Haidian District
Beijing 100190
People's Republic of China
Attention: Joanna Lv
Chief Financial Officer
Email: joannalu@sohu-inc.com

with a copy to:

Goulston & Storrs
400 Atlantic Avenue
Boston, MA 02110
Attention: Tim Bancroft
Email: tbancroft@goulstonstorrs.com

or to such other address or email address as either party may hereafter specify for the purpose by written notice to the other party in the manner provided in this Section 10. All such notices, requests and other communications will be deemed received: (i) if given by email, when transmitted to the email address specified in this Section 10 if confirmation of receipt is received; (ii) if sent by express mail or courier delivery, when delivered; and (iii) if given in person, when delivered.

11. Miscellaneous.

(a) Entire Agreement. This Agreement, together with the Employee Obligations Agreement, constitutes the entire understanding between the Company and the Employee relating to the subject matter hereof with respect to periods on and after January 1, 2021 and supersedes and cancels all prior and contemporaneous written and oral agreements and understandings with respect to the subject matter of this Agreement with respect to periods on and after January 1, 2021. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement with respect to periods on and after January 1, 2021.

(b) Modification; Waiver. No provision of this Agreement may be modified, waived or discharged unless modification, waiver or discharge is agreed to in a writing signed by the Employee and such officer of the Company as may be specifically designated by its Board of Directors. No waiver by either party at any time of any breach by the other party of, or compliance with, any condition or provision of this Agreement to be performed by such other party will be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

(c) Successors; Binding Agreement. This Agreement will be binding upon and will inure to the benefit of the Employee, the Employee's heirs, executors, administrators and beneficiaries, and the Company and its successors (whether direct or indirect, by purchase, merger, consolidation or otherwise), subject to the terms and conditions set forth herein.

(d) Withholding Taxes. All amounts payable to the Employee under this Agreement will be subject to applicable withholding of income, wage and other taxes to the extent required by applicable law.

(e) Validity. The invalidity or unenforceability of any provision or provisions of this Agreement will not affect the validity or enforceability of any other provision of this Agreement, which will remain in full force and effect.

(f) Language. This Agreement is written in the English language only. The English language also will be the controlling language for all future communications between the parties hereto concerning this Agreement.

(g) Counterparts. This Agreement may be signed in any number of counterparts, each of which will be deemed an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

Employee:

Sohu.com Limited

/s/ Charles Zhang

Charles Zhang

By: /s/ Joanna Lv

Name: Joanna Lv

Title: Chief Financial Officer

Certain Definitions

“Cause” means:

- (i) willful misconduct or gross negligence by the Employee, or any willful or grossly negligent omission to perform any act, resulting in injury to the Company or any subsidiaries or affiliates (including the Company’s variable interest entities) thereof;
- (ii) misconduct or negligence of the Employee that results in gain or personal enrichment of the Employee to the detriment of the Company or any subsidiaries or affiliates (including the Company’s variable interest entities) thereof;
- (iii) breach of any of the Employee’s agreements with the Company, including those set forth herein and in the Employee Obligations Agreement, and including, but not limited to, the repeated failure to perform substantially the Employee’s duties to the Company or any subsidiaries or affiliates thereof, excessive absenteeism or dishonesty;
- (iv) any attempt by the Employee to assign or delegate this Agreement or any of the rights, duties, responsibilities, privileges or obligations hereunder without the prior approval of the Board of Directors of the Company (except in respect of any delegation by the Employee of his employment duties hereunder to other employees of the Company in accordance with its usual business practice);
- (v) the Employee’s indictment or conviction for, or confession of, a felony or any crime involving moral turpitude under the laws of the United States or any State thereof, or under the laws of China, or Hong Kong;
- (vi) declaration by a court that the Employee is insane or incompetent to manage his business affairs;
- (vii) habitual drug or alcohol abuse which materially impairs the Employee’s ability to perform his duties; or
- (viii) filing of any petition or other proceeding seeking to find the Employee bankrupt or insolvent.

(i)

“Change in Control” means the occurrence of any of the following events:

- (i) any person (within the meaning of Section 13(d) or Section 14(d)(2) of the Securities Exchange Act of 1934) other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company, becomes the direct or beneficial owner of securities representing fifty percent (50%) or more of the combined voting power of the Company’s then-outstanding securities;
- (ii) during any period of two (2) consecutive years after the date of this Agreement, individuals who at the beginning of such period constitute the Board of Directors of the Company, and all new directors (other than directors designated by a person who has entered into an agreement with the Company to effect a transaction described in (i), (iii), or (iv) of this definition) whose election or nomination to the Board was approved by a vote of at least two-thirds of the directors then in office, cease for any reason to constitute at least a majority of the members of the Board;
- (iii) the effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity;
- (iv) the complete liquidation of the Company or the sale or disposition by the Company of all or substantially all of the Company’s assets; or
- (v) there occurs any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or a response to any similar item on any similar schedule or form) promulgated under the Exchange Act (as defined below), whether or not the Company is then subject to such reporting requirement.

“Company” means Sohu.com Limited and, unless the context suggests to the contrary, all of its subsidiaries and related companies.

“Disability” means the Employee becomes physically or mentally impaired to an extent which renders him unable to perform the essential functions of his job, with or without reasonable accommodation, for a period of six consecutive months, or an aggregate of nine months in any two year period.

“Good Reason” means the occurrence of any of the following events without the Employee’s express written consent, provided that the Employee has given notice to the Company of such event and the Company has not remedied the problem within fifteen (15) days:

- (i) any significant change in the duties and responsibilities of the Employee inconsistent in any material and adverse respect with the Employee’s title and position (including status, officer positions and reporting requirements), authority, duties or responsibilities as contemplated by Annex 2 to this Agreement. For the purposes of this Agreement, because of the evolving nature of the Employer’s business, the Company’s changing of Employee’s reporting relationships and department(s) will not be considered a significant change in duties and responsibilities;
- (ii) any material breach by the Company of this Agreement, including without limitation any reduction of the Employee’s base salary or the Company’s failure to pay to the Employee any portion of the Employee’s compensation; or
- (iii) the failure, in the event of a Change in Control in which the Company is not the surviving entity, of the surviving entity or the successor to the Company’s business to assume this Agreement pursuant to its terms or to offer the Employee employment on substantially equivalent terms to those set forth in this Agreement.

“Termination” (and any similar, capitalized use of the term, such as “Terminate”) means, according to the context, the termination of this Agreement or the Employee’s ceasing to render employment services.

(iii)

Particular Terms of Employee's Employment

Title(s): Chief Executive Officer

Reporting Requirement: The Employee will report to the Company's Board of Directors.

Responsibilities: Such duties and responsibilities as are ordinarily associated with the Employee's title(s) in a United States publicly-traded corporation and such other duties as may be specified by the Board of Directors from time to time.

Base Salary: RMB4,000,000 per year or as adjusted by the Board of Directors from time to time.

of Weeks of Paid Vacation per Year: Three (3)

Other Benefits:

Annual reimbursement of RMB2,000,000 per year

Tax equalization on salary and bonus to 15%.

Health, life and disability insurance and tuition fees for the Employee's children, if any, as per company policy.

Bonus as specifically approved each year.

FORM OF EMPLOYEE NON-COMPETITION, NON-SOLICITATION, CONFIDENTIAL INFORMATION AND WORK PRODUCT AGREEMENT

In consideration of my employment and the compensation paid to me by Sohu.com Limited, a Cayman Islands company (the “Company”), or a subsidiary or other affiliate or related company thereof (Sohu.com Limited or any such subsidiary or related company or other affiliate referred to herein individually and collectively as “SOHU”), and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, I agree as follows:

1. Non-Competition. During the term of my employment with SOHU and continuing after the termination of such employment for the longer of (i) one year after the termination of my employment with SOHU for any reason and (ii) such period of time as SOHU is paying to me any severance benefits, (the “Noncompete Period”), I will not, on my own behalf, or as owner, manager, stockholder (other than as stockholder of less than 2% of the outstanding stock of a company that is publicly traded or listed on a stock exchange), consultant, director, officer or employee of or in any other manner connected with any business entity, participate or be involved in any Competitor without the prior written authorization of the Board of Directors of SOHU. “Competitor” means any business of the type and character of business in which SOHU engages or proposes to engage and may include, without limitation, an individual, company, enterprise, partnership enterprise, government office, committee, social organization or other organization that, in any event, produces, distributes or provides the same or substantially similar kind of product or service as SOHU. On the date of this Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement (this “Agreement”), “Competitors” include, without limitation, the following companies and their subsidiaries or affiliates:

- (1) BAT: Baidu, Alibaba, Tencent
- (2) TMDJ: TouTiao, Meituan Dianping, Didi, JD
- (3) Media: Sina/Weibo, NetEase, Phoenix, Qutoutiao
- (4) Game: Perfect World, Giant, Kalends, iDreamsky, IGG, 37, YOOZOO, Century Huatong, Kingsoft
- (5) Video: Youku, iQiyi, Bilibili, Douyin, Douyu, Huya, Kuaishou, YY
- (6) Other vertical sites: Autohome, BitAuto, Fang, Leju
- (7) U.S. internet companies: Google, Yahoo, Facebook, Twitter

Such list may be updated by the Company from time to time so that it is consistent with the list of competitors disclosed in the Company’s annual reports on Form 20-F filed with the U.S. Securities and Exchange Commission.

2. Nonsolicitation. During the Noncompete Period, I will not, either for my own account or for the account of any other person: (i) solicit, induce, attempt to hire, or hire any employee or contractor of SOHU or any other person who may have been employed or engaged by SOHU during the term of my employment with SOHU unless that person has not worked with SOHU within the six months following my last day of employment with SOHU; (ii) solicit business or relationship in competition with SOHU from any of SOHU's customers, suppliers or partners or any other entity with which SOHU does business; (iii) assist in such hiring or solicitation by any other person or business entity or encourage any such employee to terminate his employment with SOHU; or (iv) encourage any such customer, supplier or partner or any other entity to terminate its relationship with SOHU.

3. Confidential Information.

(a) While employed by SOHU and indefinitely thereafter, I will not, directly or indirectly, use any Confidential Information (as hereinafter defined) other than pursuant to my employment by and for the benefit of SOHU, or disclose any such Confidential Information to anyone outside of SOHU or to anyone within SOHU who has not been authorized to receive such information, except as directed in writing by an authorized representative of SOHU.

(b) "Confidential Information" means all trade secrets, proprietary information, and other data and information, in any form, belonging to SOHU or any of their respective clients, customers, consultants, licensees or affiliates that is held in confidence by SOHU. Confidential Information includes, but is not limited to computer software, the structure of SOHU's online directories and search engines, business plans and arrangements, customer lists, marketing materials, financial information, research, and any other information identified or treated as confidential by SOHU or any of their respective clients, customer, consultants, licensees or affiliates. Notwithstanding the foregoing, Confidential Information does not include information which SOHU has voluntarily disclosed to the public without restriction, or which is otherwise known to the public at large.

4. Rights in Work Product.

(a) I agree that all Work Product (as hereinafter defined) will be the sole property of SOHU. I agree that all Work Product that constitutes original works of authorship protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act and, therefore, the property of SOHU. I agree to waive, and hereby waive and irrevocably and exclusively assign to SOHU, all right, title and interest I may have in or to any other Work Product and, to the extent that such rights may not be waived or assigned, I agree not to assert such rights against SOHU or its licensees (and sublicensees), successors or assigns.

(b) I agree to promptly disclose all Work Product to the appropriate individuals in SOHU as such Work Product is created in accordance with the requirements of my job and as directed by SOHU.

(c) "Work Product" means any and all inventions, improvements, developments, concepts, ideas, expressions, processes, prototypes, plans, drawings, designs, models, formulations, specifications, methods, techniques, shop-practices, discoveries, innovations, creations, technologies, formulas, algorithms, data, computer databases, reports, laboratory notebooks, papers, writings, photographs, source and object codes, software programs, other works of authorship, and know-how and show-how, or parts thereof conceived, developed, or otherwise made by me alone or jointly with others (i) during the period of my employment with SOHU or (ii) during the six month period next succeeding the termination of my employment with SOHU if the same in any way relates to the present or proposed products, programs or services of SOHU or to tasks assigned to me during the course of my employment, whether or not patentable or subject to copyright or trademark protection, whether or not reduced to tangible form or reduced to practice, whether or not made during my regular working hours, and whether or not made on SOHU premises.

5. Employee's Prior Obligations. I hereby certify I have no continuing obligation to any previous employer or other person or entity which requires me not to disclose any information to SOHU.

6. Employee's Obligation to Cooperate. At any time during my employment with SOHU and thereafter upon the request of SOHU, I will execute all documents and perform all lawful acts that SOHU considers necessary or advisable to secure its rights hereunder and to carry out the intent of this Agreement. Without limiting the generality of the foregoing, I agree to render to SOHU or its nominee all reasonable assistance as may be required:

- (a) In the prosecution or applications for letters patent, foreign and domestic, or re-issues, extensions and continuations thereof;
- (b) In the prosecution or defense of interferences which may be declared involving any of said applications or patents;
- (c) In any administrative proceeding or litigation in which SOHU may be involved relating to any Work Product; and
- (d) In the execution of documents and the taking of all other lawful acts which SOHU considers necessary or advisable in creating and protecting its copyright, patent, trademark, trade secret and other proprietary rights in any Work Product.

The reasonable out-of-pocket expenses incurred by me in rendering such assistance at the request of SOHU will be reimbursed by SOHU. If I am no longer an employee of SOHU at the time I render such assistance, SOHU will pay me a reasonable fee for my time.

7. Termination; Return of SOHU Property. Upon the termination of my employment with SOHU for any reason, or at any time upon SOHU's request, I will return to SOHU all Work Product and Confidential Information and notes, memoranda, records, customer lists, proposals, business plans and other documents, computer software, materials, tools, equipment and other property in my possession or under my control, relating to any work done for SOHU, or otherwise belonging to SOHU, it being acknowledged that all such items are the sole property of SOHU. Further, before obtaining my final paycheck, I agree to sign a certificate stating the following:

“Termination Certificate

This is to certify that I do not have in my possession or custody, nor have I failed to return, any Work Product (as defined in the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement between me and Sohu.com Limited (“SOHU”)) or any notes, memoranda, records, customer lists, proposals, business plans or other documents or any computer software, materials, tools, equipment or other property (or copies of any of the foregoing) belonging to SOHU.”

8. General Provisions.

(a) This Agreement contains the entire agreement between me and the Company with respect to the subject matter hereof and supersedes all prior and contemporaneous agreements and understandings related to the subject matter hereof, whether written or oral; provided however, that, with respect to periods through the date hereof, this Agreement will not supersede the Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreements between the Company (including its predecessor Sohu.com Inc.) and me that were in effect prior to the date hereof (the “Prior Employee Obligations Agreements”), which will continue in full force and effect with respect to such periods. This Agreement may not be modified except by written agreement signed by the Company and me.

(b) This Agreement will be governed by and construed and enforced in accordance with the laws of the State of New York if the Employee is not a citizen of the People's Republic of China (the “PRC”), and in accordance with the laws of the PRC if the Employee is a citizen of the PRC, in each case exclusive of such jurisdiction's principles of conflicts of law. If, under the applicable law, any portion of this Agreement is at any time deemed to be in conflict with any applicable statute, rule, regulation or ordinance, such portion will be deemed to be modified or altered to conform thereto or, if that is not possible, to be omitted from this Agreement; the invalidity of any such portion will not affect the force, effect and validity of the remaining portion hereof. Each of the parties hereto irrevocably (i) agrees that any dispute, controversy, difference or claim arising out of, relating to, or concerning any interpretation, construction, performance or breach of this Agreement may be referred to and finally resolved by arbitration administered by the Hong Kong International Arbitration Centre (“HKIAC”) under the HKIAC Administered Arbitration Rules in force when the Notice of Arbitration is submitted. There will be one arbitrator, selected in accordance with the Arbitration Rules. The decision of the arbitrator will be final, conclusive and binding on the parties to the arbitration. Judgment may be entered on the arbitrator's decision in any court having jurisdiction. The parties to the arbitration will each pay an equal share of the costs and expenses of such arbitration, and each party will separately pay for its respective counsel fees and expenses; provided, however, that the prevailing party in any such arbitration will be entitled to recover from the non-prevailing party its reasonable costs and attorney fees.

(c) In the event that any provision of this Agreement is determined by any court of competent jurisdiction to be unenforceable by reason of its extending for too great a period of time, over too large a geographic area, over too great a range of activities, it will be interpreted to extend only over the maximum period of time, geographic area or range of activities as to which it may be enforceable.

(d) If, after application of paragraph (c) above, any provision of this Agreement will be determined to be invalid, illegal or otherwise unenforceable by any court of competent jurisdiction, the validity, legality and enforceability of the other provisions of this Agreement will not be affected thereby. Any invalid, illegal or unenforceable provision of this Agreement will be severed, and after any such severance, all other provisions hereof will remain in full force and effect.

(e) SOHU and I agree that either of us may waive or fail to enforce violations of any part of this Agreement without waiving the right in the future to insist on strict compliance with all or parts of this Agreement.

(f) My obligations under this Agreement will survive the termination of my employment with SOHU regardless of the manner of or reasons for such termination, and regardless of whether such termination constitutes a breach of any other agreement I may have with SOHU. My obligations under this Agreement will be binding upon my heirs, executors and administrators, and the provisions of this Agreement will inure to the benefit of the successors and assigns of SOHU.

(g) I agree and acknowledge that the rights and obligations set forth in this Agreement are of a unique and special nature and necessary to ensure the preservation, protection and continuity of SOHU's business, employees, Confidential Information, and intellectual property rights. Accordingly, SOHU is without an adequate legal remedy in the event of my violation of any of the covenants set forth in this Agreement. I agree, therefore, that, in addition to all other rights and remedies, at law or in equity or otherwise, that may be available to SOHU, each of the covenants made by me under this Agreement will be enforceable by injunction, specific performance or other equitable relief, without any requirement that SOHU have to post a bond or that SOHU have to prove any damages.

IN WITNESS WHEREOF, the undersigned employee and the Company have executed this Employee Non-competition, Non-solicitation, Confidential Information and Work Product Agreement.

Effective as of January 1, 2021 and signed on Beijing.

Employee:

/s/ Charles Zhang

Charles Zhang

Sohu.com Limited

By: /s/ Joanna Lv

Name: Joanna Lv

Title: Chief Financial Officer

Principal Subsidiaries and VIEs of the Registrant

Name of Entity	Jurisdiction of Incorporation	Ownership
Subsidiaries:		
For Sohu:		
Sohu.com (Hong Kong) Limited (“Sohu HK”)	Hong Kong	100%
Beijing Sohu New Era Information Technology Co., Ltd. (“Sohu Era”)	People’s Republic of China	100%
Sohu.com (Search) Limited (“Sohu Search”)	Cayman Islands	100%
Beijing Sohu New Media Information Technology Co., Ltd. (“Sohu Media”)	People’s Republic of China	100%
Sohu.com (Game) Limited (“Sohu Game”)	Cayman Islands	100%
Beijing Sohu New Momentum Information Technology Co., Ltd. (“Sohu New Momentum”)	People’s Republic of China	100%
Fox Video Limited (“Sohu Video”)	Cayman Islands	100%
Fox Information Technology (Tianjin) Limited (“Video Tianjin”)	People’s Republic of China	100%
Sohu Focus Limited (“Sohu Focus”)	Cayman Islands	100%
For Changyou:		
Changyou.com Limited (“Changyou”)	Cayman Islands	100%
Changyou.com (HK) Limited (“Changyou HK”)	Hong Kong	100%
Beijing AmazGame Age Internet Technology Co., Ltd. (“AmazGame”)	People’s Republic of China	100%
Beijing Changyou Gamespace Software Technology Co., Ltd. (“Gamespace”)	People’s Republic of China	100%
Changyou.com Korea LLC (“Changyou Korea”)	Korea	100%
Beijing Changyou Chuangxiang Software Technology Co., Ltd. (“Changyou Chuangxiang”)	People’s Republic of China	100%
For Sogou:		
Sogou Inc. (“Sogou”)	Cayman Islands	34%
Sogou (BVI) Limited (“Sogou BVI”)	British Virgin Islands	34%
Beijing Sogou Technology Development Co., Ltd. (“Sogou Technology”)	People’s Republic of China	34%
Sogou Hong Kong Limited (“Sogou HK”)	Hong Kong	34%
Vast Creation Advertising Media Services Limited (“Vast Creation”)	Hong Kong	34%
Beijing Sogou Network Technology Co., Ltd (“Sogou Network”)	People’s Republic of China	34%
Sogou (Shantou) Internet Microcredit Co., Ltd. (“Sogou Microcredit”)	People’s Republic of China	34%
Sogou (Hangzhou) Intelligent Technology Co., Ltd. (“Sogou Hangzhou”)	People’s Republic of China	34%
Shantou Ying Zhong Bai Fu Financing Guarantee Co., Ltd. (“Sogou Financing Guarantee”)	People’s Republic of China	34%
VIEs:		
For Sohu:		
Beijing Century High-Tech Investment Co., Ltd. (“High Century”)	People’s Republic of China	100%
Beijing Heng Da Yi Tong Information Technology Co., Ltd. (“Heng Da Yi Tong”)	People’s Republic of China	100%
Beijing Sohu Internet Information Service Co., Ltd. (“Sohu Internet”)	People’s Republic of China	100%
Beijing Sohu Donglin Advertising Co., Ltd. (“Donglin”)	People’s Republic of China	100%
Tianjin Jinhu Culture Development Co., Ltd (“Tianjin Jinhu”)	People’s Republic of China	100%
Beijing Focus Interactive Information Service Co., Ltd. (“Focus Interactive”)	People’s Republic of China	100%
For Changyou:		
Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”)	People’s Republic of China	100%
Shanghai ICE Information Technology Co., Ltd. (“Shanghai ICE”)	People’s Republic of China	100%
Beijing Guanyou Gamespace Digital Technology Co., Ltd. (“Guanyou Gamespace”)	People’s Republic of China	100%
For Sogou:		
Beijing Sogou Information Service Co., Ltd. (“Sogou Information”)	People’s Republic of China	34%
Chengdu Easypay Technology Co., Ltd. (“Chengdu Easypay”)	People’s Republic of China	34%

I, Charles Zhang, certify that:

1. I have reviewed this annual report on Form 20-F of Sohu.com Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 18, 2021

/s/ Charles Zhang

Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors

I, Joanna Lv, certify that:

1. I have reviewed this annual report on Form 20-F of Sohu.com Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 18, 2021

/s/ Joanna Lv

Joanna Lv, Chief Financial Officer

Certification Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934

In connection with the Annual Report of Sohu.com Limited (the "Company") on Form 20-F for the fiscal year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2020 and results of operations of the Company for the fiscal year ended December 31, 2020.

/s/ Charles Zhang

Charles Zhang, Chief Executive Officer and
Chairman of the Board of Directors

March 18, 2021

Certification Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934

In connection with the Annual Report of Sohu.com Limited (the "Company") on Form 20-F for the fiscal year ended December 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joanna Lv, Chief Financial Officer of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2020 and results of operations of the Company for the fiscal year ended December 31, 2020.

/s/ Joanna Lv

Joanna Lv, Chief Financial Officer

March 18, 2021

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-174955) of Sohu.com Limited of our report dated March 18, 2021 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
March 18, 2021

Consent of Haiwen & Partners, PRC Counsel

March 18, 2021

Sohu.com Limited
18/F, SOHU.com Media Plaza
Block 3, No. 2 Kexueyuan South Road
Haidian District
Beijing 100190
People's Republic of China

Subject: Consent of Haiwen & Partners

We hereby consent to the filing of this consent letter as an exhibit to the annual report on Form 20-F of Sohu.com Limited (the "Company") for the Company's fiscal year ended December 31, 2020 being filed with the U.S. Securities and Exchange Commission (the "SEC") on or about March 18, 2021 (the "Form 20-F").

We also hereby consent to the use of our firm name and summaries of our firm's opinions under the headings "Information on the Company—Government Regulation and Legal Uncertainties" in the Form 20-F.

Yours faithfully,

/s/ Haiwen & Partners

Haiwen & Partners