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

FORM 10-Q

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

For the quarterly period ended March 31, 2002

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-30961

SOHU.COM INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

98-0204667
(I.R.S. Employer
Identification Number)

Suite 1519, Tower 2
Bright China Chang An Building
7 Jianguomen Nei Avenue
Beijing 100005
People's Republic of China
86-10-6510-2160

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

The number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

<u>Class</u>	<u>Outstanding at May 3, 2002</u>
Common stock, \$.001 par value	35,625,716

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PART I—FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

SOHU.COM INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited, in thousands of US Dollars)

	March 31, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 21,568	\$ 29,263
Accounts receivable, net	2,771	2,710
Prepaid and other current assets	1,842	2,168
	<u>26,181</u>	<u>34,141</u>
Total current assets	26,181	34,141
Fixed assets, net	7,936	7,953
Long-term investments in marketable debt securities	21,931	16,973
Long-term loans to related parties	3,695	1,815
Other assets, net	896	1,076
	<u>\$ 60,639</u>	<u>61,958</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 763	\$ 366
Payable to related parties	1,377	1,208
Accrued liabilities and deferred revenues	3,133	2,803
	<u>5,273</u>	<u>4,377</u>
Total current liabilities	5,273	4,377
Commitments and contingencies		
Shareholders' equity:		
Common Stock: \$0.001 par value per share (75,400,000 authorized, 35,625,716 shares issued and outstanding at March 31, 2002 and December 31, 2001)	36	36
Additional paid-in capital	129,778	129,852
Deferred compensation and other	(88)	(156)
Accumulated deficit	(74,360)	(72,151)
	<u>55,366</u>	<u>57,581</u>
Total shareholders' equity	55,366	57,581
	<u>\$ 60,639</u>	<u>\$ 61,958</u>

The accompanying notes are an integral part of these condensed consolidated financial statements.

SOHU.COM INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands of US Dollars except per share data)

	Three Months Ended	
	March 31, 2002	March 31, 2001
Revenues:		
Advertising	\$ 2,511	\$ 2,087
Non-advertising	2,020	366
Total revenues	4,531	2,453
Cost of revenues:		
Advertising	1,463	1,851
Non-advertising	1,448	297
Total cost of revenue	2,911	2,148
Gross profit	1,620	305
Operating expenses:		
Product development	1,175	1,638
Sales and marketing	2,015	2,476
General and administrative	967	1,253
Amortization of intangibles	—	4,203
Total operating expenses	4,157	9,570
Operating loss	(2,537)	(9,265)
Other non-operating income	22	—
Interest income	306	799
Net loss	\$ (2,209)	\$ (8,466)
Basic and diluted net loss per share	\$ (0.06)	\$ (0.24)
Shares used in computing basic and diluted net loss per share	35,626	35,626

The accompanying notes are an integral part of these condensed consolidated financial statements.

SOHU.COM INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands of US Dollars)

	Three Months Ended	
	March 31, 2002	March 31, 2001
Cash flows from operating activities:		
Net loss	\$ (2,209)	\$ (8,466)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization of other assets	1,183	971
Provision for allowance for doubtful accounts	141	101
Stock-based compensation expense	(6)	21
Amortization of intangible assets	—	4,203
Changes in assets and liabilities:		
Accounts receivable	(202)	(23)
Prepaid and other current assets	326	286
Accounts payable	397	(887)
Payable to related parties	169	—
Accrued liabilities and deferred revenues	330	75
Net cash provided by/(used in) operating activities	129	(3,719)
Cash flows from investing activities:		
Long-term investments in marketable debt securities	(4,958)	—
Acquisition of fixed assets	(967)	(914)
Long-term loans to related parties	(1,880)	—
Acquisition of other assets	(9)	(378)
Net cash used in investing activities	(7,823)	(1,292)
Net decrease in cash and cash equivalents	(7,695)	(5,011)
Cash and cash equivalents at beginning of period	29,263	62,593
Cash and cash equivalents at end of period	\$ 21,568	\$ 57,582

The accompanying notes are an integral part of these condensed consolidated financial statements.

SOHU.COM INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**1. The Company and Basis of Presentation**

Sohu.com Inc. ("Sohu" or the "Company") was incorporated in Delaware, USA in August 1996 under the name of Internet Technologies China Incorporated, and changed its name to Sohu.com Inc. in September 1999.

The accompanying unaudited consolidated interim financial statements reflect all normal recurring adjustments which, in the opinion of management, are necessary for a fair statement of the results for the interim periods presented. Results for the three months ended March 31, 2002 are not necessarily indicative of the results expected for the full fiscal year or for any future period.

These financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

2. Segment Information

Based on the criteria established by SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," the Company operates in four principal business segments. The Company does not allocate any operating costs or assets to its three non-advertising segments or website operation costs to non-advertising cost of revenues as management does not use this information to measure the performance of the operating segments.

Summarized information by segment for the three months ended March 31, 2002 and 2001, as excerpted from the internal management reports, is as follows (in thousands):

	Three Months Ended Mar.	
	2002	2001
Revenues:		
Advertising	2,511	2,087
Non-advertising:		
E-commerce	1,028	104
Subscription	889	42
E-technology and other	103	220
Subtotal of non-advertising revenues	2,020	366
Total of revenues	4,531	2,453
Cost of revenues:		
Advertising	1,464	1,851
Non-advertising:		
E-commerce	905	95
Subscription	366	26
E-technology and other	177	176
Subtotal of non-advertising cost of revenues	1,448	297
Total of cost of revenues	2,912	2,148
Gross profit	1,619	305

3. Net Loss Per Share

Basic net loss per share is computed by dividing net loss for the period by the weighted-average number of common shares outstanding during the period. Diluted net loss per share is computed by dividing the net loss for the period by the weighted average number of common and common equivalent shares outstanding during the period. Common equivalent shares, composed of incremental common shares issuable upon the exercise of stock options, are included in diluted net loss per share to the extent such shares are dilutive. The diluted net loss per share is the same as the basic net loss per share for all periods presented as all common equivalent shares have the effect of reducing the net loss per share and thus have not been included.

SOHU.COM INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. Related Party Transactions

The Company has entered into the following arrangements with Dr. Charles Zhang, the Company's Chief Executive Officer and a major Sohu shareholder, and certain employees of the Company to satisfy People's Republic of China ("PRC") regulations which prohibit or restrict foreign companies from owning or operating telecommunications, internet content, financial services and certain other businesses in China. The Company expects that it will continue to be involved in and provide additional financial support under similar arrangements in the future.

In June 2000, the Company extended loans in the amount of \$193,000 to Dr. Charles Zhang and \$49,000 to He Jinmei, another employee of the Company, to finance their investments in Beijing Sohu Online Network Information Services, Ltd. ("Beijing Sohu"), a company incorporated in the PRC. The shareholders of Beijing Sohu have pledged their shares in Beijing Sohu as collateral for the loan. These loans are included in long term loans to related parties, bear no interest and are due in full on the earlier of demand, in 2010 or at such time as Dr. Charles Zhang or He Jinmei, as the case may be, is not an employee of the Company. A subsidiary of the Company has entered into an option agreement giving it the right, at any time, subject to PRC law, to purchase the entire ownership in Beijing Sohu from the two Beijing Sohu shareholders for \$242,000.

Pursuant to the agreements with Beijing Sohu and the shareholders of Beijing Sohu, certain operations related to the Company's online content were transferred to Beijing Sohu in order to allow Beijing Sohu to develop and provide content to the Company for a monthly service fee, which will be subject to periodic adjustment as agreed between the parties. During the three months ended March 31, 2002 and 2001, the Company paid \$36,000 and \$72,000, respectively, in such service fees. Because of PRC regulations which prohibit foreign companies from operating in the telecommunications industry, Beijing Sohu contracted with network operators on behalf of the Company its total subscription revenues of \$889,000 and \$42,000 during the three months ended March 31, 2002 and 2001, respectively. At March 31, 2002, accounts receivable included receivables from Beijing Sohu of \$557,000, primarily related to subscription revenues ultimately due from third party network operators. Beijing Sohu issued on behalf on the Company for e-commerce sales of \$300,000 and \$0, respectively, during the three months ended March 31, 2002 and 2001.

In November 2001, the Company entered into a Loan and Share Pledge Agreement (the "Century Loan Agreement") with Dr. Charles Zhang, and Li Wei, another employee of the Company, for the purpose of funding an equity investment of \$4,595,000 by these two individuals in Beijing Century High-Tech Company Limited ("High Century"), a company incorporated in the PRC which engages in investment holding in the PRC on behalf of the Company. Pursuant to the Century Loan Agreement, the Company is required to extend total loans amounting to \$4,595,000 of which \$3,676,000 and \$919,000 would be loaned to Charles Zhang and Li Wei, respectively.

In January 2002, the Company entered into a Loan and Share Pledge Agreement (the "Hengda Loan Agreement") with Li Wei for the purpose of funding an equity investment of \$242,000 by Li Wei in Beijing Hengda Yitong Internet Technology Development Co., Ltd. ("Hengda"), a company incorporated in the PRC which engages in Internet access services in the PRC on behalf of the Company. The \$242,000 investment represents 20% interest of Hengda, with High Century holding the remaining 80% interest.

During the first quarter of 2002, the Company remitted \$1,200,000 to Dr. Charles Zhang and \$677,000 to Li Wei, respectively. As of March 31, 2002, the Company had remitted \$2,533,000 and \$677,000 to Dr. Charles Zhang and Li Wei, respectively, under the Century Loan Agreement and Hengda Loan Agreement.

The Century Loan Agreement and Hengda Loan Agreement, which are subject to PRC law, include provisions that (i) the loans can only be repaid to the Company by transferring the shares of High Century or Hengda to the Company, (ii) the shares of High Century or Hengda cannot be transferred without the approval of the Company, and (iii) the Company has the right to appoint all directors and senior management personnel of High Century and Hengda. Charles Zhang and Li Wei have pledged all of their shares in High Century and Hengda as collateral for the loans and the loans bear no interest and are due on demand after November 2003, in the case of High Century, and January 2003, in the case of Hengda, or at such time as Dr. Charles Zhang or Li Wei, as the case may be, is not an employee of the Company. The Company does not intend to request repayment of the loans as long as PRC regulations prohibit the Company from directly investing in businesses being undertaken by High Century and Hengda. These loans are included in long-term loans to related parties.

SOHU.COM INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In March 2002, High Century entered into a joint venture agreement with a PRC company whereby High Century will invest \$3,100,000 for a 51% equity interest and joint control in Sohu-Guolian Information Technology Co., Ltd., a company to be incorporated in the PRC. The joint venture will be engaged in providing technical services to the financial services industry and online securities trading in the PRC. In April 2002, High Century funded its \$3,100,000 investment in Sohu-Guolian Information Technology Co., Ltd.

As of March 31, 2002, payable to related parties included \$230,000 and \$1,147,000 payable to High Century and Hengda, respectively, for amounts borrowed by the Company from High Century and Hengda. The total payable to related parties of \$1,377,000 was remitted by the Company to High Century and Hengda in April 2002.

PRC regulations currently restrict the Company from holding direct equity interests in Beijing Sohu, High Century and Hengda; therefore, the financial statements of these entities are not consolidated with those of the Company. As the shareholders of these entities are also officers and shareholders of the Company, these entities are related parties and, thus, transactions with these entities are disclosed in accordance with SFAS 57, "Related Party Disclosures." The Company expects that it will continue to be involved in and provide financial support to these entities.

5. Commitments and Contingencies

The Chinese market in which the Company operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability of the Company to operate an Internet business, to conduct advertising, e-commerce and subscription services in the People's Republic of China. Though the People's Republic of China 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 or are unclear regarding in what specific segments of these industries foreign owned entities, like the Company, may operate. The Company's legal structure and scope of operations in China could be subjected to restrictions which could result in severe limits to the Company's ability to conduct business in the People's Republic of China.

6. Reclassifications

Certain amounts from prior periods have been reclassified to conform with current period presentation.

7. Subsequent Event

In April 2002, the Board of Directors approved grants of options, pursuant to the Company's 2000 Stock Incentive Plan, to purchase an aggregate of 328,407 shares of Sohu Common Stock, at an exercise price of \$0.98 per share.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

As used in this report, references to "us," "we," "our," "our company," "Sohu" and "Sohu.com" are to Sohu.com Inc., our subsidiaries ChinaRen Inc. (or ChinaRen), Sohu.com (Hong Kong) Limited (or Sohu Hong Kong), Sohu ITC Information Technology (Beijing) Co., Ltd. (or Beijing ITC), Sandhill Information Technology (Beijing) Co., Ltd. (or Beijing Sandhill), and our affiliates Beijing Sohu Online Network Information Services, Ltd. (or Beijing Sohu), Beijing Century High Tech Investment Co., Ltd. (or High Century), Beijing Hengda Yitong Internet Technology Development Co., Ltd. (or Hengda), and Sohu-Guolian Information Technology Co., Ltd. (or Sohu-Guolian) and these references should be interpreted accordingly. Except where the context requires otherwise, these references include all of our subsidiaries. Unless otherwise specified, references to "China" or "PRC" refer to the People's Republic of China and do not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan. This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including, without limitation, statements regarding our expectations, beliefs, intentions or future strategies that are signified by the words "expect," "anticipate," "intend," "believe," or similar language. All forward-looking statements included in this document are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Our business and financial performance are subject to substantial risks and uncertainties. Actual results could differ materially from those projected in the forward-looking statements. In evaluating our business, you should carefully consider the information set forth below under the caption "Risk Factors." Readers are cautioned not to place undue reliance on these forward-looking statements.

Overview

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We are a leading Internet portal in China in terms of brand recognition, page views and registered users. Our portal consists of sophisticated Chinese language Web navigational and search capabilities, 15 main content channels, Web-based communications and community services and a platform for e-commerce and short messaging services. Each of our interest-specific main channels contains multi-level sub-channels that cover a comprehensive range of topics, including news, business, entertainment, sports and career. We also offer free Web-based e-mail. We offer a universal registration system, whereby a user that has registered for our e-mail service is automatically registered for our chat, bulletin board, instant messaging and other services. Our portal attracts consumers and merchants alike because it is designed to meet the specific needs and interests of Internet users in China. Key features include proprietary Web navigational and search capabilities that reflect the unique cultural characteristics and thinking and viewing habits of PRC Internet users. On October 18, 2000, we acquired ChinaRen to further expand our online network. ChinaRen is an online portal located in China that targets mainland Chinese Internet users with its strong community products. We averaged 135 million page views per day for the month of March 2002, approximately the same as page views per day averaged in December 2001. Registered users totaled 52.6 million as of March 31, 2002, up 22% from 43 million as of December 31, 2001.

We were incorporated in Delaware, USA during August 1996 as Internet Technologies China Incorporated and in September 1999 we changed our corporate name to Sohu.com Inc.

We have incurred significant net losses and have negative cash flows from operations since inception. As of March 31, 2002, we had an accumulated deficit of \$74.4 million. These losses have been funded with proceeds of preferred stock private placements and our initial public offering completed in July 2000. We intend to continue spending on marketing and brand development, content enhancements, technology and infrastructure. As a result, we anticipate net losses to continue in the foreseeable future. We anticipate funding these expected losses with the remaining proceeds from our initial public offering.

Sohu's discussion and analysis of its financial condition and results of operations are based upon Sohu's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires Sohu to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, Sohu 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. Sohu believes accounting for advertising revenue where multiple elements exist and allowance for doubtful accounts represent critical accounting policies which reflect more significant judgments and estimates used in the preparation of our consolidated financial statements.

Advertising revenues are derived principally from online advertising pursuant to short-term contracts normally less than twelve months. Online advertising includes banners, links, logos and buttons placed on Sohu's Web sites and sponsorship of a particular area of the Web sites. Contracts for advertising services are generally for a fixed payment over a contract period. For contracts where services are provided evenly over the period or where Sohu is unable to reasonably determine the fair value of the individual services provided in multiple element contracts, revenue is recognized on a straight line basis over the contract period. For multiple element contracts where Sohu is able to reasonably determine the fair value of the individual services provided, the contract value is allocated among specific services provided and revenue is recognized in the period the services are performed. In estimating the fair value of individual services provided, we make estimates based on the value of similar services provided to our customers using average sell rates for the period. Material differences may result in the amount and timing of our revenue for any period if management made different judgments or utilized different estimates.

Our management must make estimates of the uncollectability of our accounts receivables. Management specifically analyzes accounts receivable and analyzes historical bad debts, customer credit-worthiness, current economic trends and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. Our accounts receivable balance was \$2.7 million net of allowance for doubtful accounts of \$792,000 as of March 31, 2002. If the financial condition of our customers was to deteriorate, resulting in their inability to make payments, additional allowance might be required.

RESULTS OF OPERATIONS
For The Three Months Ended March 31, 2002 and 2001

Revenues

Total revenues increased by \$2 million to \$4.5 million for the three months ended March 31, 2002 as compared to the three months ended March 31, 2001. For the three months ended March 31, 2002, advertising revenues constituted \$2.5 million or 55% of total revenues and non-advertising revenues were \$2 million or 45% of total revenues. For the three months ended March 31, 2001, advertising revenues constituted \$2.1 million or 85% of total revenues and non-advertising revenues were \$366,000 or 15% of total revenues.

Advertising Revenues

Advertising revenues increased by \$0.4 million to \$2.5 million for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001. The increase was primarily due to the increasing number of advertisers purchasing space on our online media properties as well as larger and longer-term purchases by certain advertisers. The increased advertising volume offset the decreases in CPM prices which we experienced over the past twelve months and resulted in the overall \$0.4 million increase in advertising revenues. Sales to Sohu's five largest advertisers were 21% of total advertising revenues for the three months ended March 31, 2002, as compared to 37% of total advertising revenues for the three months ended March 31, 2001.

Non-advertising Revenues

Non-advertising revenues increased by \$1.7 million to \$2 million for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001. Non-advertising revenues were derived from e-commerce services of \$1 million, subscription services of \$899,000, and e-technology services of \$103,000. E-commerce revenues are earned from direct sales of consumer products through Sohu's website. Subscription revenues are generated mainly from short messaging services. E-technology revenues are derived from providing technology services and the sale of hardware to corporate customers. The increase in e-commerce and e-subscription revenues was attributable to the maturity of these business lines which were started during the three months ended March 31, 2001.

Costs And Expenses

Cost of Revenues

Total cost of revenues increased by \$763,000 to \$2.9 million for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001. For the three months ended March 31, 2002, advertising cost of revenues constituted \$1.46 million or 50% of total cost of revenues and non-advertising cost of revenues was \$1.45 million or 50% of total cost of revenues. For the three months ended March 31, 2001, advertising cost of revenues constituted \$1.9 million or 86% of total cost of revenues and non-advertising cost of revenues were \$297,000 or 14% of total cost of revenues.

Advertising Cost of Revenues

Advertising cost of revenues decreased by \$388,000 to \$1.46 million for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001. This decrease was primarily due to decreased staff and related costs through rationalization of Chinaren's operations acquired in October 2000. The advertising gross margin improved from 11% to 42% for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001, because of increased advertising revenues and reductions in advertising cost of revenues.

Non-advertising Cost of Revenues

Non-advertising cost of revenues increased by \$1.2 million to \$1.45 million for the three months ended March 31, 2002. For the three months ended March 31, 2002, non-advertising cost of revenues included \$905,000 in e-commerce cost of revenue consisting of the purchase price of consumer products sold by Sohu and inbound and outbound shipping charges, \$366,000 in subscription cost of revenue consisting of subscription collection and short message transmission charges paid to third party network operators, and \$177,000 in e-technology cost of revenue consisting of employee compensation costs and related overhead, fees paid to a third party for design services and, where applicable, the cost of hardware and software. E-commerce and subscription cost of revenues do not include any allocations for website operating costs. The non-advertising gross margin improved from 19% to 28% for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001. This improvement was due to higher sales volumes from the business lines launched in the first quarter of 2001.

Product Development Expenses

Product development expenses decreased by \$464,000 to \$1.2 million for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001. The decrease was primarily attributable to decreased staff and related costs through rationalization of the operation of ChinaRen acquired in October 2000.

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Sales and Marketing Expenses

Sales and marketing expenses decreased by \$461,000 to \$2 million for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001. The decrease was primarily due to a reduction in advertising and promotional spending.

General and Administrative Expenses

General and administrative expenses decreased by \$286,000 to \$1 million for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001. The decrease was primarily attributable to decreased staff and related costs through rationalization of the operation of ChinaRen acquired in October 2000.

Amortization of Intangibles

There was no amortization expense during the three months ended March 31, 2002. The amortization expense of \$4.2 million for the three months ended March 31, 2001 was related to intangible assets of \$33.6 million arising from the October 18, 2000 acquisition of ChinaRen, \$17.7 million carrying value of which was written off and recorded as an impairment charge as of September 30, 2001.

Operating Loss

As a result of the foregoing, we had an operating loss of \$2.5 million for the three months ended March 31, 2002 as compared to \$9.3 million for the three months ended March 31, 2001.

Interest Income

Interest income decreased by \$493,000 to \$306,000 for the three months ended March 31, 2002, as compared to the three months ended March 31, 2001. The decrease is primarily attributable to the Federal Reserve interest rate cuts during the past year and a decrease in the balance of cash, cash equivalents, and investments in marketable debt securities.

Net Loss

As a result of the foregoing, we had a net loss of \$2.2 million for the three months ended March 31, 2002, as compared to \$8.5 million for the three months ended March 31, 2001.

Liquidity And Capital Resources

We have financed our operations principally through private sales of preferred stock and our initial public offering completed in July 2000. From inception through March 31, 2002, we have raised net proceeds of \$39.2 million through the sale of preferred stock in private placements and \$52.4 million from the sale of common stock in our initial public offering. The Company invests its excess cash in marketable debt securities of high quality investment grade. As of March 31, 2002, we had cash, cash equivalents, and investments in marketable debt securities totaling approximately \$43.5 million.

Net cash provided by operating activities was \$129,000 for the three months ended March 31, 2002 was primarily due to our net loss of \$2.2 million, depreciation and amortization of \$1.1 million, and changes in working capital of \$1 million. Net cash used in operating activities was \$3.7 million for the three months ended March 31, 2001 and was primarily attributable to our net loss less non cash charges and changes in working capital.

Net cash used in investing activities was \$7.8 million for the three months ended March 31, 2002, primarily due to long-term investments in marketable debt securities of \$5 million, the purchase of fixed assets for \$1 million and long-term loans to related parties of \$1.9 million for financing an investment in High Century and Hengda. Net cash used in investing activities was \$1.3 million for the three months ended March 31, 2001, due to the purchase of fixed assets and other assets of \$1,292,000.

Our principal commitments consist of obligations under various operating leases for office facilities. We expect that capital expenditures in 2002 will primarily consist of purchases of additional servers, computer software, workstations and technological improvements to network infrastructure.

We believe that current cash and cash equivalents will be sufficient to meet the requirements of working capital (net cash used in operating activities), commitments and capital expenditures cash needs for at least the next twelve months. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If these sources are insufficient to satisfy cash requirements, we may seek to sell additional equity or debt securities or to obtain

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a credit facility. The sale of additional equity or convertible debt securities could result in additional dilution to stockholders. The incurrence of indebtedness would result in debt service obligations and could result in operating and financial covenants that would restrict operations. Financing may not be available in amounts or on terms acceptable to us, if at all.

In November 2001, Sohu entered into a loan and share pledge agreement (the “Century Loan Agreement”) with Dr. Charles Zhang, and Li Wei, one of our employees, to lend \$4.6 million to them for the purpose of funding their equity investments by these two individuals in High Century. Pursuant to the loan agreement, in December 2001 Sohu disbursed \$1.5 million to them, and in January and February 2002, Sohu disbursed an additional \$1.9 million to them for purposes of increasing their equity investments in High Century.

In January 2002, the Company entered into a Loan and Share Pledge Agreement (the “Hengda Loan Agreement”) with Li Wei for the purpose of funding an equity investment of \$242,000 by Liwei in Hengda. The \$242,000 investment represents 20% of Hengda, with High Century holding the remaining 80% interest.

During the first quarter of 2002, the Company remitted \$1.2 million to Dr. Charles Zhang and \$677,000 to Li Wei, respectively. As of March 31, 2002, the Company had remitted \$2.5 million and \$677,000 to Dr. Charles Zhang and Li Wei, respectively, under the Century Loan Agreement and Hengda Loan Agreement. We expect that we will continue to be involved in and provide financial support to High Century and Hengda.

In March 2002, High Century entered into a joint venture agreement with a PRC company whereby High Century will invest \$3,100,000 for a 51% equity interest and joint control in Sohu-Guolian Information Technology Co., Ltd., a company to be incorporated in the PRC. The joint venture will be engaged in providing technical services to the financial services industry and online securities trading in the PRC. In April 2002, High Century funded its \$3,100,000 investment in Sohu-Guolian Information Technology Co., Ltd.

Chinese regulations limit our ability to convert renminbi into foreign currency for capital items. While operations in China are currently a net user of cash, the ability to use future cash generated in China for expenditures outside of China may be restricted. If the renminbi were to decline in value, our revenues in US dollar terms would be reduced.

RISK FACTORS

Risks relating to Sohu.com

We have incurred net losses since inception and anticipate that losses will continue.

We have incurred significant net losses since our inception in August 1996 and had an accumulated deficit of approximately \$74.4 million at March 31, 2002. We anticipate that we will continue to incur substantial net losses due to a high level of planned operating and capital expenditures, including sales and marketing costs, personnel hires, and product development. Our net losses may continue to increase in the future and we may never achieve or sustain profitability.

We have a limited operating history, which may make it difficult for investors to evaluate our business.

We began offering products and services under the www.Sohu.com Web site in February 1998. Accordingly, we have a limited operating history upon which investors can evaluate our business. In addition, our senior management and employees have worked together at our company for only a relatively short period of time. As an early stage company in the new and rapidly evolving PRC Internet market, we face numerous risks and uncertainties. Some of these risks relate to our ability to:

- increase our online advertising revenues and successfully build our e-commerce, short messaging and subscription services business, given the early stage of development of the PRC Internet industry;
- continue to attract a larger audience to our portal by expanding the type and technical sophistication of the content and services we offer; and
- maintain our current, and develop new, strategic relationships to increase our revenue streams as well as product and service offerings.

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PRC Internet laws and regulations are unclear and will likely change in the near future. If we are found to be in violation of current or future PRC laws or regulations, we could be subject to severe penalties.

We conduct our Internet business solely in the PRC through our wholly owned subsidiaries, Beijing ITC and Beijing Sandhill. Beijing ITC and Beijing Sandhill are wholly foreign owned enterprises, or WFOEs, under PRC law. We are a Delaware corporation and a foreign person under PRC law. Accordingly, our Internet business is 100% foreign-owned. In addition, pursuant to our restructuring, we transferred certain of our assets and operations to Beijing Sohu, a PRC company that is 80% owned by our chief executive officer. In 2001, we made a commitment to provide loans of \$4.6 million to Dr. Charles Zhang and an employee of the company to establish High Century for the purposes of undertaking additional investments in the PRC where foreign ownership is prohibited or restricted. In 2002, we loaned \$242,000 to an employee of the company for the purpose of funding an investment in Hengda, a company incorporated in the PRC which engages in Internet access services in the PRC on behalf of Sohu. The \$242,000 investment represents 20% of Hengda, with High Century holding the remaining 80% interest. We also established Sohu-Guolian, a joint venture providing technical services to the financial services industry and online securities trading. We do not have any ownership interest in Beijing Sohu, High Century, Hengda or Sohu-Guolian.

The PRC has recently begun to regulate its Internet sector by making pronouncements or enacting regulations regarding the legality of foreign investment in the PRC Internet sector and the existence and enforcement of content restrictions on the Internet. We believe that our current ownership structure complies with all existing PRC laws, rules and regulations. There are, however, substantial uncertainties regarding the interpretation of current PRC Internet laws and regulations. In addition, new PRC Internet laws and regulations were recently adopted. Accordingly, it is possible that the PRC government will ultimately take a view contrary to ours.

Issues, risks and uncertainties relating to PRC government regulation of the PRC Internet sector include the following:

- The PRC recently enacted regulations applying to Internet-related services and telecom-related activities. While many aspects of these recently-enacted regulations remain unclear, they purport to limit and require licensing of various aspects of the provision of Internet information services. If these new regulations are interpreted to be inconsistent with our restructuring, our business will be severely impaired.
- A limitation on foreign investment in businesses providing value-added telecommunication services, including computer information services or electronic mail box services, is expected to be applied to Internet businesses such as ours. However, under regulations published to date, the extent of the limitation is unclear. In the past, some officials of the Ministry of Information Industry or MII have taken the position that foreign investment in the Internet sector is prohibited.
- Under the agreement reached in November 1999 between the PRC and the United States concerning the United States' support of China's entry into the World Trade Organization, or WTO, foreign investment in PRC Internet services will be liberalized to allow for 30% foreign ownership in key telecommunication services, including PRC Internet ventures, for the first year after China's entry into the WTO, 49% in the second year and 50% thereafter. However, the implementation of this agreement is still subject to various conditions.
- The MII has also 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 may include online advertising and online news reporting.

The interpretation and application of existing PRC laws and regulations, the stated positions of the MII and the possible new laws regulations have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, PRC Internet companies, including us.

Accordingly, it is possible that the relevant PRC authorities could, at any time, assert that any portion or all of our, Beijing ITC's, Beijing Sandhill's, Beijing Sohu's, Hengda's, High Century's, or Sohu-Guolian's existing or future ownership structure and businesses violate existing or future PRC laws, regulations or policies. It is also possible that the new laws or regulations governing the PRC Internet sector that have been adopted or may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, any of our, Beijing ITC's, Beijing

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Sandhill's, Beijing Sohu's, Hengda's, High Century's and Sohu-Guolian's current or proposed businesses and operations. In addition, these new laws and regulations may be retroactively applied to us, Beijing ITC, Beijing Sandhill, High Century, Hengda, Beijing Sohu, Sohu-Guolian.

If we, Beijing ITC, Beijing Sandhill, High Century, Beijing Sohu, Hengda, and Sohu-Guolian are found to be in violation of any existing or future PRC laws or regulations, the relevant PRC authorities would have broad discretion in dealing with such violation, including, without limitation, the following:

- levying fines;
- confiscating our, Beijing ITC's, Beijing Sandhill's, High Century's, Hengda's, Beijing Sohu's or Sohu-Guolian's income;
- revoking our, Beijing ITC's, Beijing Sandhill's, High Century's, Hengda's, Beijing Sohu's or Sohu-Guolian's business license;
- shutting down our, Beijing ITC's, Beijing Sandhill's or Beijing Sohu's servers and/or blocking our Web sites;
- requiring us, Beijing ITC, Beijing Sandhill, High Century, Hengda or Beijing Sohu to restructure our ownership structure or operations; and
- requiring us, Beijing ITC, Beijing Sandhill, High Century, Hengda, Beijing Sohu or Sohu-Guolian to discontinue any portion or all of our Internet business.

We may be unable to collect long term loans to related parties or exercise management influence associated with Beijing Sohu, High Century or Hengda.

At March 31, 2002, Sohu had entered into agreements with commitments to provide long term loans of \$5.1 million to Dr. Charles Zhang, Sohu's Chief Executive Officer and a major Sohu stockholder, and certain of our employees. The long-term loans are used to finance investments in Beijing Sohu and High Century, which are owned 80% by Dr. Charles Zhang and 20% by certain of our employees, and Hengda, which is owned 80% by High Century and 20% by our employee. Beijing Sohu, High Century and Hengda are used to facilitate our participation in telecommunications, Internet content and certain other businesses in China where foreign ownership is either prohibited or restricted. We expect that we will continue to be involved in and provide additional financial support under similar arrangements in the future.

The agreements contain provisions that, subject to PRC law, (i) the loans can only be repaid to Sohu by transferring the shares of High Century, Hengda or Beijing Sohu to Sohu, (ii) the shares of High Century, Hengda or Beijing Sohu cannot be transferred without the approval of Sohu, and (iii) Sohu has the right to appoint all directors and senior management personnel of High Century, Hengda and Beijing Sohu. Dr. Charles Zhang and the other employee borrowers have pledged all of their shares in High Century, Hengda and Beijing Sohu as collateral for the loans and the loans bear no interest and are due on demand after November 2003, in the case of High Century, the earlier of a demand or 2010, in the case of Beijing Sohu, and after January 2003, in the case of Hengda, or, in any case, at such time as Dr. Charles Zhang or 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 being undertaken by High Century, Hengda and Beijing Sohu.

Our ability to ultimately collect these loans will depend on the profitability of Beijing Sohu, Hengda and High Century, which is uncertain. Furthermore, because of uncertainty associated with PRC law, ultimate enforcement of the loan agreements is uncertain. Accordingly, we may never be able to collect these loans or exercise influence over High Century, Hengda and Beijing Sohu.

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We have attempted to comply with restrictions on foreign investment in the PRC Internet sector imposed by the PRC government by transferring our content-related assets and operations to, and entering into agreements with, Beijing Sohu, a PRC company controlled by our President and Chief Executive Officer. If the PRC government finds that these agreements do not comply with the relevant foreign investment restrictions, our business in the PRC will be adversely affected.

Because the PRC government restricts foreign investment in Internet-related businesses, we have restructured our Internet operations by having Beijing Sohu acquire appropriate government approvals to conduct our content-related operations. In addition, we have transferred our content-related assets and operations to Beijing Sohu. The legal uncertainties associated with PRC government regulations and our restructuring may be summarized as follows:

- whether the PRC government may view our restructuring as being in compliance with its laws and regulations;
- whether the PRC government may impose additional regulatory requirements with which we or Beijing Sohu may not be in compliance; and
- whether the PRC government will permit Beijing Sohu to acquire future licenses necessary in order to conduct operations in the PRC.

We cannot be sure that our restructured operations and activities will be viewed by PRC regulatory authorities as in compliance with applicable PRC laws and regulations. Our business will be adversely affected if our business license is revoked as a result of non-compliance. In addition, we cannot be sure that we and Beijing Sohu will be able to obtain all of the licenses we or Beijing Sohu may need in the future. Future changes in PRC government policies affecting the provision of information services, including the provision of online services and Internet access, may impose additional regulatory requirements on us or Beijing Sohu or our service providers or otherwise harm our business.

We depend upon contractual arrangements with Beijing Sohu 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 business only in the PRC, and because we are restricted by the PRC government from owning Internet content or telecommunication operations in the PRC, we are dependent on Beijing Sohu, in which we have no direct ownership interest, to provide those services through contractual agreements between the parties. This arrangement may not be as effective in providing control over our Internet content operations as direct ownership of these businesses. For example, Beijing Sohu 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 permit for the content servers. If Beijing Sohu fails to perform its obligations under these agreements, we may have to rely on legal remedies under PRC law, which we cannot assure you would be effective or sufficient.

Beijing Sohu is controlled by Charles Zhang, our chief executive officer. As a result, our contractual relationships with Beijing Sohu could be viewed as entrenching his management position or transferring certain value to him, especially if any conflict arises with him.

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 has the authority to cause any local Internet service provider to block any Web site 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.

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We are also subject to potential liability for content on our Web sites that is deemed inappropriate and for any unlawful actions of our subscribers and other users of our systems under regulations promulgated by the MII.

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. It is difficult to determine the type of content that may result in liability for us, and if we are wrong, we may be prevented from operating our Web sites.

We may have to register our encryption software with PRC regulatory authorities, and if they request that we change our encryption software, our business operations will be disrupted as we develop or license replacement software.

Pursuant to the Regulations for the Administration of Commercial Encryption promulgated at the end of 1999, foreign and domestic PRC companies operating in the PRC are required to register and disclose to PRC regulatory authorities the commercial encryption products they use. Because these regulations have recently been adopted and because they do not specify what constitutes encryption products, we are unsure as to whether or how they apply to us and the encryption software we utilize. We may be required to register, or apply for permits with the relevant PRC regulatory authorities for, our current or future encryption software. If PRC regulatory authorities request that we change our encryption software, we may have to develop or license replacement software, which could disrupt our business operations. In addition, we may be subject to potential liability for using software that is subsequently deemed to be illegal by the relevant PRC regulatory authorities. These potential liabilities might include fines, product confiscation and criminal sanctions.

We depend on online advertising for a substantial portion of our revenues.

We derive a substantial portion of our revenues from the sale of advertising on our Web sites. For the three months ended March 31, 2002 and 2001, advertising revenues represented approximately 55% and 85%, respectively, of our total revenues. In addition, our business plan is dependent on the anticipated expansion of online advertising in China and the growth of our revenue is dependent on online advertising.

The online advertising market in China is new and relatively small. Our ability to generate and maintain significant online advertising revenues in China will depend, among other things, on:

- the development of a large base of users possessing demographic characteristics attractive to advertisers;
- downward pressure on online advertising prices;
- the development of independent and reliable means of verifying traffic; and
- the effectiveness of our advertising delivery, tracking and reporting systems.

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 ad blocking on the Internet may decrease our revenues because when an ad is blocked, it is not downloaded from our ad server. As a result, such advertisements will not be tracked as a delivered advertisement. In addition, advertisers may choose not to advertise on the Internet or on our portal because of the use by third parties of Internet advertisement blocking software.

In addition, an element of our strategy is to diversify our revenue stream by entering into more Web site sponsorship arrangements, by providing e-business solutions services, by introducing e-commerce services and by generating short messaging revenue. We may not be successful in implementing this strategy.

Accordingly, we may not be successful in generating significant future online advertising revenue or in diversifying our revenue stream.

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, many of which are beyond our control. As a result, we believe that year-to-year and quarter-to-quarter comparisons of our operating results are not a good indication of our future

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performance. It is likely that in some future quarter, our operating results may be below the expectations of public market analysts and investors. In this event, the trading price of our common stock may fall.

We will not be able to attract visitors, advertisers and short messaging and e-commerce customers if we do not maintain and develop the Sohu brand.

Maintaining and further developing our brand is critical to our ability to 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, advertisers and short messaging and e-commerce customers, we intend to increase substantially our expenditures for creating and maintaining brand loyalty. If our revenues do not increase proportionately, our results of operations and liquidity will suffer.

Our success in promoting and enhancing our brand, 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 brand successfully or if visitors to our portal 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 visitors, advertisers and e-commerce partners.

We may need additional capital and we may not be able to obtain it.

Our capital requirements are difficult to plan in our rapidly changing industry. We currently expect that we will need capital to fund additions to our portal and computer infrastructure, including any acquisitions of complementary assets, technologies or businesses we may pursue, as well as the expansion of our sales and marketing activities.

Our ability to obtain additional financing in the future is subject to a variety of uncertainties, including:

- investors' perceptions of and appetite for Internet-related securities;
- conditions in the U.S. and other capital markets in which we may seek to raise financing;
- our future results of operations, financial condition and cash flows;
- the amount of capital that other PRC entities may seek to raise in foreign capital markets;
- PRC governmental regulation of foreign investment in Internet companies;
- economic, political and other conditions in the PRC;
- PRC governmental policies relating to foreign currency borrowings; and
- any new laws and regulations that may require various PRC government approvals for securities offerings by companies engaged in the Internet sector in the PRC.

Our inability to raise additional funds on favorable terms, or at all, could force us to scale back our planned expenditures, which could adversely affect our growth prospects.

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

We rely on a number of third party relationships to attract traffic and provide content in order to make our portal more attractive to users and advertisers. Some content providers have recently increased the fees they charge us for their content. This trend could increase our operating expenses and could adversely affect our ability to obtain content at an economically acceptable cost. Most of our arrangements with content providers are short-term and may be terminated at the convenience of the other party. In addition, much of the third party content provided to our portal 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 visitor traffic.

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Substantially all of our subscription revenue is generated through short messaging services where we depend on mobile network operators for message delivery and payment collection. If we were unable to continue this arrangement, our short messaging services would be severely disrupted.

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 seek to 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.

Our future success is heavily dependent upon the continued service of our key executives, particularly Dr. Charles Zhang, who is the founder, President and chief executive officer of our company and the founder and President of Beijing Sohu, High Century, and Hengda. We rely on his expertise in our business operations and on his personal relationships with some of our principal stockholders, the relevant regulatory authorities, our customers and suppliers, Beijing Sohu and High Century. If one or more of our key executives are unable or unwilling to continue in their present positions, we may not be able to easily replace them and our business may be severely disrupted. In addition, if any of these key executives joins a competitor or forms a competing company, we may lose customers and suppliers and incur additional expenses to recruit and train personnel. Each of our executive officers has entered into a confidentiality, non-competition and non-solicitation agreement with us. These officers also have agreements with Beijing ITC, our PRC operating subsidiary, which contain substantially similar confidentiality and non-competition undertakings. However, the degree of protection afforded to an employer pursuant to confidentiality and non-competition undertakings governed by PRC law may be more limited when compared to the degree of protection afforded under the laws of other jurisdictions. We do not maintain key-man life insurance for any of our key executives.

Rapid growth and a rapidly changing operating environment strain our limited resources.

We have limited operational, administrative and financial resources, which may be inadequate to sustain the growth we want to achieve. As our audience and their Internet use increase, as the demands of our audience and the needs of our customers change and as the volume of online advertising and e-commerce activities increases, 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:

- adapt our services and maintain and improve the quality of our services;
- continue training, motivating and retaining our existing employees and attracting and integrating new employees; and
- developing and improving our operational, financial, accounting and other internal systems and controls.

Our advertising pricing model, which is based on charging a fixed fee to display advertisements for a specified time period, may not be profitable.

There are currently no industry standard pricing models used to sell advertising on the Internet. This makes it difficult to project our future advertising rates and revenues. The models we adopt may prove not to be profitable. A significant portion of our advertising revenues in 2002 and 2001 were derived from charging a fixed fee to display an advertisement over a given time period. To the extent that minimum guaranteed impression levels are not met, we are required to provide additional impressions after the contract term and we accordingly defer the related revenue.

We may not be able to track the delivery of advertisements through our portal, which may make us less attractive to potential advertisers.

It is important to advertisers that we accurately measure the demographics of our user base and the delivery of advertisements through our portal. Companies may choose not to advertise on our portal or may pay less for advertising if they do not perceive our portal to be reliable. We depend on third parties to provide us with some of these measurement services. If they are unable to provide these services in the future, we would need to

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perform these services ourselves or obtain these services from other providers. This could cause us to incur additional costs or cause interruptions or slowdowns in our business during the time we are replacing these services. We are currently implementing additional systems designed to collect information on our users. We may not be able to implement these systems successfully.

The loss of one of our significant advertisers would reduce our advertising revenues as well as materially and adversely affect our financial conditions and results of operations.

We depend on a small group of advertisers for a significant portion of our total revenues. During the three months ended March 31, 2002 and 2001, our five largest advertisers accounted for approximately 21% and 37% of our total advertising revenues, respectively. Our business, financial condition and results of operations would be adversely affected by the loss of one or more of our significant advertisers or a decrease in the volume of advertising by any these advertisers.

Our strategy of acquiring complementary assets, technologies and businesses may fail and may result in equity or earnings dilution.

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 portal business. Our acquisitions could result in the use of substantial amounts of cash, potentially dilutive issuances of equity securities, significant amortization expenses related to goodwill and other intangible assets and exposure to undisclosed or potential liabilities of acquired companies. Moreover the resources expended in identifying and consummating acquisitions may be significant. Furthermore, any acquisitions we decide to pursue may be subject to the approval of the relevant PRC governmental authorities, as well as any applicable PRC rules and regulations.

We will rely on dividends and other distributions on equity paid by our wholly-owned operating subsidiaries to fund any cash requirements we may have.

We are a holding company with no operating assets other than the shares of Beijing ITC and Beijing Sandhill, our wholly-owned subsidiaries in the PRC that own and conduct our Internet business. We will rely on dividends and other distributions on equity paid by Beijing ITC and Beijing Sandhill for our cash requirements in excess of any cash raised from investors and retained by us. If Beijing ITC and Beijing Sandhill incur debt on their own behalf in the future, the instruments governing the debt may restrict Beijing ITC and Beijing Sandhill's ability to pay dividends or make other distributions to us. In addition, PRC legal restrictions permit payment of dividends by Beijing ITC and Beijing Sandhill only out of their net income, if any, determined in accordance with PRC accounting standards and regulations. Under PRC law, Beijing ITC and Beijing Sandhill are also required to set aside a portion of their net income each year to fund certain reserve funds. These reserves are not distributable as cash dividends.

Beijing ITC and Beijing Sandhill have incurred losses since their inceptions and are expected to continue to incur losses in the foreseeable future. Therefore, we have not received any dividends or other distributions from Beijing ITC and Beijing Sandhill in the past and do not expect any dividends in the foreseeable future.

We may not have exclusive rights over the mark "Sohu.com" in certain areas.

We have applied for registration of the "Sohu.com" mark in Hong Kong and Taiwan, and plan to apply for registration in Malaysia and Singapore. Completion of these applications is subject to prior rights in the relevant jurisdictions. Any rejection of those applications may adversely affect our legal rights over the mark "Sohu.com" in those countries and regions.

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, service marks, 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. 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. Furthermore, the validity, enforceability and scope of protection of intellectual property in Internet-related industries is 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.

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

We cannot be certain that our products and services 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 legal proceedings and claims from time to time relating to the intellectual property of others in the ordinary course of our business. In particular, if we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, and we may incur licensing fees or be forced to develop alternatives. We may incur substantial expenses in defending against these 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.

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

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 other claims based on the nature and content of such information. Furthermore, we could be subject to claims for the online activities of our visitors and incur significant costs in their defense. In the past, claims based on the nature and content of information that was posted online by visitors 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 portal or through content and materials that our visitors may post in classifieds, message boards, chat rooms or other 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 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.

Risks relating to our markets

We rely on online advertising sales for a significant portion of our future revenues, but the Internet has not been proven as a widely accepted medium for advertising.

We expect to derive most of our revenue for the foreseeable future from online advertising, and to some extent, from e-commerce and subscription services. If the Internet is not accepted as a medium for advertising, our ability to generate revenues will be adversely affected.

The acceptance of the Internet as a medium for advertising depends on the development of a measurement standard. No standards have been widely accepted for the measurement of the effectiveness of online advertising. 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 our portals or search engines.

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Many of our current and potential advertising, e-commerce and short messaging customers have only limited experience using the Internet for advertising or commerce purposes, and may not be willing to fully embrace the products and services we offer, which would adversely affect our future revenues and business expansion.

The online advertising, short messaging and e-commerce markets are new and rapidly evolving, particularly in China. As a result, many of our current and potential advertising, short messaging and e-commerce customers have limited experience using the Internet for advertising or commerce purposes and historically have not devoted a significant portion of their advertising and sales budgets to Internet-based advertising and e-commerce. Moreover, customers that have invested substantial resources in other methods of conducting business may be reluctant to adopt a new strategy that may limit or compete with their existing efforts. In addition, companies may choose not to advertise or sell their products on our portal if they do not perceive our online advertising and e-commerce platform to be effective or our audience demographics to be desirable. The failure to successfully address these risks or execute our business strategy would significantly reduce our profitability.

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

The PRC Internet market is characterized by an increasing number of entrants because, among other reasons, the barriers to entry are relatively low. The market for Internet services and products, particularly Internet search and retrieval services, short messaging and e-commerce services and online advertising, is intensely competitive. In addition, the Internet industry is relatively new and constantly evolving and, as a result, our competitors may better position themselves to compete in this market as it matures.

There are many companies that provide or may provide Web sites and online destinations targeted at Internet users in China. Some of our major competitors in China are major United States Internet companies, such as Yahoo! Inc. In addition, we may face competition from existing or new domestic PRC Internet companies that are either affiliated with large corporations such as Legend Computer, America Online and Softbank Corporation, or controlled or sponsored by PRC government entities. These competitors may have certain advantages over us, including:

- substantially greater financial and technical resources;
- more extensive and well developed marketing and sales networks;
- better access to original content;
- greater global brand recognition among consumers; and
- larger customer bases.

With these advantages, our competitors may be better able to:

- develop, market and sell their products and services;
- adapt more quickly to new and changing technologies; and
- more easily obtain new customers.

We may not be able to compete successfully against our current or future competitors.

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 well developed. 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

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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 ChinaNet, China Telecom and the Beijing Telecom Administration 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 ChinaNet, currently owned by China Telecom, under the administrative control and regulatory supervision of the MII. In addition, local networks connect to the Internet through a government-owned international gateway. This international gateway is the only channel through which a domestic Chinese user can connect to the international Internet network. We rely on this infrastructure 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 may not be able to lease additional bandwidth from the Beijing Telecom Administration on acceptable terms, on a timely basis or at all. In addition, we will have no means of getting access to alternative networks and services on a timely basis, if at all, in the event of any disruption or failure of the network.

The high cost of Internet access may limit the growth of the Internet in China and impede our growth.

Access to the Internet in China remains relatively expensive, and may make it less likely for users to access and transact business over the Internet. Unfavorable rate developments could further decrease our visitor traffic and our ability to derive revenues from transactions over the Internet.

The acceptance of the Internet as a commerce platform in China depends on the resolution of problems relating to fulfillment and electronic payment.

Our future growth of revenues depends in part on the anticipated expansion of e-commerce activities in China. As China currently does not have a reliable nationwide product distribution network, the fulfillment of goods purchased over the Internet will continue to be a factor constraining the growth of e-commerce. An additional barrier to the development of e-commerce in China is the lack of reliable payment systems. In particular, the use of credit cards or other viable means of electronic payment in sales transactions is not as well developed in China as in some other countries, such as the United States. Various government entities and businesses are working to resolve these fulfillment and payment problems, but these problems are expected to continue to hinder the acceptance and growth of the Internet as a commerce platform in China, which could in turn hinder our growth.

Risks Related to the Internet and Our Technology Infrastructure

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 Web page 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.

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

Our portal operations are dependent upon Web browsers, Internet service providers, content providers and other Web site 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.

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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. All of our servers and routers are currently hosted in a single location within the premises of Beijing Telecom Administration. We do not maintain any back up servers outside Beijing. We do not have a disaster recovery plan 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 Web sites to mirror our online resources. 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.

Concerns about security of e-commerce transactions and confidentiality of information on the Internet may increase our costs, reduce the use of our portal and impede our growth.

A significant barrier to e-commerce and confidential communications over the Internet has been the need for security. Internet usage could decline if any well-publicized compromise of security occurred. We may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by these breaches. If unauthorized persons are able to penetrate our network security, they could misappropriate proprietary information or cause interruptions in our services. As a result, we may be required to expend capital and resources to protect against or to alleviate these problems.

Our network operations may be vulnerable to hacking, viruses and other disruptions, which may make our products and services less attractive and reliable.

Internet usage could 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 Web site against hackers. We cannot assure you that any measures we may take will be effective. In addition, the inadvertent transmission of computer viruses could expose us to a material risk of loss or litigation and possible liability, as well as materially damage our reputation and decrease our user traffic.

Political, Economic and Regulatory Risks

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 has been given the responsibility to censor news published in China to ensure, supervise and control a particular political ideology. In addition, the MII has published implementing regulations that subject online information providers to potential liability for content included on 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. 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 it is difficult to determine the type of content that may result in liability for a Web site operator.

Periodically, the Ministry of Public Security has stopped the distribution over the Internet of information which it believes to be socially destabilizing. The Ministry of Public Security has the authority to cause any local Internet service provider to block any Web site maintained outside China at its sole discretion. If the PRC government were to take action 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 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 Web site 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

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will be required to delete it. Moreover, where the transmitted content is considered 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, under recently adopted regulations, Internet companies which provide bulletin board systems, chat rooms or similar services, such as our company, must apply for the approval of the State Secrecy Bureau. As the implementing rules of these new regulations have not been issued, however, 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.

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

All of our business, assets and operations are located in China and all of our revenues are derived from our operations in China. Accordingly, our business could 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;
- 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 Chinese 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 what effects the economic reform and macroeconomic measures adopted by the Chinese government may have on our business or results of operations.

The PRC legal system embodies uncertainties which could limit the legal protections available to us and you.

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 ITC and Beijing Sandhill, are wholly-foreign owned enterprises, or WFOEs, which are enterprises incorporated in mainland China and wholly-owned by foreign investors. Beijing ITC and Beijing Sandhill are subject to laws and regulations applicable to foreign investment in mainland China. However, these 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. 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.

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

Substantially all of our revenues and operating expenses are denominated in Renminbi. The Renminbi 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.

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Currently, Beijing ITC and Beijing Sandhill may purchase foreign exchange for settlement of “current account transactions,” including payment of dividends, without the approval of the State Administration for Foreign Exchange, or SAFE. Beijing ITC and Beijing Sandhill may also retain foreign exchange in its current account (subject to a ceiling approved by the SAFE) to satisfy foreign exchange liabilities or to pay dividends. However, 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 will be in the form of Renminbi, the existing and any future restrictions on currency exchange may limit our ability to utilize revenue generated in Renminbi to fund our business activities outside China, if any, or expenditures denominated in foreign currencies.

Foreign exchange transactions under the capital account are still subject to limitations and require approvals from the SAFE. This could affect Beijing ITC’s and Beijing Sandhill’s ability to obtain foreign exchange through debt or equity financing, including by means of loans or capital contributions from us.

We may suffer currency exchange losses if the Renminbi depreciates relative to the U.S. Dollar.

Our reporting currency is the U.S. Dollar. However, substantially all of our assets and revenues are denominated in Renminbi. Our assets and revenues as expressed in our U.S. Dollar financial statements will decline in value if the Renminbi depreciates relative to the U.S. Dollar. Very limited hedging transactions are available in China to reduce our exposure to exchange rate fluctuations. 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 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 Renminbi into U.S. Dollars.

It may be difficult to enforce any civil judgments against us or our board of directors or officers, because most of our assets are located outside of the United States

Although we are incorporated in the State of Delaware, substantially all of our assets are located in the PRC. As a result, it may be difficult for investors to enforce outside the United States in any actions brought against us in the United States, including actions predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. In addition, certain of our directors and officers (principally in the PRC) and all or a substantial portion of their assets may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon those directors and officers, or to enforce against them or us judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or of the securities laws of any state of the United States. We have been advised by our PRC counsel that, in their opinion, there is doubt as to the enforceability in the PRC, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the federal securities laws of the United States or the securities laws of any state of the United States.

Risks Related to the Market for Our Common Stock

The market price of our common stock has been and will likely continue to be volatile.

The market price of our common stock has been volatile, and is likely to continue to be so. In addition, the Nasdaq Stock Market’s National Market has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of technology companies, particularly Internet companies. As a result, investors in our shares may experience a decrease in the value of their shares regardless of our operating performance or prospects.

The sale or availability for sale of substantial amounts of our common stock could adversely affect its market price.

There were approximately 35,625,716 shares of our common stock outstanding as of May 3, 2002, as well as options to purchase approximately an additional 5,694,565 shares of our common stock. Of the outstanding shares, 26,624,216 were issued prior to the initial public offering of our common stock. These shares are either freely tradable without restriction under Rule 144(k) under the Securities Act or are tradable subject to the notice, volume and manner of sale restrictions of Rule 144 under the Securities Act.

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Sohu issued 4,600,000 shares of common stock in connection with the initial public offering. All of these shares are freely tradable without restriction unless they are held by our “affiliates” as that term is defined in Rule 144 under the Securities Act.

On October 18, 2000, we issued an aggregate of 4,401,500 shares of our common stock to the former stockholders of ChinaRen in connection with our acquisition of that company. All of these shares are currently freely tradable without restriction or tradable subject to the notice, volume and manner of sale restrictions of Rule 144.

A number of our stockholders, including some of the former stockholders of ChinaRen, are parties to an agreement with us that provides these stockholders with the right to require us to register the sale of shares owned by them. Pursuant to that agreement, we filed a Registration Statement on Form S-3 (SEC File No. 333-67246) to register the shares of the stockholders who requested registration, which registration statement became effective on September 24, 2001. The registration of those shares permits the sale of those shares without regard to the restrictions of Rule 144, so long as the stockholders comply with the prospectus delivery requirements under the Securities Act

We are controlled by a small group of our existing stockholders, whose interests may differ from other stockholders.

Our three largest stockholders currently beneficially own approximately 65% of the outstanding shares of common stock. Accordingly these three stockholders acting together will have significant influence in determining the outcome of any corporate transaction or other matter submitted to the stockholders for approval, including mergers, consolidations and 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 stockholders, we could be prevented from entering into transactions that could be beneficial to us. The interests of these stockholders may differ from the interests of the other stockholders.

Holders of a majority of the outstanding shares of our common stock are parties to an agreement under which they have agreed to vote together in favor of a nominee of one of our stockholders to our board of directors. As a result of their voting power, they will have the ability to cause that nominee to be elected.

Anti-takeover provisions of the Delaware General Corporation Law, our certificate of incorporation and Sohu’s Stockholder Rights Plan could delay or deter a change in control.

Some provisions of our certificate of incorporation and bylaws, as well as various provisions of the Delaware General Corporation Law, 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 stockholders or if an acquisition or change in control would provide our stockholders with a premium for their shares over then current market prices. For example, our certificate of incorporation provides for the division of the board of directors into two classes with staggered two-year terms and provides that stockholders have no right to take action by written consent and may not call special meetings of stockholders, each of which may make it more difficult for a third party to gain control of our board in connection with, or obtain any necessary stockholder approval for, a proposed acquisition or change in control.

In addition, we have adopted a stockholder rights plan under the terms of which, in general, if a person or group acquires more than 20% of the outstanding shares of common stock, all other Sohu stockholders would have the right to purchase securities from Sohu 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 20%. The stockholder rights plan may inhibit a change in control and, therefore, could adversely affect the stockholders’ ability to realize a premium over the then-prevailing market price for the common stock in connection with such a transaction.

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

Our certificate of incorporation authorizes our board of directors to designate and issue one or more series of preferred stock, 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 common stock.

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If the price of our common stock drops below \$1.00 per share for an extended period, our common stock could be delisted.

The shares of our common stock are currently listed on the Nasdaq Stock Market's National Market. Nasdaq listing requirements include maintaining a minimum bid price of \$1.00 per share. On May 3, 2002, the closing bid price for our common stock was \$1.08 per share. If the closing bid price for our common stock was to remain below \$1.00 per share for a period of 30 or more consecutive trading days, our common stock could be delisted from Nasdaq. Delisting could make trading our shares more difficult for investors, leading to further declines in market price. It would also make it more difficult for us to raise additional capital.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Foreign Currency Exchange Rate Risk

The majority of our revenues, expenses and liabilities are denominated in Chinese renminbi. Thus, revenues and operating results may be impacted by exchange rate fluctuations in the renminbi when financial results are translated in U.S. dollars on consolidation. Currency fluctuations and restrictions on currency exchange may adversely affect our business, including limiting the ability to convert Chinese renminbi into foreign currencies and, if the renminbi were to decline in value, reducing revenue in U.S. dollar terms. We have not tried to reduce exposure to exchange rate fluctuations by using hedging transactions but may choose to do so in the future. We may not be able to do this successfully. Accordingly, we may experience economic losses and negative impacts on earnings and equity as a result of foreign exchange rate fluctuations. The effect of foreign exchange rate fluctuations on us in the three months ended March 31, 2002 was not material.

Investment Risk

a) Investments in High Century, Hengda and Sohu-Guolian

We have entered into arrangements with Dr. Charles Zhang, our Chief Executive Officer and a major Sohu stockholder, and certain of our employees to satisfy PRC regulations which prohibit or restrict foreign companies from owning or operating telecommunications, internet content, financial services and certain other businesses in China. We expect that we will continue to be involved in and provide additional financial support under similar arrangements in the future.

In November 2001, we entered into a loan and share pledge agreement with Dr. Charles Zhang, and Li Wei, another Sohu employee, for the purpose of funding an equity investment of \$4.6 million by these two individuals in High Century, a company incorporated in the PRC which engages in investment holding in the PRC on behalf of Sohu. Pursuant to the loan agreement, we are required to extend total loans amounting to \$4.6 million of which \$3.7 million and \$919,000 would be loaned to Charles Zhang and Li Wei, respectively. In January 2002, we entered into a loan and share pledge agreement with Li Wei for the purpose of funding an equity investment of \$242,000 by Li Wei in Hengda, a company incorporated in the PRC which engages in Internet access services in the PRC on behalf of Sohu. The \$242,000 investment represents 20% of Hengda, with High Century holding the remaining 80% interest.

During the first quarter of 2002, the Company remitted \$1.2 million to Dr. Charles Zhang and \$677,000 to Li Wei, respectively. As of March 31, 2002, the Company had remitted \$2.5 million and \$677,000 to Dr. Charles Zhang and Li Wei, respectively, under the Century Loan Agreement and Hengda Loan Agreement.

The two loan agreements, which are subject to PRC law, include provisions that (i) the loans can only be repaid to us by transferring the shares of High Century or Hengda to Sohu, (ii) the shares of High Century or Hengda cannot be transferred without the approval of Sohu, and (iii) Sohu has the right to appoint all directors and senior management personnel of High Century and Hengda. Charles Zhang and Li Wei have pledged all of their shares in High Century and Hengda as collateral for the loans and the loans bear no interest and are due on demand after November 2003, in the case of High Century, and January 2003, in the case of Hengda, or at such time as Dr. Charles Zhang or Li Wei, as the case may be, is not an employee of Sohu. We do not intend to request repayment of the loans as long as PRC regulations prohibit us from directly investing in businesses being undertaken by High Century and Hengda. These loans are included in long-term loans to related parties.

In March 2002, High Century entered into a joint venture agreement with a PRC company whereby High Century will invest \$3,100,000 for a 51% equity interest and joint control in Sohu-Guolian Information Technology Co., Ltd., a company to be incorporated in the PRC. The joint venture will be engaged in providing

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technical services to the financial services industry and online securities trading in the PRC. In April 2002, High Century funded its \$3,100,000 investment in Sohu-Guolian Information Technology Co., Ltd.

As of March 31, 2002, payable to related parties included \$230,000 and \$1.1 million payable to High Century and Hengda, respectively, for amounts borrowed by Sohu from High Century and Hengda. The total payable to related parties was remitted by Sohu to High Century and Hengda in April 2002.

PRC regulations currently restrict Sohu from holding direct equity interests in High Century, Sohu-Guolian and Hengda; therefore, the financial statements of these entities are not consolidated with those of Sohu. As of March 31, 2002, the loans discussed above are carried at cost which approximate the net assets of High Century and Hengda. If the investments in High Century, Sohu-Guolian and Hengda had been consolidated, there would have been no material impact to the consolidated net assets of Sohu.

(b) Investment in marketable debt securities

Sohu invests in marketable debt securities to preserve principal while at the same time maximizing yields without significantly increasing risk. These marketable debt securities are classified as held-to-maturity. As of March 31, 2002, the difference between the recorded cost and the fair value was not significant.

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

There are no material legal proceedings pending or, to our knowledge, threatened against us. 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.

Item 2. *Changes in Securities and Use of Proceeds*

On July 17, 2000, we completed an underwritten initial public offering of our common stock pursuant to a Registration Statement on Form S-1 (SEC file No. 333-96137), which became effective on July 10, 2000. Public trading of the common stock offered in the initial public offering commenced on July 12, 2000. We sold an aggregate of 4,600,000 shares of common stock in the offering at a price to the public of \$13 per share, resulting in gross proceeds of \$59.8 million. Our net proceeds, after deduction of the underwriting discount of \$4.2 million and other offering expenses of \$3.2 million, were approximately \$52.4 million. All shares sold in the offering were sold by us.

During the three months ended March 31, 2002, we used \$2.7 million of the net proceeds from the offering for operating activities, purchases of fixed assets and investments, through long-term loans to related parties, in certain businesses in China where foreign ownership is either prohibited or restricted. The remaining net proceeds from the offering have been invested in cash, cash equivalents, and marketable debt securities. The use of the proceeds from the offering does not represent a material change in the use of proceeds described in the prospectus contained in the Registration Statement on Form S-1 described above.

Item 3. *Defaults Upon Senior Securities*

None.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

Item 5. *Other Information*

Subsequent Event.

In April 2002, High Century funded its \$3.1 million investment in Sohu-Guolian.

Item 6. *Exhibits and Reports on Form 8-K*

(a) Exhibits

Please see the Exhibit Index attached hereto.

(b) Reports on Form 8-K.

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOHU.COM INC.

By: /s/ DEREK PALASCHUK

**Chief Financial Officer & Senior Vice President (Principal
Financial Officer)**

Dated: May 14, 2002

SOHU.COM INC.
Quarterly Report on Form 10-Q For Quarter Ended March 31, 2002

EXHIBITS INDEX

<u>Exhibit Number</u>	<u>Description</u>
10.1	Loan and Share Pledge Agreement, dated January 23, 2002, among Sohu.com Inc. and Li Wei
10.2	Shareholder's Agreement, dated March 16, 2002, by and between Beijing Century Hi-Tech Investment Co., Ltd. and Guolian Securities Co., Ltd. (portions of this exhibit have been omitted pursuant to a request for confidential treatment and have been filed separately with the SEC).

EXHIBIT 10.1

THEIR LOAN AND SHARE PLEDGE AGREEMENT (their "Agreement") is entered into on their 23th day of January 2002 in Beijing, People's Republic of China ("PRC")

among

(1) Sohu.com, Inc., a U.S. corporation, of Delaware, U.S. ("Party A"),

and

(2) Li Wei, a PRC citizen whose PRC identity card number is 110108721201576 ("Party B"),

(Individually a "Party" and together the "Parties").

RECITALS

- A. Party B and Beijing Century High-Tech Investment Limited Liability Company wish to establish a domestic limited liability company in Beijing, PRC ("Domestic Company"), in which party B will hold 20% equity.
- B. The Domestic Company will be established to engage mainly in the business of providing internet access service, and other lawful business permitted by China relevant government authorities.
- C. Party B wishes to borrow the amount specified in Article 2.1 below (the "Loan") from Party A, and Party A has agreed to provide the Loan to Party B on an interest free basis, for the sole purpose of establishing the Domestic Company and developing the Domestic Company's business, which shall specifically include the entering into of a series of agreements with Party A and its Affiliates (as defined below).
- D. As security for the Loan and her performance of their Agreement, Party B has agreed to pledge her equity interests in the Domestic Company (the "Shares") to Party A.

NOW, THEREFORE, the Parties agree as follows:

1. DEFINITIONS AND INTERPRETATIONS

1.1 Definitions. Unless otherwise indicated, the following terms in their Agreement shall have the meanings set forth below:

"Affiliate"	any affiliate entity or business associate of Party A, including without limitation the WFOE - Sohu ITC Information Technology (Beijing) Co., Ltd.
"Certificate"	as defined in Article 3.1.9;
"Conversion Date"	As defined in Article 7.2.1;
"Conversion Notice"	As defined in Article 7.1;
"Designee"	an individual, corporation or other appropriate entity designated by Party A to be the recipient of a Share Transfer;
"Event of Default"	As defined in Article 6;
"Loan Date"	with respect to Party B, the date on which the portion of the Loan amount borrowed by such Party is paid into her

	designated bank account;
"PRC Law"	any published and available laws and regulations of the PRC;
"Repayment Date"	as defined in Article 2.3;
"RMB"	Renminbi, the lawful currency of the PRC;
"Share Transfer"	as defined in Article 7.2.1;
"USD"	United States Dollar, the lawful currency of the United States of America.
"WFOE"	A wholly-owned subsidiary established by Party A in the PRC.

1.2 Interpretations. The headings herein are for reference purposes only and do not affect the meaning or interpretation of any provision hereof. Any reference herein to an Article or Appendix is to an article or appendix of their Agreement. The use of the plural shall include the use of the singular, and vice versa. Unless otherwise indicated, a reference herein to a day, month or year is to a calendar day, month or year. A reference to a business day is to a day on which commercial banks are open for business in both the PRC and the U.S. The use of the masculine shall include the use of the feminine, and vice versa.

2. AMOUNT AND REPAYMENT OF THE LOAN

- 2.1 Loan Amount. Party A agrees, subject to the terms and conditions of their Agreement, to extend the Loan to Party B in a total amount of USD0.24 million that is equivalent to RMB 2,000,000. The Loan shall be interest-free.
- 2.2 Provision of Loan. The Loan shall be deemed to have been provided to Party B on the Loan Date.
- 2.3 Date of Repayment. The Loan, together with any other moneys owing under their Agreement by Party B, shall become repayable upon the earliest to occur of any of the following events (each a "Repayment Date"):
- 2.3.1 in full, on the occurrence of an Event of Default;
- 2.3.2 in full, on the resignation or removal of Party B from the position of director, general manager, supervisor of the Domestic Company;
- 2.3.3 in full, with respect to Party B, the date on which such Party's employment relationship with Party A or any Affiliate terminates for any reason;
- 2.3.4 In full, where Party A intends to replace their Agreement with another agreement, the date of the written notice from Party A to Party B confirming such intention; or
- 2.3.5 In full or in part, at Party A's sole discretion upon any date selected by Party A after the first anniversary of the date of signing of their Agreement.
- 2.4 Method of Repayment. Repayment will be made only by means of converting the Loan into Shares, as described in Article 7 below, with the final amount of the Loan being due and repayable on the final Conversion Date. The Loan may not be repaid prior to the Repayment Date or by any means not specifically permitted in their Article 2.4 without the express written consent of Party A.

3. UNDERTAKINGS AND WARRANTIES OF PARTY B

- 3.1 Undertakings and Warranties. Party B hereby undertakes and warrants to Party A that:

- 3.1.1 the Loan will be used solely for the purpose of establishing the Domestic Company and developing its business activities;
- 3.1.2 she shall use the proceeds from the Loan solely for the purpose of contributing her amount of the registered capital in the Domestic Company;
- 3.1.3 she has and shall maintain the full power and authority to enter into their Agreement, to borrow the Loan and to perform her obligations hereunder;
- 3.1.4 there are no civil or criminal, claims, actions, suits, investigations or proceedings pending or, to her knowledge, threatened against her;
- 3.1.5 there is no provision of any Agreement, enforceable judgment or order of any court binding on her or affecting her property, which would in any way prevent or materially adversely affect her execution or performance of their Agreement;
- 3.1.6 the execution and performance of their Agreement and the realization of Party A's rights hereunder will not violate any mortgage right, contract, judgment, decree or law which is binding upon her or her assets;
- 3.1.7 upon her investment in the Domestic Company, she shall be the sole legal and beneficial owner of her Shares, free and clear of all pledges and encumbrances other than the security interest created by their Agreement;
- 3.1.8 she shall cause the pledge of her Shares to Party A to be recorded on the Domestic Company's register of shareholders;
- 3.1.9 upon the establishment of the Domestic Company, she shall provide to Party A a certificate from the Domestic Company evidencing her ownership of the Shares (a "Certificate") together with an Assignment Agreement, substantially in the form attached hereto as an Appendix;
- 3.1.10 for duration of their Agreement, she will not cause the Domestic Company, without the written consent of Party A, to engage directly or indirectly in any business activities which compete with those of Party A other than those described in Recital B above;
- 3.1.11 she will, at any time and at Party A's expense, defend the Shares against any third party claims;
- 3.1.12 without the consent of Party A, except as expressly permitted hereunder, she will not arrange for or otherwise permit or cause the issuance of any new shares of capital stock of the Domestic Company;
- 3.1.13 she shall do or cause to be done all such acts, and execute or cause to be executed any necessary documents and registrations, such that the conversion of the Loan, the Share Transfers and all other transactions contemplated hereunder are effected in a legal and valid manner; and
- 3.1.14 she shall maintain as strictly confidential the existence and provisions of their Agreement, as well as of any correspondence, resolutions, ancillary agreements and any other documentation associated herewith.

4. COVENANTS

-
- 4.1 Affirmative Covenants. Party B hereby covenants that she will furnish to Party A, within 10 days after the end of each month after the Domestic Company has been established, with financial statements of the Domestic Company and such additional information as Party A may from time to time reasonably request.

- 4.2 Further Covenants. Party B further covenants that, from the date hereof until full repayment of the Loan has been effected, she will not, and will ensure that the Domestic Company does not, except with the prior written consent of Party A:
- 4.2.1 incur or assume any debt that is not due and payable in the ordinary course of its business (except indebtedness to Party A hereunder or as otherwise specifically permitted hereunder);
 - 4.2.2 incur or assume any mortgage, pledge or other encumbrance of any kind upon any assets of the Domestic Company, whether now owned or hereafter acquired;
 - 4.2.3 enter into any agreement, arrangement, commitment or understanding to, or actually acquire all or part of the substantial assets of any third party;
 - 4.2.4 enter into any agreement, arrangement, commitment or understanding to, or actually sell, lease, or otherwise dispose of any assets of the Domestic Company except in the ordinary course of business;
 - 4.2.5 enter into any agreement, arrangement, commitment or understanding to, or actually, make loans or advances to any third party;
 - 4.2.6 enter into any agreement, arrangement, commitment or understanding to, or actually, assume, guarantee, endorse or otherwise become liable for the obligation of any third party or other entity; or
 - 4.2.7 permit the Domestic Company to conduct any business not expressly described in Recital B of their Agreement.

4.3 Rights of Party A.

- 4.3.1 Party B agrees that she shall obtain Party A's written approval prior to undertaking any of the following, namely:
 - 4.3.1.1 appointing and removing the directors of the Domestic Company;
 - 4.3.1.2 appointing and removing the general manager of the Domestic Company; and
 - 4.3.1.3 approving the terms of employment of the general manager.
- 4.3.2 Party B agrees that she shall obtain Party A's written approval prior to undertaking any of the following, namely:
 - 4.3.2.1 appointing and removing of the senior management personnel and any key personnel of the Domestic Company; and
 - 4.3.2.2 approving the terms of employment of the senior management personnel and key personnel of the Domestic Company.

5. SHARE PLEDGE

- 5.1 Share Pledge. As security for the performance in full of the obligations of Party B under their Agreement, Party B hereby pledges to Party A, and creates in favor of Party A or the Designee (as appropriate), a first priority security interest in all of the rights, title and interest in and to:
- 5.1.1 the Shares; and
 - 5.1.2 all of her incidental rights with respect to the Shares, now or hereafter acquired.

Such security interest to be perfected by compliance by Party B with Article 3.1.9 of their Agreement.

5.2 Power of Attorney. Party B hereby irrevocably grants to Party A or the Designee (as appropriate) full power of attorney for the purpose of carrying out the provisions of their Agreement, as well as taking any action and executing any instrument which Party A in good faith deems necessary to accomplish for purposes of their Agreement.

6. EVENTS OF DEFAULT

The occurrence of any of the following events shall constitute a default of the Loan hereunder and a breach of their Agreement by Party B (as appropriate) (an "Event of Default"):

- 6.1 a Share Transfer has not been effected by Party B within 20 working days after the corresponding Conversion Date or such time as may otherwise be agreed upon by the Parties;
- 6.2 Party B is in breach of any of the terms and conditions hereof, and such breach has not been rectified for a period of 10 days after receipt of Party A's written notice requesting such rectified;
- 6.3 any undertaking or warranty made by Party B herein shall prove to have been false or misleading in any material respect;
- 6.4 Party B makes any arrangement with her respective creditors or takes or suffers any similar action in consequence of debt; or
- 6.5 any judgment is made under any applicable law against Party B which exceeds USD 50,000.

7. LOAN CONVERSION

- 7.1 Share Conversion. As of the Repayment Date, the Loan shall be convertible into Shares on the basis that 100 percent of the Loan amount equals 100 percent of the Shares. For the avoidance of doubt, if 10 percent of the Loan were repayable by Party B, then such Party, as the case may be, would be required to transfer 10% of the total number of the Shares to Party A. The Loan shall become repayable to such extent as Party A may from time to time request, until the entire Loan amount has been repaid. Party A shall request to convert all or a percentage of the Loan by means of a written notice to Party B that specifies the percentage of the Loan to be converted into Shares ("Conversion Notice").
- 7.2 Share Transfer.
 - 7.2.1 Within 20 working days after receipt of a Conversion Notice ("Conversion Date"), Party B shall effect the transfer of the portion of the Shares designated in the Conversion Notice, either to Party A directly or to the Designee specified by Party A in the Conversion Notice (each a "Share Transfer").
 - 7.2.2 For the avoidance of doubt, upon the completion of the conversion of the Loan and the transfer of all of the Shares of Party B (whether pursuant to their Article 7 or an Event of Default), Party A shall hold as many of the Shares as is permissible under PRC Law, and the remainder of the Shares (if applicable) shall be held by the Designees, with Party B no longer holding any Shares. At such time, their Agreement shall be deemed to have terminated, and the obligations of Party B hereunder to have been fulfilled (with the exception of those under 3.1.13 and 3.1.14).
- 7.3 Delay. Party B undertakes to notify Party A immediately of any delay in effecting a Share Transfer or completing the procedures described in Article 7.2 above, together with the reason for such delay and revised effective date of the Share Transfer.

7.4 Repayment of Loan. The corresponding portion of the Loan shall be deemed to have been repaid as of the effective date of each Share Transfer. Once Party B have completed the Share Transfers in accordance with the provisions of their Article 7, the Loan shall be deemed to have been repaid in full and Party B shall be deemed to have performed her repayment obligations hereunder.

8. MISCELLANEOUS

8.1 Notices and Delivery. All notices and communications among the Parties shall be made in writing and in the English language by facsimile transmission with confirmation of transmission, delivery in person (including courier service) or registered airmail letter to the appropriate correspondence addresses set forth below:

Party A

Sohu.com, Inc.
15/F, Tower 2, Bright China Chang An Building, 7 Jianguomen Nei Avenue, Beijing 100005

Tel : 8610-6510-2160
Fax : 8610-6510-2159

Party B

Li Wei
Tel : 8610-6510-2160

8.2 Timing. The time of receipt of the notice or communication shall be deemed to be:

8.2.1 If by facsimile transmission with confirmation of transmission, at the time displayed in the corresponding transmission record, unless such facsimile is sent after 5:00 p.m. or on a non-business day in the place where it is received, in which case the date of receipt shall be deemed to be the following business day;

8.2.2 if in person (including express mail), on the date that the receiving Party or a person at the receiving Party's address signs for the document; or

8.2.3 if by registered mail, on the 10th day after the date that is printed on the receipt of the registered mail.

8.3 Foreign Exchange. All amounts payable by Party B hereunder shall be paid in USD. If, as a result of foreign exchange restrictions in the PRC, it becomes illegal for Party B to make any payment to Party A in USD, then she shall make that payment in any other currency permitted for such purposes, as shall be stipulated by Party A at its sole discretion. In such an event, the amount of the payment shall be calculated at the rate published by the Bank of China on the relevant payment date, and shall be free and clear of all expenses, withholding taxes and commissions.

8.4 Amendments. The provisions of their Agreement may not be waived, modified or amended except by an instrument in writing signed by the Parties (which instrument shall be attached as an Appendix hereto).

8.5 No Waiver. Failure or delay on the part of any Party to exercise any right under their Agreement shall not operate as a waiver thereof.

8.6 Severability. The invalidity of any provision of their Agreement shall not affect the validity of any other provision of their Agreement which is unrelated to that provision.

8.7 Survival. The confidentiality obligations of the Parties hereunder shall remain in full force and effect regardless of the termination of their Agreement for any reason.

- 8.8 Taxes and Duties. Party A shall be responsible for all stamp duties and other governmental fees, taxes and reasonable out-of-pocket expenses (including reasonable legal fees) incurred by the Parties in connection with the conversion of the Loan and each Share Transfer made hereunder and in the preparation of their Agreement.
- 8.9 Successors. Their Agreement shall be binding upon the Parties and upon their respective successors and assigns (if any).
- 8.10 Assignment. Party B cannot assign or otherwise transfer her rights or obligations under their Agreement without the prior written consent of Party A.
- 8.11 Governing Law. The execution, validity, interpretation and implementation of their Agreement and the settlement of disputes thereunder shall be governed by PRC Law.
- 8.12 Arbitration. All disputes arising out of or in connection with their Agreement shall be finally settled under the Rules of Arbitration of the International Chamber of Commerce as administered by the International Court of Arbitration of the International Chamber of Commerce in Hong Kong by a sole arbitrator appointed in accordance with the said Rules conducted in the English language.
- 8.13 Entire Agreement. Their Agreement and the Appendix hereto constitute the entire agreement between the Parties and supersede all prior discussions, negotiations and agreements. The Appendix form an integral part hereof and have the same legal effect as their Agreement. If there is any inconsistency between the provisions of their Agreement and any of the Appendixes, the provisions of their Agreement shall prevail to the extent of such inconsistency.
- 8.14 Language. Their Agreement will be signed in 2 sets of originals in English language, with 1 original for each Party.

IN WITNESS WHEREOF, the Parties hereto have executed or caused their Agreement to be executed by their duly authorized representatives (as the case may be) as of the date first indicated above.

For and on behalf of Sohu.com, Inc.

By _____

Name:

Title:

By Li Wei

EXHIBIT 10.2
SHAREHOLDER'S AGREEMENT

by and between

Beijing Century Hi-Tech Investment Co., Ltd.

and

Guolian Securities Co., Ltd.

March 2002

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JVC's Services Agreement with Guolian Securities Co., Ltd.

THIS SHAREHOLDER'S AGREEMENT (this "Agreement") is made on this 16/th/ day of March 2002 in the People's Republic of China ("China" or the "PRC")

by and between

BEIJING CENTURY HI-TECH INVESTMENT CO., LTD., with its legal address at Suite 21, 15th Floor, Tower 2, Bright China Chang'an Building, 7 Jianguomennei Avenue, Dongcheng District, Beijing 100005, People's Republic of China, ("Party A")

and
GUOLIAN SECURITIES CO., LTD., with its legal address at No.153, Zhongshan Road, Wuxi 214001, Jiangsu Province, PRC.
("Party B")

(individually a "Party" and collectively the "Parties").

RECITALS

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- A. Party A is an affiliated company to Sohu.com, Inc., a leading Internet portal company, and a developer of advanced Internet-related technology.
- B. Party B is a leading provider of comprehensive financial services, including online securities brokerage services.
- C. The Parties wish to establish a joint venture company ("JVC") in compliance with PRC Law (as defined below) and the provisions of this Agreement to provide online securities brokerage and financial services for Clients (as defined below) by opening online trading accounts with the Service Stations (as defined below) through a telephone and web-based platform.

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

CHAPTER 1: DEFINITIONS AND INTERPRETATIONS

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1.1 Definitions. Unless the terms or context of this Agreement provide otherwise, the following items shall have the meanings set out below:

Accounts	*
Affiliate	an entity in which either Party directly or indirectly holds at least 10% of the voting rights;
Articles of Association	the articles of association of the JVC signed by the Parties on the same date as this Agreement;
Shanghai AIC	the Shanghai Administration for Industry and Commerce;
Board	the JVC's Board of Directors;
Branches	securities business branches and securities service branches;
Brokerage	Seats remote trading seats, which are communication ports provided by securities exchanges to securities companies for the purpose of facilitating connections among host computers;
Chairman	the Director who is the chairman of the JVC's Board;
Clients	persons that open online trading accounts through the JVC;

Client Database	the database used to record JVC Clients and Accounts;
Company Secretary	an employee of the JVC whose responsibilities include preparing the Board minutes;
Confidential Information	all information and matters relating to this Agreement, the JVC, the Parties or to the business of the Parties or the JVC, including without limitation all IPRs (as defined below), information regarding costs, technology, finances, future commercial plans and other information which is deemed to be confidential by the Parties or the Board (as appropriate);
CSRC	the China Securities Regulatory Commission;
Director	an individual appointed by the Parties in accordance with the provisions of this Agreement to serve as a member of the Board;
Effective Date	the effective date of this Agreement, which shall be the date first indicated above;
Employment Contract	the contract entered into between the JVC and each of the Senior Management Personnel, Management Personnel and Working Personnel in relation to their employment, wages and benefits;
Force Majeure	any earthquake, storm, fire, flood, war or other significant event of natural or human-caused disaster arising after signing this Agreement (including, without limitation, any significant changes to any PRC government policy or PRC Law) which is unforeseen (or, if foreseen, not reasonably avoidable), is beyond the control of either Party and prevents the total or partial performance of this Agreement by either Party or materially affects the business of the JVC;
Guolian Branches	Branches established by Party B, including securities business branches and securities service branches;
IPRS	any intellectual property rights held exclusively by either Party, existing or developed in the future, including: <ul style="list-style-type: none"> (a) copyright; (b) trade marks (including product trade mark and service trade mark), trade name and other rights relevant to commercial logos, regardless of whether the medium of expression is words, graphics, or a combination thereof; (c) rights relating to patented inventions (regardless of whether they are completely registered or under application) and non-patented technologies; (d) the ownership of any software (including source codes), database and industrial technology; (e) commercial secrets; (f) know-how; and (g) all rights that are produced as a result of intellectual creative activities in the industrial and scientific fields;
Joint Venture Term	as defined in Article 6.1 and any extension thereof under Article 6.2;

Liquidation Committee	the committee appointed by the Board which has the power to represent the JVC in all legal matters relating to the liquidation of the JVC;
Management Personnel	the management personnel of the JVC as appointed by the general manager according to the rules set forth by the Board and stipulated in the Articles of Association;
Net Revenue	Revenue generated by the JVC from the Clients through all kinds of trading and value-added services, less any applicable taxes;
Online Trading	any non-spot remote trading conducted by technical means, including but not limited to Internet;
Policies and Procedures Manual	the manual outlining the guidelines and procedures relating to the administration and labour management of the JVC, which shall be prepared by the general manager in accordance with PRC Law and approved by the Board;
PRC GAAP	PRC Generally Accepted Accounting Principles;
PRC Law	any published and applicable laws, regulations, rules and policies of the PRC;
Profits	any profits of the JVC, less expenses incurred in the normal course of business, including taxes, contributions to the employee bonus and welfare funds and corporate reserve and development funds;
RMB	Renminbi, the official currency of the PRC;
Senior Management Personnel	the JVC's general manager (equivalent of Chief Executive Officer), finance manager (equivalent of Chief Financial Officer), deputy general managers (equivalent of Chief Operating Officer and Chief Technology Officer), who shall be appointed by the Board;
Service Station	offices established for the purpose of providing remote trading services, to be used in marketing and promotion, technical training and consultation, demonstration of business processes, handling of urgent technical matters, account opening, designated trading, services relating to cancellation of designated trading, printing brokerage receipts and trading checklists and other services permitted by the CSRC, but not be used in the deposit or withdrawal of clients' cash, over-counter trading and settlement and provision of business trading place;
US GAAP	United States Generally Accepted Accounting Principles;
Trading Column	a sub-channel of the Sohu.com's finance channel dedicated to online trading including, but not limited to, securities transactions;
Working Personnel	all employees of the JVC other than the Senior Management Personnel and Management Personnel.

1.2 Interpretations.

- 1.2.1 A reference to a day herein is to a calendar day. A reference to a business day herein is to a day on which commercial banks are open for business in the PRC. A reference herein to an Article or Appendix is to an article or appendix of this Agreement.

- 1.2.2 The headings of the Articles are for convenience only and do not affect the meaning of any of the provisions of this Agreement.
- 1.2.3 The use of the singular shall include the use of the plural and vice versa. The use of one gender shall include the use of the other gender as appropriate.

CHAPTER 2 : PARTIES TO THE AGREEMENT

2.1 The Parties. The Parties to the Agreement are:

2.1.1 Party A

BEIJING CENTURY HI-TECH INVESTMENT CO., LTD., a limited liability company registered in Beijing with its legal address at Suite 21, 15th Floor, Tower 2, Bright China Chang'an Building, 7 Jianguomennei Avenue, Dongcheng District, Beijing 100005, PRC.

Authorised representative:

Name : Charles Zhang
Title : Chairman

2.1.2 Party B

GUOLIAN SECURITIES CO., LTD., a limited liability company incorporated in Wuxi, Jiangsu Province with its legal address at No.153, Zhongshan Road, Wuxi 214001, Jiangsu Province, PRC.

Authorised representative:

Name : Fan Yan
Title : Chairman

CHAPTER 3 : REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties. Each Party represents and warrants to the other that:

- 3.1.1 it possesses full power and authority to enter into this Agreement and to perform its obligations hereunder;
- 3.1.2 its authorised representative, whose signature is affixed hereto, has been fully authorised to sign this Agreement on its behalf pursuant to a valid power of attorney, a copy of which has been provided to the other Party;
- 3.1.3 it has obtained and will maintain the validity of all licenses necessary for IPRs required to perform its obligations hereunder;
- 3.1.4 it has obtained, and will maintain the validity of all necessary permits from the relevant governmental authorities required for the lawful operation of its business and its performance of this Agreement;
- 3.1.5 it shall maintain as strictly confidential the provisions and existence of this Agreement, as well as any information relating to the business of the other Party to which it might have access during the performance of this Agreement, in accordance with Chapter 17 below;
- 3.1.6 the execution and performance of this Agreement and the consummation of the transactions contemplated hereby do not violate any judicial or administrative order, award, judgement or decree applicable to it or conflict with any of the terms, conditions or provisions of any other agreement, contract, or arrangement, written or oral, to which it is bound;
- 3.1.7 it is in lawful possession of all assets relating to its business; and

3.1.8 it shall not sell, dispose of, pledge, cede or encumber any of its equity interest in the JVC by any means whatsoever without the prior written consent of the other Party.

CHAPTER 4: ESTABLISHMENT OF THE JOINT VENTURE COMPANY

4.1 Registration. Within 14 days after the Effective Date, the preparation committee appointed by the Parties shall undertake registration procedures with the Shanghai AIC for the establishment of the JVC and apply for the JVC's business licence. The JVC shall come into existence on the date of the issuance of its business licence.

4.2 Name and Address.

4.2.1 The Chinese name of the JVC shall be "Name of Company in Chinese appears here".

4.2.2 The English name of the JVC shall be "Sohu - Guolian Information Technology Co., Ltd.".

4.2.3 The name of the JVC's website will be decided pursuant to Article 9.4 below.

4.2.4 The legal address of the JVC shall be in Pudong, Shanghai, PRC.

4.3 Limited Liability Company. The JVC shall be a limited liability company. Each Party's liability to the JVC shall be limited to the amount of its contribution to the JVC's registered capital. Each Party shall share Profits, and assume risks and losses in accordance with its shareholding percentage in the registered capital of the JVC.

4.4 Laws and Decrees.

4.4.1 The JVC shall be a legal person under PRC Law. The activities of the JVC shall be governed, and its lawful rights protected, by PRC Law.

4.4.2 If, after the execution date of this Agreement, any existing PRC Law is changed or the interpretation thereof is changed, or any new PRC Law is implemented and the effect of such changed or new PRC Law is to provide for preferential treatment to either Party, the JVC and the relevant Party shall promptly apply to the relevant government authorities for the preferential treatment of such changed or new PRC Law.

4.4.3 If either Party's economic benefits under this Agreement are materially and adversely affected, directly or indirectly, as a result of the changed PRC Law or the interpretation thereof or the new PRC Law, then:

4.4.3.1 this Agreement shall continue to be implemented in accordance with its original terms; or

4.4.3.2 either Party may choose to terminate this Agreement pursuant to Article 18.2.4.

CHAPTER 5: JVC'S BUSINESS SCOPE

5.1 Scope of Business. The scope of business of the JVC shall include:

5.1.1 the development and manufacture of computer software and hardware, the development of network systems technology, the development of an online securities trading system and related technical services; and

5.1.2 Internet information services, market research and marketing consulting.

5.2 Expansion of Business Scope. The JVC shall apply in its own name for an online securities brokerage services permit. Once that permit has been issued, the business scope of the JVC shall be amended to include "online securities brokerage services".

CHAPTER 6: THE JOINT VENTURE TERM

- 6.1 Joint Venture Term. The Joint Venture Term shall commence on the issuance date of the JVC's business licence and shall expire 30 years thereafter, unless such term is extended in accordance with Article 6.2 or prematurely terminated in accordance with Article 18.2.
- 6.2 Extension of the Joint Venture Term. No less than 1 year prior to the expiry of the Joint Venture Term, the Parties may discuss the extension of the Joint Venture Term. If the Parties so agree, an application for examination and approval of such extension shall be submitted to the Shanghai AIC no less than 180 days prior to the expiry of the Joint Venture Term.

CHAPTER 7: REGISTERED CAPITAL

- 7.1 Registered Capital. The total amount of the JVC's registered capital shall be RMB 50 million.
- 7.2 Capital Contribution.
- 7.2.1 Party A's contribution to the JVC's registered capital shall be RMB 25.5 million in cash, representing 51% of the JVC's total registered capital.
- 7.2.2 Party B's contribution to the JVC's registered capital shall be RMB 24.5 million in cash, representing 49% of the JVC's total registered capital.
- 7.2.3 Each Party shall contribute its respective registered capital amount in full to the designated account of the Shanghai AIC within 50 days after confirmation of the JVC's Company name by the Shanghai AIC.
- 7.3 Capital Increase.
- 7.3.1 Neither the JVC's total registered capital nor the proportion of the Parties' respective shareholding percentage in the JVC shall be changed during the Joint Venture Term without a unanimous resolution of the Board and the approval of the Shanghai AIC.
- 7.3.2 If the Board resolves to increase the JVC's registered capital, each Party shall have the pre-emptive right (unless otherwise waived), within 30 days of the passing of the relevant Board resolution, to subscribe to such capital increase in proportion to its shareholding percentage of the JVC's total registered capital. Where either Party chooses not to subscribe, its shareholding percentage (and for the avoidance of doubt, its Board representation and rights to Profits) shall be diluted accordingly.
- 7.4 Assignment.
- 7.4.1 Party B agrees that after the establishment of the JVC, Party A shall have the right to assign any or all its equity in the JVC to any Affiliate or Subsidiary of Sohu.com, Inc The Affiliate or Subsidiary in question shall assume liabilities proportionate to the equity in the total registered capital of the JVC assigned to it.
- Party B shall execute all documents necessary for the completion of such an equity transfer, including, without limitation, Board resolutions, shareholders' resolutions and an equity transfer agreement.
- 7.4.2 Party B shall have the right to assign all or part of its interests in the JVC to any of its Affiliates or Subsidiaries, but such assignee's qualifications for engaging in securities industry and any license or permit required for maintaining the JVC's online securities trading permit shall require the prior examination and approval of Party A. The Affiliate or Subsidiary in question shall assume liabilities proportionate to the equity in the total registered capital of the JVC assigned to it. However, under no circumstances shall such assignment affect the JVC's application for and holding of the online securities brokerage services permit or violate PRC Law.

- 7.4.3 Except as stated under Article 7.4.1, either Party (the "Selling Shareholder") may transfer, sell or otherwise assign all, but no less than the totality, of its JVC equities (the "Sale Equities"), in accordance with and subject to the following provisions:
- 7.4.3.1 The Selling Shareholder shall first irrevocably offer the Sale Shares in writing to the other Party of the JVC ("Non-selling Shareholder"), stating the price and terms of payment required by it. Such offer shall be irrevocable and shall be valid for 14 days from receipt of such offer. The Party to whom such offer is made must indicate its acceptance of such by written notice to the Selling Shareholder within 14 day period, and effect the purchase of the Selling Shareholder's equity by complying with the terms of payment as specified in the offer. Acceptance of the offer shall constitute the firm and irrevocable purchase of the Sale Shares by the Non-selling Shareholder.
 - 7.4.3.2 If the Non-selling Shareholder fails to accept the Selling Shareholder's offer, then the Selling Shareholder has the right to transfer all or part of its equities in the JVC to any third party at same price as offered to the Non-selling Shareholder.

7.5 Verification Report.

- 7.5.1 The JVC shall appoint an accounting firm registered in the PRC to verify the capital contributions of the Parties within 60 days thereof. After completing the verification, the accounting firm shall provide the relevant capital verification report to the JVC, a copy of which shall then immediately be forwarded to each Party by the JVC. The JVC shall submit the capital verification report to the local department of finance or the Shanghai AIC within 10 days of the receipt of such report.
- 7.5.2 The capital verification report shall specify the following particulars:
 - 7.5.2.1 the JVC's name;
 - 7.5.2.2 the name of each Party;
 - 7.5.2.3 the amount of the capital contribution subscribed by each Party; and
 - 7.5.2.4 the details of the capital contribution by each Party in cash.

7.6 Investment Certificates. In accordance with the capital verification report, the JVC shall issue to each Party an investment certificate signed by the Chairman, as the legal representative of the JVC.

CHAPTER 8: SERVICES

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8.1 Service Markets. The JVC shall provide online securities brokerage services and value-added financial services to Clients

8.2 Service Charges. The rates which the JVC will charge the Clients for its services shall be determined by the general manager based on the JVC's operational strategy and price standards stipulated by the Board.

CHAPTER 9: BUSINESS OPERATION

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CHAPTER 10: SHAREHOLDERS' MEETING

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10.1 Formation. The shareholders' meeting is comprised of all the shareholders of the JVC.

10.2 Authority. The shareholders' meeting is the highest organ of authority of

the JVC and shall exercise the following powers:

-10-

- 10.2.1 determining the JVC's business strategies and investment plans;
- 10.2.2 appointing and replacing the Directors of the JVC and determining their remuneration and related matters;
- 10.2.3 appointing and replacing the supervisors of the JVC and determining their remuneration and related matters;
- 10.2.4 examining and approving annual business reports and other important interim business reports submitted by the Board of Directors;
- 10.2.5 examining and approving annual business reports and other important interim business reports submitted by the supervisors;
- 10.2.6 examining and approving the JVC's annual budgets and end-of-year financial statements;
- 10.2.7 examining and approving the JVC's profit distribution plans and measures to remedy losses;
- 10.2.8 approving increases and reductions in the JVC's registered capital;
- 10.2.9 approving the issuance of JVC bonds;
- 10.2.10 approving any merger, division, restructuring, dissolution and liquidation of the JVC;
- 10.2.11 approving the amendment of the Articles of Association; and
- 10.2.12 approving the appointment of independent auditors for the purpose of preparing financial reports in accordance with US GAAP and PRC GAAP.

10.3 Shareholders' Meetings.

- 10.3.1 The first shareholders' meeting shall be convened and presided over by the shareholder with the largest equity interest in the JVC.
- 10.3.2 During shareholders' meetings, the shareholders shall exercise their voting rights according to the ratio of their respective capital contributions.
- 10.3.3 Shareholders' meetings shall be divided into regular meetings and interim meetings. Written notice of a shareholders' meeting shall be sent to all shareholders 15 days prior to the convening of such meeting. Regular shareholders' meetings shall be convened once a year and interim meetings may be convened upon the proposal of any shareholder holding at least one-quarter of the equity interest in the JVC or more than one-third of the Directors or supervisor(s) of the JVC. Shareholders may attend a shareholders' meeting in person or authorise a proxy in writing to attend the shareholders' meeting on their behalf. The proxy shall exercise the rights as specified in the relevant power of attorney.
- 10.3.4 Shareholders' meetings (except for the first meeting) shall be convened and presided over by the Chairman. Where the Chairman is not able to perform this duty due to special reasons, he or she may appoint another Director as a proxy to preside over the meetings on his or her behalf.

10.4 Shareholders' Meeting Resolutions. Resolutions on the matters specified in Article 10.2 above shall only require the consent of a simple majority of the shareholders except that resolutions on the matters listed below shall require the consent of the shareholders representing 2/3 or above voting rights, namely:

- 10.4.1 increases or reductions in the JVC's registered capital;

10.4.2 the merger, division, dissolution and restructuring of the JVC; and

10.4.3 amendments to the Articles of Association.

10.5 Minutes. Matters discussed at a shareholders' meeting shall be recorded in the minutes of such meeting, which shall be signed by all the shareholders present at that shareholders' meeting.

10.6 Deadlock Procedure.

10.6.1 Where there is deadlock vote on any issue at a shareholders' meeting, either Party may serve a written deadlock notice to the other Party by facsimile and registered airmail.

10.6.2 In case more than one Party issues a deadlock notice, the date of the first notice delivered shall govern.

10.6.3 A shareholders' meeting shall be convened at a time and place convenient to either party, no later than 20 days from the date of the issuance of the deadlock notice.

10.6.4 At the meeting, each Party shall hand to the other Party a sealed envelope constituting an irrevocable offer to purchase the totality, and no less than the totality, of the equity held by the other Party in the JVC (a "Sealed Bid").

10.6.5 The Sealed Bids shall be opened by the Parties and/or the fully empowered representatives of the Parties. After having been made available for inspection by the representative of each Party, the offer which contains the highest price per share shall be declared to be successful.

10.6.6 The Party issuing the highest price per share shall be deemed to be the "Acquiring Shareholder" and the other Party shall be deemed to be the "Transferring Shareholder".

10.6.7 The Parties irrevocably and expressly acknowledge that such above-mentioned declaration shall be the binding price for the relevant Party's equity interest, and irrevocably accept that the highest Sealed Bid in terms of price per share shall be the successful offer.

10.6.8 The Acquiring Shareholder shall be obligated to purchase all, but no less than all of the equity interest in the JVC from the other Party at the price offered.

10.6.9 All purchase bids must be for cash payment within 60 days of the acceptance of the successful offer.

CHAPTER 11: BOARD OF DIRECTORS

11.1 Board Authority. The Board shall discuss and determine all major issues regarding the JVC.

11.2 Board Formation.

11.2.1 The Board shall be established on the date of the issuance of the JVC's business licence. The Board shall consist of 8 Directors. Party A shall appoint 4 Directors, and Party B shall appoint 4 Directors. Party B shall also appoint the Chairman.

11.2.2 Each Director shall be appointed for a term of 3 years, unless the term is shortened by his removal or resignation, and may serve consecutive terms if re-appointed by the Party that originally appointed him. If a Director's position becomes vacant for any reason, the Party which originally appointed that Director shall appoint a successor within 30 days of the vacancy to serve the remainder of his term.

11.2.3 At the invitation of the Board, the Chairman or any other Director may concurrently hold the position of general manager or that of any other Senior Management Personnel.

11.2.4 The Chairman shall be the legal representative of the JVC, and shall be appointed by Party B. If the Chairman is unable to perform his responsibilities, he shall authorise another

Director nominated by Party B in writing to represent him and shall promptly notify the Board and each Party of such authorisation.

11.3 Removal and Resignation of Directors.

11.3.1 Either Party may at any time, by written notice, immediately remove a Director (including the Chairman) whom it appointed, and shall thereafter appoint a successor to serve the remainder of the term of the removed Director.

If the Director so removed is the Chairman, the relevant Party shall, within 7 days thereof, notify the JVC Secretary in writing of such removal and of the details of the Chairman's successor, including the successor's name, nationality and background. The JVC Secretary shall notify the other Party and all Directors of the same in writing within 7 days of receiving the said notice.

11.3.2 If a Director (including the Chairman) resigns, then:

11.3.2.1 the Party that originally appointed such Director shall, within 7 days of his resignation, appoint a successor to serve the remainder of the Director's term and notify the JVC Secretary of the same in writing; and

11.3.2.2 the JVC Secretary shall notify the other Party and all Directors of the details of the resignation and the appointment of a successor in writing within 7 days of receiving the said notice.

11.4 Responsibilities of Directors.

11.4.1 All the Directors shall observe this Agreement and Articles of Association, carry out their duties faithfully and safeguard the interests of the JVC, and shall not seek personal gain through their position and authority in the JVC.

11.4.2 No personal act of any Director may bind the Board or the JVC without the prior written approval of the Board.

11.4.3 No Director shall be personally liable for any act performed in his capacity as a Director, except for acts that constitute a violation of PRC Law, this Agreement, Articles of Association or the laws of any other jurisdiction to which the relevant Director is subject.

11.5 Board Meetings.

11.5.1 The Chairman shall convene the first Board meeting of the JVC within 30 days of the date of the issuance of the JVC's business licence.

11.5.2 Board meetings shall be held at least once a year at such place within or outside the PRC as designated by the Board. When it is considered necessary and upon the written request of 1/3 or more of the Directors, the Chairman shall convene an interim Board meeting.

11.5.3 The Chairman or the JVC Secretary, as duly authorised by the Chairman, shall send written notices regarding Board meetings at least 30 days prior to each meeting to all Directors, unless:

11.5.3.1 the requirement for such notice is waived by all Directors; or

11.5.3.2 a lesser period is proposed by 2/3 or more of the Directors, in which event written notice regarding such meetings shall be sent to the other Directors within such lesser period.

Notices for Board meetings shall include information on the time, place and agenda of the meetings, as well as on the topics to be discussed and the proposals to be decided by the Board. Each Director shall confirm in writing

whether he/she will be able to attend that meeting within 7 days of receipt of such notice.

- 11.5.4 A quorum for a Board meeting shall be 4 Directors, present in person or by proxy.
- 11.5.5 If a Director cannot attend a Board meeting, he may authorise in writing another person to act as his proxy to attend and vote at that particular Board meeting, and shall send a copy of the relevant letter of authorisation to the Chairman and the JVC Secretary. The proxy so entrusted shall have the same rights and responsibilities as the Director for whom the proxy is acting.
- 11.5.6 Each Director present at a Board meeting shall have 1 vote, unless he is appointed to act as a proxy by another Director who is unable to participate in the said meeting and, accordingly, may have more than 1 vote.
- 11.5.7 A Director participating in any Board meeting by means of telephone or another mode of communication approved by the Board shall be deemed to have attended that meeting in person, unless he was unable to hear clearly or be clearly heard by the other Directors, and the situation was immediately brought to the attention of the Directors present at the meeting. If a quorum for a Board meeting was not constituted in the absence of such Director, discussion among the other Directors on any matter shall immediately be suspended until a quorum is reached.
- 11.5.8 Any action by the Board may be taken without a Board meeting if all Directors consent in writing through registered mail or fax to such action. Such written consent shall be filed with the JVC Secretary as part of the Board minutes. Such resolution shall have the same force and effect as if it had been unanimously passed at a duly convened Board meeting.

11.6 Board Resolutions.

- 11.6.1 Any resolutions involving the following matters of the JVC may only be adopted by the unanimous affirmative vote of all Directors present (in person or by proxy) at the Board meeting:
 - 11.6.1.1 any amendment to this Agreement or the Articles of Association;
 - 11.6.1.2 any increase, decrease to or transfer of the registered capital;
 - 11.6.1.3 extending or obtaining of loans, and the use of JVC assets as collateral for the same;
 - 11.6.1.4 external investments made by the JVC;
 - 11.6.1.5 a division of the JVC or a merger of the JVC with any other economic organisation;
 - 11.6.1.6 the dissolution or termination of the JVC (except where such termination occurs as a result of a material breach by either of the Parties); or
 - 11.6.1.7 approval of any application from Party B under Article 9.10.8 of this Agreement,
- 11.6.2 With the exception of those topics listed under Article 11.6.1 above, Board resolutions on all other matters shall be adopted by an affirmative vote of a simple majority of all Directors present at the Board meeting, including without limitation the following:
 - 11.6.2.1 Any suspension or ceasing of, or any changes in the nature or address of, or any authorization of a third party to manage the business activities of the JVC, or a substantial part thereof.

- 11.6.2.2 The declaring, paying, or allocating of any dividend or other allocation of [] to the shareholders.
- 11.6.2.3 Any significant change in the accounting policies of the JVC.
- 11.6.2.4 The approval of the long-term or annual business plan and operating budget of the JVC.
- 11.6.2.5 The entering into of any purchase and lease contracts or any financial expenditure or commitment with either Party or a third party for any reason in an amount exceeding RMB 1,000,000.
- 11.6.2.6 Any material agreement and any other agreement entered into by the JVC outside of the normal and ordinary course of the business of the JVC.
- 11.6.2.7 The establishment of employee pensions or additional benefits which are not required by PRC Law.
- 11.6.2.8 The opening of bank accounts for the JVC.
- 11.6.2.9 The investment policy of the JVC for its excess cash.

11.7 Deadlock Procedures.

Where there is a deadlock vote on any issue at a Board meeting, the Parties shall resolve such deadlock as follows:

- 11.7.1 a second Board meeting will be convened within 48 hours of the initial meeting, and the matter in question will be discussed and voted upon again; and
- 11.7.2 where the votes are again equal, the Chairman of each Party (or his / her designated representative) shall resolve the matter through friendly consultations, and notify the Board of their mutually agreed decision in writing.

11.8 Expenses.

- 11.8.1 Unless otherwise determined by the Board, the JVC shall not pay any fees to the Directors for services performed in their capacity as such.
- 11.8.2 The JVC shall pay the reasonable expenses for air tickets, meals and accommodation incurred by the Directors for the purpose of attending Board meetings.

11.9 General Manager. The general manager may attend Board meetings but is not entitled to vote unless he/she is a Director in his/her own right or has been entrusted to represent an absent Director according to Article 11.5.5 and Article 11.5.6.

11.10 Minutes.

- 11.10.1 Draft minutes of the Board meetings, recording discussions among and resolutions passed by the Directors, shall be prepared by the JVC Secretary in Chinese and shall be reviewed and signed by all Directors within 15 days after the close of each Board meeting. Any Director who wishes to propose any amendment or addition thereto shall submit the same in writing to the Chairman, copying to all Directors, immediately after receipt of the Board minutes and in any event no later than 30 days following the relevant Board meeting, otherwise he shall be deemed to have agreed to the draft minutes.

11.10.2 Signing procedures for Board minutes shall be as follows:

- 11.10.2.1 the JVC Secretary shall prepare 1 original each in Chinese and English of the Board minutes based on the draft minutes agreed (or deemed to have been agreed) to by all the Directors, and forward the same to Party A;

11.10.2.2 Party A shall within 15 days of receipt of the original minutes dispatched by the JVC Secretary arrange for its Directors to sign the same. If any Director appointed by Party A fails to sign the said minutes, within the said 15-day period, then the Director appointed by Party A shall be deemed to have agreed to and signed the said minutes. Upon (and, in any event, no later than) the expiration of the said 15-day period, Party A shall immediately relay the minutes by courier service to Party B;

11.10.2.3 Party B shall within 15 days of receipt of the original minutes dispatched by Party A arrange for its Directors to sign the same. If any Director appointed by Party B fails to sign the said minutes within the said 15-day period, then such Director appointed by Party B shall be deemed to have agreed to and thus to have signed the said minutes. Upon (and, in any event, no later than) the expiration of the said 15-day period, Party B shall return the signed original minutes to the JVC Secretary; and

11.10.2.4 After the JVC Secretary has received from the Parties the signed original Board minutes, he shall provide 1 copy of each for each Party for record and file the original of the same with the JVC.

CHAPTER 12: ORGANISATION AND MANAGEMENT

12.1 Management Organisation. The JVC shall implement and adopt a management system under which the general manager shall be responsible to the Board for the operations of the JVC and shall report to the Board on a regular basis. The Board shall, in accordance with the Articles of Association, conduct an annual review of the general manager's performance of his duties.

12.2 Appointment and Dismissal of Senior Management Personnel.

12.2.1 Party A shall be entitled to nominate the general manager (CEO) and finance manager (CFO), whose appointment or dismissal shall be confirmed by the Board, and whose term of employment shall be 2 years. Party B shall be entitled to nominate the Chief Operating Officer (DGM) whose appointment or dismissal shall be confirmed by the Board, and whose term of employment shall be 2 years. The general manager and other Senior Management Personnel shall be appointed by the Board.

12.2.2 Senior Management Personnel shall have the relevant qualifications and experience for their respective positions.

12.2.3 Senior Management Personnel shall perform, on a full-time basis their duties and all other obligations stipulated in the Articles of Association or as resolved by the Board. Pursuant to PRC Law, the general manager may not concurrently hold the position of general manager or deputy general manager at any other economic organisation within the PRC during his term of employment by the JVC.

12.2.4 The Senior Management Personnel shall not, either on their own behalf or on behalf of any third parties, engage in any business activities which are of the same type as that conducted by the JVC, or engage in any activities which are harmful to the interests of the JVC.

The Senior Management Personnel may not enter into contracts or do business with the JVC, either on their own behalf or on behalf of any other companies, unless approved to do so by the shareholders' meeting.

12.2.5 If any Senior Management Personnel leaves the employ of the JVC, the said personnel shall not work for any other economic organisation in direct or indirect competition with the JVC for a period of 360 days after his resignation from the JVC.

12.3 Dismissal of Senior Management Personnel. If any Senior Management Personnel commits graft or a serious dereliction of duty, he may be summarily dismissed by a simple majority resolution of the Board. If the relevant Senior Management Personnel is a Director, he may not participate in such a vote.

12.4 Management Personnel. The Management Personnel must have the relevant qualifications and experience for their respective positions, and shall be appointed and dismissed by the general manager according to the management system adopted by the Board.

12.5 General Manager's Responsibilities.

12.5.1 The general manager shall be fully responsible for the day-to-day operation and management of the JVC and shall implement the decisions of the Board.

12.5.2 In addition to the other responsibilities set forth in this Agreement and the Articles of Association, the general manager shall have the following responsibilities:

12.5.2.1 to formulate the operational plan and the budget of the JVC, which shall be implemented after their approval by the Board;

12.5.2.2 to determine the pricing of the services provided by the JVC in accordance with the guidelines established by the Board;

12.5.2.3 to purchase, at a reasonable price, any goods and services necessary for the JVC's operations;

12.5.2.4 with the approval of the Board, to purchase or sell any equipment necessary for the JVC's operations, which equipment shall be deemed to be an asset of the JVC;

12.5.2.5 to nominate any Senior Management Personnel (except the general manager, finance manager and deputy general managers) for appointment and dismissal by the Board;

12.5.2.6 to employ and dismiss any Management Personnel and Working Personnel; and

12.5.2.7 to approve and determine, under the supervision of the Board, other matters authorised by the Board.

12.6 Remuneration of Senior Management Personnel. The Parties agree that the Senior Management Personnel's remuneration shall be confirmed by the Board in a formal resolution.

CHAPTER 13 : LABOUR MANAGEMENT

13.1 Governing Principles.

13.1.1 As stipulated by PRC Law, the JVC shall autonomously determine the following labour management matters:

13.1.1.1 the time, conditions, and methods of recruitment of the JVC's personnel, as well as the number of employees to be recruited;

13.1.1.2 the terms of employment for the JVC's personnel, as well as circumstances under which their Employment Contracts may be terminated; and

13.1.1.3 the system of wage payment, the standard of wages and the incentives, subsidies and benefits of the JVC.

13.1.2 The employment plan determined by the JVC shall be filed for the record with the local labour administrative department.

13.2 Employment Contracts.

13.2.1 The JVC must, in accordance with PRC Law, sign an Employment Contract with each Senior Management Personnel, Management Personnel and Working Personnel on the basis of equality and volition as well as consultation and agreement.

13.2.2 Authentication procedures should be carried out with the local labour administration authorities within 30 days following the execution of an Employment Contract.

13.3 Employee Compensation.

13.3.1 The compensation of the JVC's employees and policies governing the same shall be stipulated in the relevant Employment Contract and the Policies and Procedures Manual.

13.3.2 The JVC shall not pay any extra wages, subsidies, benefits or other compensation to its employees except as stipulated in the Employment Contract and the Policies and Procedures Manual.

13.4 Social Insurance and Welfare. The JVC shall provide social insurance and welfare benefits for the JVC's employees in accordance with PRC Law.

CHAPTER 14 : STOCK INCENTIVE PLAN

14.1 Each Party shall contribute on a pro rata basis a portion of its equity in the JVC to an incentive plan for the Directors, Senior Management Personnel and other employees of the JVC. The total amount of equity contributed to the incentive plan shall be 15%.

14.2 At the discretion of the JVC Board of Directors, such 15% of its total equity may be distributed under the stock incentive plan among the Directors, Senior Management Personnel and other employees of the JVC, or to a designated entity established for the purpose of holding the said equity. The vesting terms, detailed option terms and purchase price of the equity payable pursuant to the stock incentive plan shall be determined by the JVC Board.

CHAPTER 15 : ACCOUNTING AND FINANCE

15.1 Accounting and Auditing System.

15.1.1 The general manager and the finance manager shall be responsible for the financial management of the JVC; they shall submit 1 copy each of the approval certificate, business licence, this Agreement and the Articles of Association to the local department of finance within 30 days following the completion of the industrial and commercial registration and shall secure taxation registration certificates from the State and local taxation bureau.

15.1.2 The general manager and the finance manager shall prepare the accounting system and procedures of the JVC in accordance with PRC Law and the internal auditing and internal reporting requirements of Party A (in particular, including an annual statement and audit report prepared according to international accounting standards), which shall be submitted to the Board for approval and filed with the relevant governmental administrations.

15.1.3 The financial year of the JVC shall be from January 1st to December 31st of the calendar year; the first financial year of the JVC shall commence on the date of the issuance of the JVC's business licence and shall end on December 31st of the same year.

15.1.4 The JVC will prepare financial statements in accordance with both US GAAP and PRC GAAP. The JVC shall be audited by both an internationally registered accounting firm and a PRC-registered accounting firm both of which shall be nominated by Party A and

appointed by JVC. The JVC shall bear the costs of auditing. If Party A has additional requirements, the JVC shall cooperate with Party A and Party A itself shall bear the relevant expenses. The PRC GAAP financial statements shall be used for all PRC statutory filing purposes and the payment of dividends. US GAAP shall be used for determining employee and senior management bonuses, amounts to be charged under service agreements, resolving any JVC valuation issues associated with termination or breach of contract and profit sharing for the respective shareholders.

15.1.5 All accounting records, vouchers, books and statements of the JVC shall be prepared in Chinese.

All important financial and accounting documents, records and statements shall require the approval and signature of the general manager and the finance manager.

15.1.6 The finance manager shall, within 30 days after the end of each quarter, provide each Party and the relevant governmental administrations with quarterly financial statements of the JVC, including the profit and loss account and the balance sheet. The annual financial statements of the JVC, together with the annual auditing report shall be submitted to relevant Shanghai AIC within 120 days of the end of each accounting year.

15.1.7 The finance manager shall, within 15 days after the end of each month provide Party A and Party B with monthly financial statements prepared in accordance with PRC GAAP and US GAAP. The PRC GAAP and US GAAP annual audited financial statements shall be completed within 60 days of the year end. The finance manager shall comply with all PRC and US financial reporting requirements.

15.1.8 Either Party or its duly authorised representative may at any reasonable time without prior notice to or approval of the other Party inspect the accounts of the JVC and appoint its own auditors to inspect the books and records of the JVC.

15.2 Bank Accounts.

15.2.1 The JVC shall open and maintain bank accounts as approved by the Board, and no bank accounts shall be opened unless approved by the Board.

15.2.2 Excess cash shall be invested according to the investment policy approved by the Board and PRC Law.

15.3 Profits Distribution. For the avoidance of doubt, any and all Profits shall be divisible between the Parties in accordance with the shareholding. . However, the actual distribution of profits shall be subject to the approval of the Board.

15.4 Legal Fees. The JVC shall bear the legal fees associated with the establishment of the JVC, including the drafting of this Agreement and the Articles of Association

CHAPTER 16 : TAXATION

16.1 Tax and Preferential Treatment. The JVC shall pay taxes according to the relevant PRC Law and shall be entitled to any exemptions and preferential treatment accorded to it by the same.

16.2 Personal Income Tax. All employees of the JVC shall pay their individual income taxes in accordance with PRC Law.

CHAPTER 17 : CONFIDENTIALITY

17.1 In addition to the conditions set forth in Article 15.3 of this Agreement, the Parties shall maintain the confidentiality of all Confidential Information during the Joint Venture Term and indefinitely thereafter.

17.2 Confidentiality Agreement. The Parties and the JVC shall take all necessary measures (including the signing of a confidentiality agreement) to ensure that their employees, agents, contractors, suppliers and advisors also comply with the obligation to maintain confidentiality as set forth in this Chapter and shall arrange for the summary dismissal of any employee, agent or advisor who breaches such obligation.

17.3 Exceptions. The disclosure of Confidential Information by either Party under any of the following circumstances shall not be deemed as a breach of confidentiality:

- 17.3.1 at the time of its disclosure, disclosed Confidential Information is already in the public domain;
- 17.3.2 the Confidential Information is disclosed pursuant to the prior written consent of the Parties;
- 17.3.3 the Confidential Information is required to be disclosed by a government authority or law to which either Party or an Affiliate of either Party is subject;
- 17.3.4 the Confidential Information is no longer deemed as confidential information due to operational needs, and is provided to any Director, employee, agent, contractor, supplier or advisor of the JVC, a Subsidiary or Affiliate; or
- 17.3.5 Confidential Information is disclosed to an Affiliate, Subsidiary or other bona fide potential assignee, provided that such assignee has entered into a confidentiality agreement to the satisfaction of the other Party prior to the said disclosure.

CHAPTER 18 : TERMINATION AND MATERIAL BREACH

18.1 Principle. This Agreement shall terminate upon the expiration of the Joint Venture Term, unless it is extended pursuant to Article 6.2 or prematurely terminated pursuant to Article 18.2.

18.2 Termination. Either Party may initiate termination of this Agreement prior to the expiration of the Joint Venture Term by notifying the other Party in writing of its intention to terminate, and the Board shall undertake any and all measures necessary to obtain the approval from the Shanghai AIC for the said termination for any of the following reasons, namely:

- 18.2.1 if either the JVC or the respective other Party:
 - 18.2.1.1 is the subject of proceedings for liquidation or dissolution required by law; or
 - 18.2.1.2 is declared bankrupt by a court of competent jurisdiction;
- 18.2.2 if all or any material part of the key assets of the JVC are expropriated, causing an adverse material effect on the operation and production of the JVC;
- 18.2.3 if any government organ with authority over either Party requires any provision of this Agreement to be revised in such a way that causes a material adverse effect on the JVC or on either Party and, despite the best efforts of the JVC or the affected Party to remedy such situation, such material adverse effect cannot be cured;
- 18.2.4 if an amendment is made to the existing PRC Law or to the interpretation thereof, or a new law is introduced after the Effective Date which materially, adversely and irreparably affects the JVC's operations;
- 18.2.5 if Force Majeure prevails for more than 30 days and has a material adverse effect on the operation of the JVC, and the Parties have been unable to find an equitable solution despite prompt consultations in accordance with the stipulations of Article 21.3;
- 18.2.6 if a buy-out is not effected pursuant to Article 18.4;

- 18.2.7 if a Party has materially breached this Agreement, and if such material breach has not been cured within 15 days pursuant to Article 18.3.2; and
- 18.2.8 if the JVC fails to obtain the online securities brokerage services permit within 3 years of the date of the issuance of its business license.

18.3 Material Breach.

- 18.3.1 A Party shall be deemed to have materially breached its obligations under this Agreement (the "Breaching Party") in any of the following circumstances:
 - 18.3.1.1 it has failed to perform any of its obligations under Chapter 9 of this Agreement;
 - 18.3.1.2 any of the representations or warranties it has made herein is false, so as to have a material adverse effect on the operation of the JVC;
 - 18.3.1.3 it fails to ensure that any Senior Management Personnel in the employ of the JVC undertakes in writing not to work for a competing operation within 180 days after his or her departure from the JVC;
 - 18.3.1.4 it breaches any provision of this Agreement and such breach prevents the JVC from continuing to operate (in which case either Party may apply directly to the Shanghai AIC for approval to terminate this Agreement).
 - 18.3.1.5 it has been found guilty of illegal operations by a competent government authority;
 - 18.3.1.6 In the case of Party B, where it fails to transfer assets (including contracts with Clients) to the JVC, except under the circumstances as set forth in Article 9.2.3 above; or
 - 18.3.1.7 in the case of Party B, where it is in material breach of the exclusive service agreement described in Article 9.2.
- 18.3.2 In the event of a material breach as outlined in Article 18.3.1, the Breaching Party shall have 15 days after receipt of notice specifying the breach from the other Party (the "Non-breaching Party") to cure such breach. In case of failure, the Non-breaching Party, in addition to seeking compensation from the Breaching Party for all direct and foreseeable damages caused by the material breach, shall have the following rights:
 - 18.3.2.1 to terminate this Agreement; and
 - 18.3.2.2 together with a qualified third party (or third parties) chosen at the Non-Breaching Party's sole discretion, to buy out the Breaching Party's total shareholding interest in the JVC.

18.4 Buy-out.

- 18.4.1 In the event of a material breach, the price at which the Non-Breaching Party (and its co-investor(s)) may buy the Breaching Party's equity in the JVC shall be determined as the lower of: the total value of the Breaching Party's equity in the JVC (as a going concern) as described in a written valuation from the accounting firm retained by the JVC; or the original value of the registered capital contributed by the Breaching Party.
- 18.4.2 In the event that this Agreement is terminated by either Party pursuant to Article 18.2 above, the other Party may, within 60 days thereafter, buy out such Party subsequent to mutual written agreement between the Parties, at a price based upon a written valuation from the accounting firm appointed by the JVC representing the value of such Party's equity holding in the JVC as a going concern.

19.1 Liquidation.

19.1.1 If this Agreement is terminated for any reason and either Party's total shareholding interest in the JVC is not purchased by the other Party or any third party pursuant to Article 18.3.2. 1 and Article 18.3.2. 2, then the JVC shall undergo liquidation, whereupon the Liquidation Committee shall value and liquidate the JVC's assets in accordance with PRC Law and the principles set out in this Article.

19.1.2 The Liquidation Committee shall be established within 15 days after the commencement of liquidation proceedings and shall comprise 6 members, 3 of whom shall be nominated by Party A and 3 of whom shall be nominated by Party B. After nomination by the Board, 1 of the members appointed by Party A shall be the Chairman, and 1 of the members appointed by Party B shall be the vice-Chairman, of the Liquidation Committee. The Board shall report the establishment of the Liquidation Committee to the Shanghai AIC.

Members of the Liquidation Committee shall be Directors or relevant professionals retained by the Board. Any resolution by the Liquidation Committee shall be passed on a simple majority basis.

Either Party may, at its own cost, also appoint professional advisors, including accountants and lawyers qualified either in the PRC or abroad, to assist the Liquidation Committee.

19.1.3 After the establishment of the Liquidation Committee, the JVC shall submit to the Liquidation Committee the accounting statements, financial books, list of company assets and creditor and debtor lists of the JVC, as well as other materials in connection with the liquidation of the JVC.

19.1.4 Within a period of 30 days of the formation of the Liquidation Committee, each Party shall have a right of first refusal to purchase any tangible and intangible asset of the JVC. Where both Parties wish to purchase the same asset, it shall be sold to the Party that offers the highest price.

If the Parties agree that there is a need to arrange for the sale of the JVC's assets and/or business to third parties, the Liquidation Committee shall, in preparing and executing the liquidation plan, endeavour to obtain the highest possible price for the said assets and/or business. Consideration shall be given to the sale of the JVC's assets and/or business by public auction open to domestic and foreign bidders with a view towards concluding sales at the best possible market prices.

19.1.5 Liquidation expenses shall be paid out of the JVC's liquidated assets, with priority over the claims of other creditors.

After the payment of the liquidation expenses, other payments shall be made according to the following order:

19.1.5.1 wages and insurance premiums of the JVC's employees;

19.1.5.2 taxes payable to the State; and

19.1.5.3 other outstanding debts.

19.1.6 After the settlement of all of the JVC's outstanding debts outlined in Article 19.1.5 above and the division of tangible property not sold according to the liquidation plan, the total cash proceeds of the liquidation of property and remaining available funds received by the JVC shall be calculated in RMB and divided between the Parties in proportion to their respective percentage shares of the JVC's total registered capital;

19.1.7 On completion of all liquidation procedures, the Liquidation Committee shall submit to the Shanghai AIC a final liquidation report (including the profit and loss account) approved by the Board, and within 10 days of the said submission, shall undergo procedures with the tax bureau for cancellation of the JVC's registrations. Within 10 days of completion of the said procedures, the Liquidation Committee shall submit the liquidation report and the certificates of cancellation of registrations to the Shanghai AIC and shall return the JVC's business licence and complete all other formalities to nullify the JVC's registration. Party B shall have a right to obtain copies of all of the JVC's accounting books and other documents but the originals thereof shall be left in the care of Party A.

19.2 Release of Obligations.

19.2.1 Neither Party shall have any further obligations or liabilities to or rights against the JVC or the other Party upon completion of the liquidation of the JVC under Article 19.1, except for the obligations stipulated in Chapter 15.

19.2.2 Upon the receipt of all sums payable to it, the Party which has sold its total shareholding interest in the JVC pursuant to a buy-out under Article 18.3.3 shall have no further obligations or liabilities to or rights against the JVC or the other Party under this Agreement, except for the obligations stipulated in Chapter 15.

19.2.3 If the JVC continues to operate after a buy-out, then the JVC and/or the remaining Party shall hold the Party which has sold its shareholding interest in the JVC harmless from any liability or costs related to this Agreement or the JVC in respect of events which occur after the buy-out.

CHAPTER 20: FORCE MAJEURE

20.1 Suspension of Obligations. In the event of Force Majeure, the Parties should consult with each other to determine a method of dealing with such, and the performance of the Parties' contractual obligations (except the obligations relating to confidentiality under Chapter 15) shall be suspended to the extent they are affected by the Force Majeure. The Joint Venture Term shall be extended with the agreement of the Parties and the approval of the Shanghai AIC, without penalty to either Party, by the period of such suspension of obligations.

20.2 Written Evidence. The Party claiming Force Majeure shall, within 15 days after the date of its first occurrence, inform the other Party of the same and provide said Party with written evidence of the occurrence of Force Majeure as issued by the relevant authorities, and shall use all reasonable efforts to minimise the consequences of such Force Majeure.

20.3 Termination. If Force Majeure prevails for more than 30 days and has a material adverse effect on the operation of the JVC, either Party may initiate termination of this Agreement pursuant to Article 18.2.5.

CHAPTER 21 : GOVERNING LAW AND DISPUTE RESOLUTION

21.1 Governing Law. The execution, validity, interpretation and implementation of this Agreement and the settlement of disputes under it shall be governed by PRC Law.

21.2 Interpretation. If any dispute arises in connection with the interpretation of any provisions of this Agreement, the Parties shall determine the true intention of those provisions by making reference to the wording of the Agreement, the relevant Articles, the objective of the Agreement, commercial practice and the principle of good faith.

21.3 Consultation. If any dispute arises in connection with this Agreement, the Parties shall attempt in the first instance to resolve such dispute through friendly consultation or mediation.

21.4 Arbitration. If the dispute cannot be resolved in the above manner within 30 days after the commencement of consultations, either Party may submit the dispute to arbitration as follows:

- 21.4.1 all disputes arising out of or in connection with this Agreement shall be submitted for arbitration to the Shanghai Sub-commission of the China International Economic and Trade Arbitration Commission ("Arbitration Commission") under its rules and by an arbitration panel appointed in accordance with those rules. The arbitration panel shall consist of 3 arbitrators. Each of the Parties shall appoint 1 arbitrator from among the Panel of Arbitrators of the Arbitration Commission or entrust the chairman of the Arbitration Commission to make such appointment. A third arbitrator shall act as the presiding arbitrator and shall be jointly appointed by the Parties or appointed by the chairman of the Arbitration Commission upon the Parties' joint authorization. If the Parties fail to jointly appoint a third arbitrator or fail to jointly entrust the chairman of the Arbitration Commission to appoint a third arbitrator within 20 days of the date on which the respondent receives the notice of arbitration, the third arbitrator shall be appointed by the chairman of the Arbitration Commission.
- 21.4.2 The arbitration shall be conducted in the Chinese language, with the arbitral award being final and binding upon both Parties. Unless otherwise determined by the arbitrator, the cost of arbitration shall be borne by the losing Party.
- 21.4.3 When any dispute is submitted to arbitration, except for the matters under dispute, the Parties shall continue to perform this Agreement.

CHAPTER 22: MISCELLANEOUS

- 22.1 Notices. Any notice between the Parties shall be made in writing and in the English and/or Chinese languages by facsimile transmission, delivery in person (including courier service) or registered airmail letter. Until changed by written notice, all notices and communications shall be delivered to the appropriate correspondence addresses set forth below:

Party A

BEIJING CENTURY HI-TECH INVESTMENT CO., LTD.

Address: Suite 21, 15th Floor, Tower 2, Bright China Chang'an Building, 7 Jianguomennei Avenue, Dongcheng District, Beijing 100005.
 Fax : (86 10) 6510-2160
 Attn : Charles Zhang

Party B

GUOLIAN SECURITIES CO., LTD.

Address: No.153, Zhongshan Road, Wuxi 214001, Jiangsu Province.
 Fax : []
 Attn : []

- 22.2 Receipt of Notices. The date of receipt of a notice or communication hereunder shall be deemed to be the earliest of the following:
- 22.2.1 that as set forth in the transmission journal in the case of a facsimile transmission, unless such facsimile transmission is sent after 5:00 p.m. or on a non-business day in the place of receipt, in which event the date of receipt shall be deemed to be the following business day in the place of receipt;
- 22.2.2 the time of receipt by the receiving party in the case of delivery in person; and
- 22.2.3 3 days after the issuance of a receipt by the post office in the case of a registered letter.
- 22.3 Waiver. Failure or delay on the part of either Party hereto to exercise any right, power or privilege under this Agreement, or under any other agreement relating hereto, shall not constitute a waiver thereof; nor

shall any single or partial exercise of any right, power of privilege preclude any other future exercise thereof.

- 22.4 Amendments. This Agreement may only be amended by a written agreement signed by the Parties.
- 22.5 Severability. The invalidity of any provision of this Agreement shall not affect the validity of any other provision of this Agreement which is unrelated to that provision.
- 22.6 Versions. This Agreement is executed in 4 originals. 2 originals shall be for each Party.
- 22.7 Entire Agreement. This Agreement, the Appendices hereto and the Articles of Association constitute the entire agreement between the Parties and supersede all prior discussions, negotiations and agreements. The Appendices to this Agreement form an integral part hereof and have the same legal effect as this Agreement.
- 22.8 Indemnity. The JVC shall indemnify either Party against all losses, damages or liabilities with respect to third-party claims arising out of the operation of the JVC, except for acts of either Party that constitute a violation of this Agreement or the Articles of Association.
- 22.9 Successors. This Agreement is made for the benefit of, and shall bind, the Parties and their respective lawful successors and assignees.
- 22.10 Matters Not Covered. Matters not specifically provided for in this Agreement shall be handled in conformity with the relevant resolutions adopted by the Board and in accordance with the relevant provisions of PRC Law.

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their duly authorised signatories on the date first indicated above.

For and on behalf of
Beijing Century Hi-Tech Investment Co., Ltd.

Name : Charles Zhang
Title : Chairman
Signature : /s/ Charles Zhang

Company Seal :

For and on behalf of
Guolian Securities Co., Ltd.

Name : Fan Yan
Title : Chairman
Signature : /s/ Fan Yan

Company Seal :

* Omitted pursuant to request for confidential treatment and filed separately with the Securities and Exchange Commission.

Remuneration of Senior Management Personnel

1. General Manager (Chief Executive Officer): annual base salary of RMB * to RMB *;
2. Vice-president (Chief Operating Officer): annual base salary of RMB * to RMB *;
3. Finance Manager (Chief Finance Officer) and Technical Manager (Chief Technical Officer): annual base salary of RMB * to RMB *;

* Omitted pursuant to request for confidential treatment and filed separately with the Securities and Exchange Commission.