

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1 TO
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Sohu.com Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	7379 (Primary Standard Industrial Classification Code Number)	98-0204667 (I.R.S. Employer Identification No.)
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(Address and Telephone Number of Registrant's Principal Executive Offices)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, please check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price(/1/)	Amount of Registration Fee
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Common Stock, par value \$0.001 per share.....	\$86,250,000	\$22,770
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(1) Estimated solely for the purpose of determining the registration fee in accordance with Rule 457(o) under the Securities Act of 1933.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

+++++The information in this prospectus is not complete and may be changed. We may +
 +not sell these securities until the registration statement filed with the +
 +Securities and Exchange Commission is effective. This prospectus is not an +
 +offer to sell these securities and it is not soliciting an offer to buy these +
 +securities in any state where the offer or sale is not permitted. +
 +++++

SUBJECT TO COMPLETION, DATED MAY 26, 2000

Shares

Sohu.com Inc.

Common Stock

We are offering _____ shares of our common stock in the United States and Canada through a syndicate of U.S. underwriters, and _____ shares outside the United States and Canada through a syndicate of international managers. The offering price and the underwriting discount and commission for the two offerings are identical.

Prior to this offering, there has been no public market for our common stock. The initial public offering price of our common stock is expected to be between \$ _____ and \$ _____ per share. We have applied to list our common stock on The Nasdaq Stock Market's National Market under the symbol "SOHU".

The U.S. underwriters and international managers have an option to purchase on a pro rata basis up to _____ additional shares to cover over-allotments.

Investing in our common stock involves risks. See "Risk Factors" on page 7.

	Price	Underwriting	
	to	Discounts and	Proceeds to
	Public	Commissions	Sohu.com
	-----	-----	-----
Per Share.....	\$	\$	\$
Total.....	\$	\$	\$

Delivery of the shares of common stock will be made on or about _____, 2000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston

Donaldson, Lufkin & Jenrette

UBS Warburg

The date of this prospectus is _____, 2000.

[Inside front cover --

- (1) Top half -- Heading "A Leading Internet Portal in China" followed by a screen shot of the Sohu.com home page, which is in the Chinese language, together with English annotations.
- (2) Bottom half -- Heading "Offering Context, Content, Community & Commerce" followed by screen shots of the Sohu online directory, the Sohu News channel, the Sohu chat room and the Sohu shopping channel.
- (3) Background -- The tail of the "Search Fox".]

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Dealer Prospectus Delivery Obligation

Until _____, 2000 (25 days after the commencement of this offering), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as an underwriter and with respect to their unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights selected information from this prospectus and does not contain all of the information that may be important to you. You should read the entire prospectus carefully in evaluating an investment in our shares.

Sohu.com Inc.

Our Business

We are a leading Internet portal in China in terms of brand recognition, page views and registered users. During the seven-day period ended May 20, 2000, we averaged in excess of 12.4 million page views per day. In addition, as of May 20, 2000, we had over 2.2 million registered e-mail users. Our portal consists of the following:

- . sophisticated Chinese language Web navigational and search capabilities;
- . twelve main content channels;
- . Web-based communications and community services; and
- . a platform for e-commerce services.

We are a pioneer of the Internet industry in China, having introduced the first Chinese language online directory and search engine. We have exclusively targeted the PRC Internet market since our inception. All of our products and services are designed to meet the specific interests and needs of Internet users in China. As of April 30, 2000, our online directory contained over 250,000 Chinese language Web listings. We offer Internet users a proprietary Chinese language search and a co-branded English language search. Furthermore, we have contractual relationships with over 85 Chinese language media and information providers. Each of our main content channels contains multi-level sub-channels that cover a comprehensive range of topics, including news, business, entertainment, sports and career. We also promote user affinity to Sohu by providing free Chinese language e-mail, online bulletin boards, chat rooms and instant messaging. We began offering limited e-commerce services on a trial basis in 1999.

As a leading Internet portal in China, we are well positioned to capitalize on the emergence of the Web as a new advertising medium and commerce platform in China. We believe that by providing a well tuned and highly relevant navigational context and comprehensive range of China-specific content, we provide advertisers and merchants with targeted access to a large audience with highly desirable demographic profiles.

Corporate Structure

Under current PRC regulations, foreign companies such as Sohu.com Inc. may not own or operate telecommunications businesses in China, which may include the operation of Internet content provision businesses. Our wholly owned PRC subsidiary, Sohu ITC Information Technology (Beijing) Co., Ltd., or Beijing ITC, does not have a license to provide Internet content and information services. As a result, we recently restructured our operations. As part of this restructuring, our content-related operations were transferred to Beijing Sohu Online Internet Information Services, Ltd., or Beijing Sohu, a PRC company that has a license to provide Internet content and information services. Beijing Sohu is 80% owned by Charles Zhang, our founder, President and Chief Executive Officer, and 20% owned by He Jinmei, an executive officer of Beijing ITC, both of whom are PRC nationals. After the restructuring, Beijing ITC continues to operate our online advertising, e-commerce applications, directory and search engine and other businesses described in this prospectus, while Beijing Sohu provides and develops content for use by Beijing ITC on our Web site for a monthly fee. See "Corporate Restructuring".

Our Market Opportunity

Internet use in China has grown rapidly in recent years and is expected to significantly outpace growth in worldwide Internet use over the next several years. According to International Data Corporation, or IDC, between January 1, 1999 and December 31, 1999, the number of PRC Internet users increased from approximately 2.4 million to 3.8 million. In addition, IDC projects that the number of Internet users in China will grow to approximately 25.2 million in 2003.

As Internet use becomes more pervasive in China, and as the PRC online population continues to develop and expand, the opportunities for online advertising and commerce will also expand.

Zenith Media estimates that advertising expenditures for television, newspapers, magazines and other traditional media in China totaled over \$4.1 billion in 1999. In addition, Forrester Research estimates that the aggregate online advertising market in China in 1999 was only \$8.0 million. As the number of Internet users increases, we believe that online advertising will capture an increasing percentage of the overall PRC advertising market. Zenith Media has estimated that in 2002 China's overall advertising market will be worth \$6.1 billion, while Forrester Research has estimated that China's online advertising market will be worth \$100 million in 2002 and \$440 million in 2004. Similarly, the volume of e-commerce transactions in China is expected to increase significantly as the online population expands. According to IDC, total e-commerce revenue in China is expected to grow from approximately \$43.0 million in 1999 to approximately \$11.7 billion in 2004.

Our Strategy

Our objective is to strengthen our position as a leading Internet portal in China. In order to accomplish this objective, we plan to:

- . maintain and extend our brand recognition;
- . increase the number of visitors to our portal and the duration of each visit;
- . increase online advertising revenues and develop an e-commerce business; and
- . acquire complementary assets, technologies and businesses.

Recent Developments

On January 29, 2000, we sold a total of 518,459 shares of our Series D preferred stock to an affiliate of Pacific Century Cyberworks Limited, an affiliate of Legend Holdings Limited and Hikari Tsushin, Inc. for an aggregate of approximately \$20.0 million. On February 2, 2000, we sold an additional 259,229 shares of Series D preferred stock to an affiliate of Pacific Century Cyberworks Limited for approximately \$10.0 million. All of the Series D preferred stock will, under the terms of the preferred stock, be mandatorily converted into an equal number of shares of common stock upon the consummation of this offering.

On March 1, 2000, we entered into a one-year non-exclusive agreement with an affiliate of Nokia Corporation, under which we are Nokia's preferred partner in China for the co-development of wireless access protocol, or WAP, mobile Internet services, as well as short message services, or SMS. We are currently Nokia's only content partner for WAP and SMS services in China, and are responsible for aggregating content, such as stock quotes, news, e-mail and advertising, and tailoring it for mobile telephone users. We commenced providing content for this WAP service on April 27, 2000.

In May 2000, we, together with an affiliate of Nokia Corporation, entered into six-month cooperation memoranda of understanding, or MOUs, with eight PRC provincial wireless telecommunications operators. Under the terms of these MOUs, we will be responsible for identifying and developing content for new WAP applications and services.

In May 2000, the State Administration of Industry and Commerce, or SAIC, selected 11 Internet companies in the PRC to participate in a one-year online advertising trial program. The SAIC is expected to formulate online advertising regulations based on the information gathered during the trial program. We were selected as one of the Internet companies that will participate in the trial program. We also obtained a one-year advertising business permit from SAIC on May 18, 2000.

Our History

We were incorporated in Delaware in August 1996 as Internet Technologies China Incorporated, and launched our original Web site, itc.com.cn, in January 1997. During 1997, we developed the Sohu online directory and search engine and related technology infrastructure, and also focused on recruiting personnel, raising capital and aggregating content to attract and retain users. In February 1998, we re-launched our Web site under sohu.com. In September 1999, we re-named our company Sohu.com Inc. Substantially all of our operations are conducted through Beijing ITC, our wholly owned PRC subsidiary. In May 2000, as a result of regulatory developments for the Internet industry in China, we restructured our operations. See "Corporate Restructuring".

Our principal executive offices are located at 7 Jianguomen Nei Avenue, Suite 1519, Tower 2, Bright China Chang An Building, Beijing 100005, People's Republic of China and our telephone number is 86-10-6510-2160. In addition, we maintain offices in Shanghai and Guangzhou. Our Internet address is www.sohu.com. The information on our Web site is not a part of this prospectus.

As used in this prospectus, references to "us", "we", "our", "our company", "Sohu.com" and "Sohu" are to Sohu.com Inc., our subsidiary Beijing ITC, and our affiliate Beijing Sohu, 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.

Unless otherwise indicated, all references in this prospectus to the number of outstanding shares of our common stock:

- . give effect to the mandatory conversion of the Series A, B, B-1, C and D preferred stock into common stock upon the consummation of this offering;
- . give effect to a five-for-one stock split which became effective on October 15, 1999; and
- . do not include the number of shares that we will issue if the U.S. underwriters and international managers exercise their over-allotment option.

In addition, the information in this prospectus assumes that the initial public offering price will be per share, the mid-point of the range disclosed on the cover of this prospectus. As used in this prospectus, "U.S. Dollar", "dollar" or "\$" means the lawful currency of the United States of America, and "Renminbi" or "RMB" means the lawful currency of the PRC.

The Offering

This offering consists of the U.S. offering and the international offering, each of which is described below. A total of . shares will be offered (plus . shares subject to the U.S. underwriters' and international managers' overallotment option).

- U.S. offering..... An offering in the United States and Canada of . shares.
- International offering.... An offering outside the United States and Canada of . shares at the same time as the U.S. offering.
- Common stock to be outstanding after this offering..... shares or shares if the U.S. underwriters and international managers exercise their over-allotment option in full. Excluded are stock options and warrants outstanding of an aggregate of 621,790 shares of our common stock at a weighted average exercise price of \$8.17 per share.
- Use of proceeds..... We intend to use a portion of the net proceeds of this offering to fund capital expenditures, consisting primarily of additions to our networking and computer infrastructure. In addition, we intend to use a portion of the net proceeds for sales and marketing activities. The remainder of the net proceeds will be used for general corporate purposes. We may also use a portion of the net proceeds for possible acquisitions or investments although we do not currently have any agreements or understandings to make any acquisitions or investments. See "Use of Proceeds".

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

Summary Consolidated Financial Data

The following summary consolidated financial data have been derived from our (1) audited consolidated financial statements for the years ended December 31, 1997, 1998 and 1999, (2) our unaudited consolidated financial statements for the three-months periods ended March 31, 1999 and 2000 and (3) our unaudited consolidated pro forma balance sheet as of March 31, 2000, all of which are included elsewhere in this prospectus. The information below should be read in conjunction with "Selected Consolidated Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations", our audited consolidated financial statements and the related notes and our unaudited consolidated financial statements and the related notes, all of which are included in this prospectus. Our consolidated financial statements are presented in accordance with the United States generally accepted accounting principles. Basic and diluted pro forma net loss per share in 1999 is computed using the weighted average number of shares of common stock outstanding, including the pro forma effects of the mandatory conversion of the Series A, B, B-1 and C preferred stock into common stock upon the consummation of this offering. Basic and diluted pro forma net loss per share for the three months ended March 31, 2000 is computed using the weighted average number of shares of common stock outstanding, including the pro forma effects of the mandatory conversion of the Series A, B, B-1, C and D preferred stock into common stock upon the consummation of this offering. For a description of the pro forma financial effects of our restructuring, see "Corporate Restructuring -- Pro Forma Effects of Corporate Restructuring".

	Year ended December 31,			Three Months ended March 31, (unaudited)	
	1997	1998	1999	1999	2000
(in thousands, except for per share and share data)					
Statement of Operations					
Data:					
Revenues.....	\$ 78	\$ 472	\$ 1,617	\$ 233	\$ 842
Total costs and expenses.....	(238)	(1,082)	(5,077)	(516)	(3,337)
Operating loss.....	(160)	(610)	(3,460)	(283)	(2,495)
Net loss.....	(160)	(615)	(3,449)	(276)	(2,464)
Net loss attributable to common stockholders....	(160)	(859)	(4,366)	(390)	(4,023)
Basic and diluted net loss per share attributable to common stockholders.....	\$ (0.05)	\$ (0.24)	\$ (1.22)	\$ (0.11)	\$ (1.11)
Shares used in computing basic and diluted net loss per share.....	3,500,000	3,564,000	3,588,000	3,564,000	3,621,000
Basic and diluted pro forma net loss per share attributable to common stockholders....			\$ (0.41)	\$ (0.03)	\$ (0.26)
Shares used in computing basic and diluted pro forma net loss per share			8,314,000	7,925,000	9,462,000

The following table is a summary of our consolidated balance sheet as of March 31, 2000:

- . on an actual basis;
- . on a pro forma basis to give effect to the mandatory conversion of all outstanding Series A, B, B-1, C and D preferred stock into common stock upon the closing of this offering; and
- . on a pro forma as adjusted basis to reflect the mandatory conversion of all the preferred stock and the sale of shares of common stock offered at an assumed initial public offering price of \$ per share after deducting estimated underwriting discounts and commissions and offering expenses.

As of March 31, 2000

Actual Pro Pro forma
 Forma as adjusted

(in thousands)

Balance Sheet Data:			
Cash and cash equivalents.....	\$33,106	\$33,106	\$
Working capital.....	28,801	28,801	
Total assets.....	38,111	38,111	
Total liabilities.....	5,322	5,322	5,322
Mandatorily redeemable convertible preferred stock.....	41,721	--	--
Total shareholders' equity (deficit).....	(8,932)	32,789	

RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus, including our consolidated financial statements and the related notes, before making an investment decision.

Risks relating to Sohu.com

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

We were incorporated in Delaware in August 1996, and launched our original Web site in January 1997. In February 1998, we re-launched our Web site under www.Sohu.com. We have incurred significant net losses since inception and had an accumulated deficit of approximately \$9.4 million as of March 31, 2000. We anticipate that we will continue to incur substantial net losses due to a high level of planned operating and capital expenditures, including increased sales and marketing costs, additional personnel hires, and greater levels of product development. Our net losses will increase in the future and we may never achieve or sustain profitability.

We have a limited operating history, which may make it difficult for you 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 you 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 an e-commerce 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;

If we are unsuccessful in addressing these risks, our business, financial condition and results of operations will be materially and adversely affected.

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 subsidiary, Sohu ITC Information Technology (Beijing) Co., Ltd., or Beijing ITC. Beijing ITC is a wholly foreign owned enterprise, or a WFOE, 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 recent restructuring, we transferred certain of our assets and operations to Beijing Sohu Online Internet Information Services, Ltd., or Beijing Sohu, a PRC company that is 80% owned by our chief executive officer. We do not have any ownership interest in Beijing Sohu.

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, the existence and enforcement of content restrictions on the Internet and the availability of securities offerings by companies operating in the PRC Internet sector. In the opinion of TransAsia lawyers, our PRC counsel, the ownership structures of Sohu, Beijing ITC and Beijing Sohu, both currently and giving effect to this offering, and the

businesses and operations of Sohu, Beijing ITC and Beijing Sohu as described in this prospectus comply with all existing PRC laws, rules and regulations, and no further PRC governmental approvals are required for such ownership structure, businesses, operations or this offering. There are, however, substantial uncertainties regarding the interpretation of current PRC Internet laws and regulations. In addition, there will likely be new PRC Internet laws and regulations adopted in the near future. Accordingly, we cannot assure you whether the PRC government may ultimately take a contrary view to the opinion of our PRC counsel.

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

- . A prohibition of foreign investment in businesses providing value-added telecommunication services, including computer information services or electronic mail box services, may be applied to Internet businesses such as ours. Some officials of the PRC Ministry of Information, or MII, have taken the position that foreign investment in the Internet sector is prohibited.
- . The MII has also stated recently that it intends to adopt new laws or regulations governing foreign investment in the PRC Internet sector in the near future. If these new laws or regulations are inconsistent with our restructuring, our business will be severely impaired.
- . Under the agreement reached in November 1999 between the PRC and the United States concerning the United States' support of PRC'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, including approval by the U.S. Congress and the PRC National People's Congress, and the agreement also faces opposition in the United States from various parties, including trade unions, environmentalists and human rights organizations.
- . The MII has also stated recently that the activities of Internet content providers are also 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. In addition, the new laws and regulations may require various PRC government approvals for securities offerings by companies engaged in the Internet sector in the PRC.

The interpretation and application of existing PRC laws and regulations, the stated positions of the MII and the possible new laws or 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 or Beijing Sohu's existing or future ownership structure and businesses, or this offering, violates existing or future PRC laws, regulations or policies. It is also possible that the new laws or regulations governing the PRC Internet sector that may be adopted in the future will prohibit or restrict foreign investment in, or other aspects of, any of our, Beijing ITC's or Beijing Sohu's current or proposed businesses and operations or require governmental approvals for this offering. In addition, these new laws and regulations may be retroactively applied to us, Beijing ITC or Beijing Sohu.

If we, Beijing ITC or Beijing Sohu 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 or Beijing Sohu's income;

- . revoking our, Beijing ITC's or Beijing Sohu's business license;
- . shutting down our, Beijing ITC's or Beijing Sohu's servers and/or blocking our Web sites;
- . restricting or prohibiting our use of the proceeds of this offering to finance our business and operations in China;
- . requiring us, Beijing ITC or Beijing Sohu to restructure our ownership structure or operations; and
- . requiring us, Beijing ITC or Beijing Sohu to discontinue any portion or all of our Internet business.

Any of these actions could cause our business, financial condition and results of operations to suffer and the price of our common stock to decline.

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 licenses to conduct our content-related operations. In addition, we have transferred our content-related assets and operations to Beijing Sohu. See "Related Party Transactions". 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 their 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.

Although we restructured our operations based upon the advice of the MII, we cannot be sure that our restructured operations and activities will be viewed by PRC regulatory authorities as in compliance with applicable PRC laws. 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 or that future changes in PRC government policies affecting the provision of information services, including the provision of online services and Internet access, will not 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 operations in the PRC, we are dependent on Beijing Sohu, in which we have no ownership interest, to provide such 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 would potentially have to rely on legal remedies under PRC law, which we cannot be sure 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.

China 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.

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 just 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, without limitation, fines, product confiscation and criminal sanctions. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely affected by the application of these regulations.

We depend on online advertising for substantially all of our revenues.

We derive substantially all of our revenues from the sale of online advertising on our Web sites. For 1998, 1999 and the three months ended March 31, 2000, online advertising revenues represented approximately 75%, 93% and 87%, respectively, of our total revenues. In addition, our business plan is heavily dependent on the anticipated expansion of online advertising in China and the growth of our revenue is heavily dependent on online advertising.

The online advertising market in China is new and relatively small. According to Forrester Research, the dollar amount of the online advertising market in China in 1999 was approximately \$8.0 million. According to

Zenith Media's estimate, the dollar amount of the total advertising market in China was over \$4.1 billion in 1999. 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. The use of Web software that blocks Internet advertisements may materially and adversely affect our business, financial condition and results of operations.

In addition, an element of our strategy is to diversify our revenue stream by entering into more Web site sponsorship arrangements and by introducing e-commerce services and generating e-commerce revenue. We cannot assure you that we will be successful in implementing this strategy.

Accordingly, we cannot assure you that we will be successful in generating significant future online advertising revenue or in diversifying our revenue stream, and the failure to do so would have a material adverse effect on our business, online advertising revenue and profitability.

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 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. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Quarterly Results of Operations".

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

Maintaining and further developing the Sohu 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 e-commerce partners, 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 the Sohu 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. This could have a material and adverse effect on our business, financial condition and results of operations.

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. We believe that our current cash and cash equivalents, cash flow from operations, proceeds from the sale of Series D preferred stock in January and February 2000 and the proceeds from this offering will be sufficient to meet our anticipated needs, including working capital and capital expenditures, for at least the next twelve months. However, future market or other developments may cause us to require additional funds.

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; and
- . PRC governmental policies relating to foreign currency borrowings.

Our inability to raise additional funds on terms favorable to us, or at all, may have a material adverse effect on our business, financial condition and results of operations. For example, we may be required to scale back our planned expenditures, which could adversely affect our growth prospects. For more information on our capital and financing requirements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources".

If we fail to establish and maintain relationships with content providers, e-commerce merchants and technology providers, 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. Third parties providing content to our portal include CNET, Dow Jones & Company, Inc. and Xinhua News Agency. Most of these arrangements 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.

Similarly, we have focused, and will continue to focus, on establishing relationships with leading e-commerce merchants and technology and infrastructure providers. Our business depends significantly on these relationships 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. We rely on his expertise in our business operations and on his personal relationships with our shareholders, the relevant regulatory authorities, our customers and suppliers and Beijing Sohu. If one or more of our key executives were unable or unwilling to continue in their present positions, we may not be able to easily replace them, our business may be severely disrupted, financial condition and results

of operations may be materially and adversely affected. 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 employment 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. Substantially all of our advertising revenues in 1999 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. The failure of our advertising pricing model could have a material adverse effect on our business, financial condition and results of operations.

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 ability to track and measure the demographics of our users or the delivery of advertisements 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 perform these services ourselves or obtain these service 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 cannot assure you, however, that we can 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. For 1999, two of our advertisers, one of which is a shareholder, each accounted for more than 10% of our total revenues. In addition, our five largest advertisers accounted for approximately 34% of our total revenues. In the three

months ended March 31, 2000, two advertisers each accounted for more than 8% of our total revenues and our top five advertisers accounted for approximately 34% of our total revenues. We anticipate that we will continue to rely on a relatively small number of significant advertisers for a majority of our total revenues for the foreseeable future. Our business, financial condition and results of operations would be materially and adversely affected by the loss of one or more of our significant advertisers or a decrease in the volume of advertising by any of these advertisers.

During January 2000, we entered into multi-year advertising agreements with affiliates of Pacific Century Cyberworks, Legend Holdings Limited and Hikari Tsushin, Inc. We also sold shares of our Series D preferred stock to these entities or their affiliates in January and February 2000. We expect to derive significant revenues from these advertising agreements. The loss of any of these agreements or a decrease in the volume of advertising by any of these advertisers would have a material adverse effect on our business, financial condition and results of operations.

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, each of which could materially and adversely affect our business, financial condition and results of operations. 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 rely on income from dividends and other distributions on equity paid by our wholly-owned operating subsidiary to fund any cash requirements we may have.

We are a holding company with no operating assets other than the shares of Beijing ITC, our wholly-owned subsidiary in the PRC that owns and conducts our entire Internet business. We rely on dividends and other distributions on equity paid by Beijing ITC for our cash requirements, including the funds necessary to service any debt we may incur. If Beijing ITC incurs debt on its own behalf in the future, the instruments governing the debt may restrict Beijing ITC's ability to pay dividends or make other distributions to us. In addition, PRC legal restrictions permit payment of dividends by Beijing ITC only out of its net income, if any, determined in accordance with PRC accounting standards and regulations. Under PRC law, Beijing ITC is also required to set aside a portion of its net income each year to fund certain reserve funds. These reserves are not distributable as cash dividends. See note 5 to our consolidated financial statements included in this prospectus.

Beijing ITC has been in a loss-making position since its inception and will continue to make losses in the foreseeable future. Therefore, we have not received any dividends or other distributions from Beijing ITC in the past and do not expect any dividends in the foreseeable future.

Until the China Trademark Office issues the actual trademark registration certificates, we do not have exclusive rights over the mark "Sohu.com".

China's trademark law adopts a "first-to-file" system for obtaining trademark rights. As a result, the first applicant to file an application for registration of a mark will preempt all other applicants. Prior use of an unregistered mark is generally irrelevant except for "well-known" marks. We have registered the domain name "Sohu.com" with Network Solutions and the domain name "Sohu.com.cn" with China Internet Network Information Center, a domain name registration service in China, and have full legal rights over these domain names. We have also filed trademark applications for the mark "Sohu.com" in Chinese and English with the China Trademark Office. However, until actual registration certificates are issued by the China Trademark Office, we do not have exclusive rights over the mark "Sohu.com".

We have applied for registration of the "Sohu.com" mark in the United States. We have also 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 all of these applications are subject to prior rights in the relevant jurisdictions. Any rejection of such 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. 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 our resources, and could have a material adverse effect on our business, financial condition and results of operations.

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 these 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 Internet advertising, and to a lesser extent, from e-commerce. 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 Internet 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. This would have a material adverse effect on our business, financial condition and results of operations.

Many of our current and potential advertising and e-commerce 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 and e-commerce markets are new and rapidly evolving, particularly in China. As a result, many of our current and potential advertising 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 and materially and adversely affect our financial condition and results of operations.

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 and Internet 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 American 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 can provide no assurance that we will 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. In particular, we depend on the Chinese government and state-owned enterprises to establish and maintain a reliable Internet and telecommunications infrastructure to reach a broader base of Internet users in China. We cannot assure you that the Internet infrastructure in China will support the demands associated with continued growth. If the necessary infrastructure standards or protocols or complementary products, services or facilities are not developed on a timely basis or at all by the Chinese government and state-owned enterprises, our business, financial condition and results of operations could be materially and adversely affected.

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 China's Ministry of Information Industry. 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, we cannot assure you that this infrastructure will be developed or that the Internet infrastructure in China will 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 cannot assure you that we will be able to lease additional bandwidth from the Beijing Telecom Administration on acceptable terms or 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 or at all, in the event of any disruption or failure of the network.

If we are unsuccessful in addressing these risks, our business may be severely disrupted.

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. This could have a material adverse effect on our business, financial condition and results of operations.

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 adversely affect our business, financial condition and results of operations.

Risks Related to the Internet and Our Technology Infrastructure

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

China is one of the world's fastest growing Internet markets. According to International Data Corporation, the number of Internet users in China was 3.8 million in 1999 and is projected to grow to approximately 25.2 million in 2003. As Web page volume and traffic increase, we cannot assure you that we will 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.

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 occur, we may experience a complete system shut-down. 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. Security breaches could have a material adverse effect on our business, financial condition and results of operations.

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. Security breaches could have a material adverse effect on our business. 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 proper political ideology. In addition, the Ministry of Information Industry 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 any action to limit or eliminate the distribution of information through our portal or to limit or regulate any current or future applications available to users of our portal, such action could have a material adverse effect on our business, financial condition and results of operations.

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 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. We cannot assure you that our business, financial condition and results of operations will not be materially and adversely 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, financial condition and results of operations are affected to a significant degree by economic, political and legal developments in China. Changes in political, economic and social conditions in China, adjustments in PRC government policies or changes in laws and regulations could adversely affect our business, financial condition and results of operations.

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. Although we believe that economic reform and the macroeconomic measures adopted by the Chinese government have had a positive effect on economic development in China, we cannot predict what effects these measures 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. The overall effect of legislation over the past 20 years has significantly enhanced the protections afforded to various forms of foreign investment in mainland China. Our PRC operating subsidiary, Beijing ITC, is a wholly-foreign owned enterprise, or WFOE, which is an enterprise incorporated in mainland China and wholly-owned by foreign investors. Beijing ITC is subject to laws and regulations applicable to foreign investment in mainland China in general and laws and regulations applicable to WFOEs in particular. 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.

Currently, Beijing ITC 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 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, we cannot assure you that the relevant PRC governmental authorities will not 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 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. Any such depreciation could adversely affect the market price of our common stock. 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 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.

Risks Related to this Offering

An active trading market for our shares may not develop and the trading price for our shares may fluctuate significantly.

Prior to this offering, there has been no public market for our shares. If an active public market for our shares does not develop after this offering, the market price and liquidity of our shares may be adversely affected. We have applied to list our common stock on The Nasdaq Stock Market's National Market. We can provide no assurances that a liquid public market for our shares will develop.

The initial public offering price for our shares has been determined by negotiation between us and the U.S. underwriters and international managers based upon several factors and we can provide no assurance that the price at which the shares are traded after this offering will not decline below the initial offering price.

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. In the past, following periods of volatility in the market price of a company's securities, shareholders have often instituted securities class action litigation against that company. If we were involved in a class action suit, it could divert the attention of senior management, and, if adversely determined, have a material adverse effect on our business, financial condition and results of operations.

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

Sales of substantial amounts of our common stock in the public market after the completion of this offering, or the perception that these sales could occur, could adversely affect the market price of our common stock and could materially impair our future ability to raise capital through offerings of our common stock. There will be _____ shares of common stock outstanding immediately after this offering, or _____ shares if

the U.S. underwriters and international managers exercise their over-allotment option in full. In addition, as of April 30, 2000, there were outstanding options and warrants to purchase 621,790 shares, including options and warrants to purchase 237,289 shares that are immediately exercisable. All of the shares sold in this offering will be freely tradeable without restriction or further registration under the Securities Act, unless held by our "affiliates" as that term is defined in Rule 144 under the Securities Act. The 10,861,872 shares of common stock outstanding prior to this offering (assuming the conversion of all outstanding convertible preferred stock into common stock and the exercise of all outstanding options and warrants to acquire common stock) are "restricted securities" as defined in Rule 144 and may not be sold in the absence of registration other than in accordance with Rule 144 or Rule 701 under the Securities Act or another exemption from registration.

In connection with this offering, we, our executive officers and directors and all of our preferred shareholders have agreed not to sell any shares of common stock for 180 days after the date of this prospectus without the U.S. underwriters' consent. However, the U.S. underwriters may release these shares from these restrictions at any time. We cannot predict what effect, if any, market sales of shares held by our significant shareholders or any other shareholder or the availability of these shares for future sale will have on the market price of our common stock. See "Shares Eligible for Future Sale" for a more detailed description of the restrictions on selling shares of our common stock after this offering.

A number of our shareholders are parties to an agreement with us that provides these shareholders with the right to require us to register the sale of shares owned by them. These rights cover more than 50% of our issued and outstanding common stock prior to this offering (assuming the conversion of all outstanding shares of preferred stock into common stock and the exercise of all outstanding options and warrants to acquire common stock) and will also cover any additional shares obtained by these shareholders from time to time. Registration of these shares of our common stock would permit the sale of these shares without regard to the restrictions of Rule 144. Under the terms of this agreement, we do not have any obligation to register for sale with the Securities and Exchange Commission any shares of common stock held by these shareholders if, within the six month period preceding the date of the request for registration, we have already effected a registration under the Securities Act pursuant to a request by these shareholders or in which these shareholders had an opportunity to participate. For a further discussion of these registration rights, see "Description of Capital Stock -- Registration Rights."

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

Our three largest shareholders currently beneficially own approximately 67% of our outstanding shares (assuming the conversion of all outstanding shares of preferred stock into common stock and the exercise of all outstanding options and warrants to acquire common stock), and following this offering will beneficially own approximately % of the outstanding shares, or % if the U.S. underwriters and international managers exercise their over-allotment option in full. Accordingly, they will have significant influence in determining the outcome of any corporate transaction or other matter submitted to the shareholders 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 the power to prevent or cause a change in control. In addition, without the consent of these shareholders, we could be prevented from entering into transactions that could be beneficial to us. The interests of these shareholders may differ from the interests of the other shareholders.

Holders of approximately % of the outstanding shares of our common stock immediately following this offering (assuming the conversion of all outstanding shares of preferred stock into common stock and the exercise of all outstanding options and warrants to acquire common stock) are parties to an agreement under which they have agreed to vote together in favor of their nominees to our board of directors. As a result of their voting power, they will have the ability to cause their nominees to be elected. See "Related Party Transactions" and "Principal Shareholders" for more information regarding the share ownership of our officers, directors and significant shareholders.

Because the initial public offering price is substantially higher than the pro forma net tangible book value per share, you will incur immediate and substantial dilution.

If you purchase common stock in this offering, you will pay more for your shares than the amount paid by existing shareholders for their shares. As a result, you will experience immediate and substantial dilution of approximately \$ per share (assuming the conversion of all outstanding convertible preferred stock into common stock and no exercise of outstanding options or warrants to acquire common stock), representing the difference between our pro forma net tangible book value per share as of March 31, 2000, after giving effect to this offering and the assumed initial public offering price per share of \$ per share. In addition, you may experience further dilution to the extent that shares of our common stock are issued upon the exercise of stock options or warrants. Substantially all of the shares issuable upon the exercise of currently outstanding stock options or warrants will be issued at a purchase price less than the public offering price per share in this offering. See "Dilution" for a more complete description of how the value of your investment in our common stock will be diluted upon the completion of this offering.

Anti-takeover provisions of the Delaware General Corporation Law and our certificate of incorporation could delay or deter a change in control.

Amendments we intend to make to our certificate of incorporation and our bylaws, as well as various provisions of the Delaware General Corporation Law, may make it more difficult to effect a change in control of our company. The existence of these provisions may adversely affect the price of our common stock, discourage third parties from making a bid for our company or reduce any premiums paid to our shareholders for their common stock. For example, we intend to amend our certificate of incorporation to authorize our board of directors to issue "blank check" preferred stock and to attach special rights and preferences to this preferred stock. The issuance of this preferred stock may make it more difficult for a third party to acquire control of us. We also intend to amend our certificate of incorporation to provide for the division of the board of directors into two classes as nearly equal in size as possible with staggered two-year terms. This classification of the board of directors could have the effect of making it more difficult for a third party to acquire our company, or of discouraging a third party from acquiring control of our company. See "Description of Capital Stock -- Preferred Stock," and "Description of Capital Stock -- Anti-Takeover Effects of Delaware Law and our Fifth Amended and Restated Certificate of Incorporation and Bylaws" for a more complete description of our capital stock, our certificate of incorporation and the effects of the Delaware General Corporation Law that could hinder a third party's attempts to acquire control of us.

ENFORCEABILITY OF CIVIL LIABILITIES

We are a company organized under the laws of Delaware, but substantially all of our assets are located in the PRC. We have appointed CT Corporation System, 111 Eighth Avenue, New York, New York 10011, as our agent to receive service of process with respect to any action brought against us in the United States District Court for the Southern District of New York under the securities laws of the United States or of any State of the United States, or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York. However, it may be difficult for investors to enforce outside the United States judgments against us obtained in the United States in any such actions, 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 and certain of the experts named herein are resident outside the United States (principally in the PRC) and all or a substantial portion of the assets of such persons are or 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 such persons, 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, TransAsia Lawyers, 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.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this prospectus are forward-looking statements. These forward-looking statements are subject to various risks and uncertainties. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "expect", "anticipate", "estimate", "plan" or other similar words. These statements discuss future expectations, identify strategies, contain our projections of future results of operations or financial condition or state other "forward-looking" information. Known and unknown risks, uncertainties and other factors could cause the actual results to differ materially from those contained in any forward-looking statement.

Although we believe that our expectations expressed in these forward-looking statements are reasonable, we cannot assure you that our expectations will turn out to be correct. Our actual results could be materially different from and worse than our expectations. We have no obligation to update publicly or revise any forward-looking statements. Important risks and factors that could cause our actual results to be materially different from our expectations are generally set forth in the "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" sections and elsewhere in this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately \$ million, or approximately \$ million if the U.S. underwriters' and international managers' over-allotment option is exercised in full, after deducting the estimated underwriting discount and offering expenses payable by us. These estimates are based on an assumed initial public offering price of \$ per share.

We intend to use approximately \$17.0 million of the net proceeds to fund capital expenditures, with additions to our networking and computer infrastructure accounting for approximately \$15.5 million. In addition, we intend to use approximately \$36.0 million for sales and marketing activities. The remainder of the net proceeds will be used for general corporate purposes, including working capital and expansion of our work force. We may also use a portion of the net proceeds for possible acquisitions of or investments in businesses, products and technologies that are complementary to our business, although we do not currently have any agreements or understandings to make any acquisitions or investments.

The foregoing represents our present intentions with respect to the allocation of the net proceeds of this offering based upon our present plans and business conditions. The occurrence of unforeseen events or changed business conditions could result in the application of the proceeds of this offering in a manner other than as described in this prospectus.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our common stock. We currently intend to retain future earnings, if any, to finance our business and to fund growth and, therefore, do not expect to pay any cash dividends for the foreseeable future. Any future determination to pay dividends will be made at the discretion of our board of directors and will be based upon our earnings, cash flow, financial condition and capital requirements and any other conditions our board of directors deems relevant. In addition, the payment of dividends may be limited by financing agreements that we may enter into in the future.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, short-term debt and capitalization as of March 31, 2000:

- (1) on an actual basis;
- (2) on a pro forma basis to reflect:
 - . the conversion of 1,125,000 shares of Series A preferred stock for 1,125,000 shares of common stock at a conversion price of \$0.200 per share of common stock;
 - . the conversion of 1,738,910 shares of Series B preferred stock for 2,898,183 shares of common stock at a conversion price of \$0.621 per share of common stock;
 - . the conversion of 338,295 shares of Series B-1 preferred stock for 338,295 shares of common stock at a conversion price of \$1.035 per share of common stock;
 - . the conversion of 1,479,507 shares of Series C preferred stock for 1,479,507 shares of common stock at a conversion price of \$4.702 per share of common stock; and
 - . the conversion of 777,688 shares of Series D preferred stock for 777,688 shares of common stock at a conversion price of \$38.576 per share of common stock;
- (3) on a pro forma as adjusted basis to reflected the mandatory conversion of all the preferred stock and the sale of shares of common stock offered in this offering at an assumed initial public offering price of \$ per share (the midpoint of the range of estimated initial public offering price set forth on the cover page of this prospectus), after the deduction of underwriting discounts and estimated expenses payable by us in this offering.

In connection with this offering, all of our outstanding shares of preferred stock will mandatorily convert into shares of common stock if and when the aggregate proceeds from this offering are not less than \$20,000,000 and with a price to the public of at least \$38.576 per share.

You should read this table together with "Selected Consolidated Financial Data", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements, including the notes thereto, appearing elsewhere in this prospectus.

	As of March 31, 2000		
	Actual	Pro forma	Pro forma
		as	adjusted
		adjusted	
	(in thousands)		
Cash and cash equivalents.....	\$33,106	\$33,106	\$
Short-term debt.....	\$ 2,899	\$ 2,899	\$2,899
Long-term debt.....	\$ --	\$ --	\$ --
Mandatorily redeemable preferred stock:			
Series B and B-1 mandatorily redeemable convertible preferred stock, par value \$0.001: 2,077,205 shares authorized, 2,077,205 shares issued and outstanding, actual (no shares issued and outstanding, as adjusted)(1).....	\$ 2,947	\$ --	\$ --
Series C mandatorily redeemable convertible preferred stock, par value \$0.001: 1,479,507 shares authorized, 1,479,507 shares issued and outstanding, actual (no shares issued and outstanding, as adjusted)(2).....	7,721	--	--
Series D mandatorily redeemable convertible preferred stock, par value \$0.001: 777,688 shares authorized, 777,688 shares outstanding, actual (no shares issued and outstanding, as adjusted)(3).....	31,053	--	--
Total mandatorily redeemable preferred stock...	\$41,721	\$ --	\$ --
Shareholders' equity (deficit):			
Series A convertible preferred stock, par value \$0.001: 1,125,000 shares authorized, 1,125,000 shares issued and outstanding, actual (no shares issued and outstanding, as adjusted).....	\$ 1	\$ --	\$ --
Common stock, par value \$0.001: 11,500,000 shares authorized, 3,621,410 shares issued and outstanding, actual (no shares issued and outstanding, as adjusted)(4).....	4	10	
Additional paid-in capital.....	1,567	43,283	
Deferred compensation and other.....	(1,067)	(1,067)	(1,067)
Accumulated deficit.....	(9,437)	(9,437)	(9,437)
Total shareholders' equity (deficit).....	(8,932)	32,789	
Total capitalization.....	\$35,688	\$35,688	\$

(1) Recorded at its issuance costs plus amortization of the increase in the value of the Series B and B-1 preferred stock since issuance. The recorded value of the preferred stock is being adjusted upwards to its estimated redemption amount through periodic charges to retained earnings. These charges, which are reflected in our statement of operations as accretion on mandatory convertible preferred stock, totaled \$244 and \$467 for the years ended December 31, 1998 and 1999, respectively, and \$114 and \$116 for the three months ended March 31, 1999 and 2000, respectively.

(2) Recorded at its issuance costs plus amortization of the increase in the value of the Series C preferred stock since issuance. The recorded value of the preferred stock is being adjusted upwards to its estimated redemption amount through periodic charges to retained earnings. These charges, which are reflected in our statement of operations as accretion on mandatory convertible preferred stock, totaled \$0 and \$450 for the years ended December 31, 1998 and 1999, respectively, and \$0 and \$345 for the three months ended March 31, 1999 and 2000, respectively.

(3) Recorded at its issuance costs plus amortization of the increase in the value of the Series D preferred stock since issuance. The recorded value of the preferred stock is being adjusted upwards to its estimated redemption amount through periodic charges to retained earnings. These charges, which are reflected in our statement of operations as accretion on mandatory convertible preferred stock, totaled \$0 and \$0 for the years ended December 31, 1998 and 1999, respectively, and \$1,098 for the three months ended March 31, 2000.

(4) Excludes 412,043 shares reserved for issuance pursuant to options we may issue in the future pursuant to our stock option plans and stock options and warrants outstanding of an aggregate of 621,790 shares of our common

stock as of March 31, 2000 at a weighted average exercise price of \$7.67 per share.

DILUTION

As of March 31, 2000, our pro forma net tangible book value was \$. , or \$. per share. Pro forma net tangible book value per share represents the amount of our total consolidated tangible assets, minus the amount of our total consolidated liabilities, divided by the total number of shares of our common stock outstanding on that date, as adjusted to give pro forma effect as of that date to the conversion of all our outstanding preferred stock into common stock. See "Capitalization". Assuming we had sold the shares of common stock offered in this offering at an initial public offering price of \$ per share, after giving effect to the sale of the shares offered in this offering and after deducting underwriting discounts and commissions and other estimated expenses of this offering, our pro forma net tangible book value at March 31, 2000 would have increased to \$, or \$ per share. This represents an immediate increase of \$ in net tangible book value per share to existing shareholders and an immediate dilution of \$ in net tangible book value per share to new investors purchasing the shares at the initial public offering price. Dilution is determined by subtracting pro forma net tangible book value per share after this offering from the amount of cash paid by a new investor for one share. The following table illustrates such per share dilution. The assumed initial public offering price per share set forth below of \$ is based on the mid-point of the estimated price range per share set forth on the cover page of this prospectus.

Assumed initial public offering price per share.....	\$
Pro forma net tangible book value per share at March 31, 2000.....	\$
Increase in pro forma net tangible book value per share attributable to new investors.....	\$

Pro forma net tangible book value per share after giving effect to this offering.....	\$
Dilution in pro forma net tangible book value per share to new investors.....	\$
	====

The following table summarizes the number of shares purchased from us as of March 31, 2000, the total consideration paid to us and the average price per share paid by existing investors and by new investors purchasing shares in this offering at an assumed initial public offering price of \$ per share and without giving effect to underwriting discounts and commissions and other estimated expenses of this offering:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing investors.....	10,240,083	%	\$39,350,000	%	\$3.84
New investors.....					
Total.....		100.00%	\$	100.00%	\$
	=====	=====	=====	=====	

The foregoing discussion and table assumes no exercise of any outstanding stock options or warrants. As of March 31, 2000, there were stock options and warrants outstanding to purchase an aggregate of 621,790 shares of our common stock at a weighted average exercise price of \$7.67 per share. If all these options and warrants had been exercised on March 31, 2000, before giving effect to this offering, our pro forma net tangible book value would have been approximately \$. , or \$. per share. After giving effect to this offering, our pro forma net tangible book value on March 31, 2000 would have been approximately \$, or \$ per share, the increase in net tangible book value attributable to new investors would have been \$ per share and the dilution in net tangible book value to new investors would have been \$ per share. In addition, the dilution will be \$ per share if the U.S. underwriters and international managers fully exercise their over-allotment options.

EXCHANGE RATE INFORMATION

The following table sets forth information concerning the noon buying rates in New York City for cable transfers in Renminbi and U.S. Dollars, as certified for customs purposes by the Federal Reserve Bank in New York, for the periods indicated:

Period	Noon Buying Rate			
	Period End	Average(1)	High	Low
	(RMB per \$1.00)			
1994.....	8.6442	8.6306	8.8270	8.4545
1995.....	8.3374	8.3713	8.5000	8.2916
1996.....	8.3284	8.3394	8.5000	8.3002
1997.....	8.3100	8.3194	8.3290	8.2911
1998.....	8.2789	8.3009	8.3180	8.2774
1999.....	8.2795	8.2784	8.2800	8.2770
2000 (through May 25, 2000).....	8.2773	8.2787	8.2799	8.2768

(1) Determined by averaging the rates on the last business day of each month during the respective period.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data is qualified by reference to, and should be read in conjunction with, our financial statements and the notes to those statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this prospectus. The selected statement of operations data presented below for the years ended December 31, 1997, 1998 and 1999, and the selected balance sheet data as of December 31, 1998 and 1999, are derived from our financial statements that have been audited by PricewaterhouseCoopers, independent public accountants, and are included elsewhere in this prospectus. The statement of operations data presented below for the period from August 2, 1996 (inception) to December 31, 1996, and the selected balance sheet data as of December 31, 1996, are derived from our audited financial statements not included in this prospectus. The selected statement of operations data for the three-months periods ended March 31, 1999 and 2000, and the selected balance sheet data as of March 31, 2000, are derived from our unaudited financial statements included elsewhere in this prospectus. These unaudited financial statements have been prepared on the same basis as our audited financial statements and, in our opinion, include all material adjustments, consisting only of normal recurring adjustments, necessary to state fairly this unaudited financial information.

Our consolidated financial statements are prepared and presented in accordance with United States generally accepted accounting principles. Basic and diluted pro forma net loss per share in 1999 is computed using the weighted average number of common shares outstanding, including the pro forma effects of the mandatory conversion of the Series A, B, B-1, C preferred stock into common stock upon the consummation of this offering. Basic and diluted pro forma net loss per share for the three months ended March 31, 1999 and 2000 is computed using the weighted average number of shares of common stock outstanding, including the pro forma effects of the mandatory conversion of the Series A, B, B-1, C and D preferred stock into common stock upon the consummation of this offering.

Period from
 August 2, 1996
 (inception) to
 December 31,

Year ended December 31,

Three months ended
 March 31,

1996 1997 1998 1999 1999 2000

(in thousands, except for per share and share data)

Statement of Operations Data:						
Revenues.....	\$ --	\$ 78	\$ 472	\$ 1,617	\$ 233	\$ 842
Costs and expenses:						
Cost of revenues.....	--	19	215	1,576	172	811
Product development....	--	50	208	427	55	348
Sales and marketing....	--	94	351	1,758	126	1,533
General and administrative.....	18	75	308	1,270	163	516
Stock-based compensation(1).....	12	--	--	46	--	129

Total costs and expenses.....	30	238	1,082	5,077	516	3,337

Operating loss.....	(30)	(160)	(610)	(3,460)	(283)	(2,495)
Interest income.....	1	--	23	25	7	31
Interest expense -- related party.....	--	--	(28)	(14)	--	--

Net loss.....	(29)	(160)	(615)	(3,449)	(276)	(2,464)
Accretion on mandatorily redeemable convertible preferred stock.....	--	--	(244)	(917)	(114)	(1,559)

Net loss attributable to common stockholders....	\$ (29)	\$ (160)	\$ (859)	\$ (4,366)	\$ (390)	\$ (4,023)
=====						
Basic and diluted net loss per share attributable to common stockholders.....						
	\$ (0.01)	\$ (0.05)	\$ (0.24)	\$ (1.22)	\$ (0.11)	\$ (1.11)
Shares used in computing basic and diluted net loss per share.....						
	3,500,000	3,500,000	3,564,000	3,588,000	3,564,000	3,621,000
Basic and diluted pro forma net loss per share.....						
				\$ (0.41)	\$ (0.03)	\$ (0.26)
Shares used in computing basic and diluted pro forma net loss per share.....						
				8,314,000	7,925,000	9,462,000
Cost of revenues.....	\$ --	--	--	\$ 13	\$ --	\$ 6
Product development..	--	--	--	11	--	3
Sales and marketing..	--	--	--	14	--	11
General and administrative.....	12	--	--	8	--	109

	\$ 12	\$ --	\$ --	\$ 46	\$ --	\$ 129
=====						

(1) Stock-based compensation:

The following table is a summary of our consolidated balance sheet as of December 31, 1996, 1997, 1998 and 1999 and as of March 31, 2000:

- . on an actual basis;
- . on a pro forma basis to give effect to the mandatory conversion of all outstanding Series A, B, B-1, C and D preferred stock into common stock upon the closing of this offering; and
- . on a pro forma as adjusted basis to reflect the mandatory conversion of all the preferred stock and the sale of . shares of common stock offered at an assumed initial public offering price of \$. per share after deducting estimated underwriting discounts and commissions and offering expenses.

As of December 31,				As of March 31, 2000		
1996	1997	1998	1999	Actual	Pro forma as adjusted	

(in thousands)

Balance Sheet Data:

Cash and cash equivalents.....	\$87	\$111	\$1,232	\$ 3,924	\$33,106	\$33,106	\$
Working capital.....	194	22	1,303	2,577	28,801	28,801	
Total assets.....	217	179	1,778	7,076	38,111	38,111	
Total liabilities.....	18	115	204	1,911	5,322	5,322	5,322
Mandatorily redeemable convertible preferred stock.....	--	--	2,362	10,207	41,721	--	--
Total shareholders' equity (deficit).....	199	64	(788)	(5,042)	(8,932)	32,789	

Overview

Under current PRC regulations, foreign companies such as Sohu.com Inc. may not own or operate telecommunications businesses in China, which may include the operation of Internet content provision businesses. Our wholly owned PRC subsidiary, Beijing ITC, does not have a license to provide internet content or information services. As a result, we recently restructured our operations in China. As part of this restructuring, we and Beijing ITC entered into a series of agreements with Beijing Sohu and Beijing Sohu's two shareholders. Beijing Sohu is a PRC company that is 80% owned by Dr. Charles Zhang, our founder, President and Chief Executive Officer, and 20% owned by Ms. Jinmei He, an executive officer of Beijing ITC, both of whom are PRC nationals.

Under our restructuring and agreements with Beijing Sohu and its two shareholders:

- . Beijing ITC is responsible for all technical matters relating to our www.sohu.com platform, conducts our online advertising, e-commerce applications, directory and search engine and other businesses as described in this prospectus and continues to receive the revenues from these activities.
- . Our content-related operations, including the development, collection, classification, supervision and dissemination of content for our Web site, were transferred to Beijing Sohu, which has a license to provide Internet information services.
- . Beijing ITC will transfer its ten content related servers, related equipment and up to 25 content editors and supervisors to Beijing Sohu.
- . Beijing Sohu provides and develops content for use by Beijing ITC on our Web site for a monthly fee subject to periodic adjustment as agreed by the parties.
- . Beijing ITC provides relevant consulting and technical services to Beijing Sohu and grants to Beijing Sohu, and will assist Beijing Sohu in obtaining from our company, the necessary domain name, trade name, trademark and copyright licenses to support Beijing Sohu's operations.
- . Beijing ITC or a third party designated by Beijing ITC will have the right, at any time, subject to PRC law (including any restrictions on foreign investment), to purchase the entire ownership interest in Beijing Sohu of the two Beijing Sohu shareholders.
- . We plan to extend a loan for \$176,000 to Dr. Charles Zhang and a loan for \$43,000 to Ms. Jinmei He, solely for the purpose of helping them fund their additional equity investments in Beijing Sohu as a result of our restructuring. Dr. Zhang and Ms. He have pledged all of their shares in Beijing Sohu to us as security for the loans.

For more information on these agreements, see "Related Party Transactions".

In the opinion of our PRC counsel, the ownership structures of Sohu.com Inc., Beijing ITC and Beijing Sohu, both currently and after giving effect to this offering, and the businesses and operations of Sohu, Beijing ITC and Beijing Sohu as described in this prospectus, comply with all existing laws, rules and regulations of the PRC, and no consent, approval or license other than those already obtained is required under any of the existing laws, rules and regulations of the PRC for such ownership structures, businesses and operations or this offering. See "Risk Factors -- 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 and regulations, we could be subject to severe penalties" and "PRC Regulatory Matters".

The following chart illustrates our corporate structure after the corporate restructuring.

- (1) Beijing ITC is responsible for the consulting and technical matters relating to the www.sohu.com platform, conducts online advertising, e-commerce applications, directory and search engine and other businesses as described in this prospectus and receives the revenue from these activities.
- (2) Beijing Sohu is responsible for our content-related operations, including the development, collection, classification, supervision and dissemination of content for the Web site, and has a license to provide Internet information services.

Pro Forma Effect of Corporate Restructuring

As a result of the corporate restructuring described above, our financial statements have been affected as follows:

- . Reduce the balance of cash and record a corresponding loan receivable in the amount of \$219,000 for funds lent to the shareholders of Beijing Sohu; and
- . Reduce the balance of fixed assets by \$89,000 and record a corresponding receivable with respect to the net book value of the computer equipment transferred to Beijing Sohu.

In addition, subsequent to the corporate restructuring, certain content-related operations previously conducted by Beijing ITC will be conducted by Beijing Sohu. For the three months ended March 31, 2000, the monthly cost of conducting these operations was approximately \$97,000. If Beijing Sohu had conducted these operations during the three months ended March 31, 2000, the estimated monthly cost would have been cost of approximately \$102,000. The incremental monthly cost represents additional tax and overhead costs associated with conducting these operations in a separate PRC legal entity. As Beijing ITC uses the content developed by Beijing Sohu, and as we expect to fund Beijing Sohu's ongoing operations through adjustments to the monthly fee payable under the cooperation agreement, Beijing ITC will record an expense approximately equal to the entire amount of Beijing Sohu's costs on a monthly basis plus business tax charges.

The following tables, which are unaudited, show the pro forma effect of our restructuring as if it had occurred on January 1, 1999 for statement of operations purposes and as of March 31, 2000 for balance sheet purposes.

	Year Ended December 31, 1999			Three Months Ended March 31, 2000		
	Actual	Pro forma adjustments	Pro forma	Actual	Pro forma adjustments	Pro forma
(in thousands, except for per share and share data)						
Statement of Operation Data:						
Revenues.....	\$ 1,617	\$--	\$ 1,617	\$ 842	\$--	\$ 842
Costs and expenses.....	(5,077)	(30)(/1/)	(5,107)	(3,337)	(9)(/1/)	(3,346)
Operating loss.....	(3,460)	(30)	(3,490)	(2,495)	(9)	(2,504)
Net loss.....	(3,449)	(30)	(3,479)	(2,464)	(9)	(2,473)
Net loss attributable to common stockholders....	(4,366)	(30)	(4,396)	(4,023)	(9)	(4,032)
Basic and diluted net loss per share attributable to common stockholders.....	\$ (1.22)		\$ (1.23)	\$ (1.11)		\$ (1.11)
Shares used in computing basic and diluted net loss per share.....	3,588,000		3,588,000	3,588,000		3,621,000

- (1) Reflects pro forma increases in costs and expenses for the year ended December 31, 1999 and the three month period ended March 31, 2000. The adjustments include: (i) a decrease in our expenses representing the expenses of the content management and development operations formerly incurred by Beijing ITC that were transferred to Beijing Sohu and (ii) an increase in our expenses representing the monthly fee that Beijing ITC pays to Beijing Sohu under the cooperation agreement. The monthly fee is higher than Beijing Sohu's expenses because the fee is designed to reimburse Beijing Sohu for the expenses plus incremental 5% business taxes.

	As of March 31, 2000		
	Actual	Pro forma adjustments	Pro forma
(in thousands)			
Balance Sheet Data:			
Cash and cash equivalents.....	\$33,106	\$(219)(/1/)	\$32,887
Working capital.....	28,801	(178)(/2/)	28,614
Fixed assets.....	2,227	(41)(/3/)	2,186
Total assets.....	38,111		38,111
Total liabilities.....	5,322		5,322
Mandatorily redeemable convertible preferred stock.....	41,721		41,721
Total shareholders' equity (deficit).....	(8,932)		(8,932)

- (1) Reflects a pro forma decrease in cash and cash equivalents of \$219 as of March 31, 2000 due to the extension of loans totaling RMB1.8 million to Charles Zhang and He Jin Mei, the shareholders of Beijing Sohu, to fund their additional investment in Beijing Sohu. The ten year loans will be reflected on our balance sheet as long term receivables, which are reflected in pro forma total assets.
- (2) Reflects a pro forma decrease in working capital of \$178 as of March 31, 2000 due to the loans described above of \$219 and an increase in receivable of \$41 from the sale of the fixed asset to Beijing Sohu.
- (3) Reflects a pro forma decrease in fixed assets of \$41 as of March 31, 2000, representing the book value of the servers of Beijing ITC that will be transferred to Beijing Sohu under the restructuring. These amounts exclude certain servers acquired by Beijing ITC after March 31, 2000 at a cost of approximately \$48 that will also be transferred to Beijing Sohu under the restructuring.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and notes to those statements and other financial information appearing elsewhere in this prospectus.

Overview

Sohu is a leading Internet portal in China in terms of brand recognition, page views and registered users. We were incorporated in August 1996 as Internet Technologies China Incorporated, and for the period from our inception through December 1996, we focused our activities on the development of our Web site while incurring minimal operating expenses. We launched our original Web site, www.itc.com.cn, in January 1997. During 1997, we developed the Sohu online directory and search engine and related technology infrastructure, and also focused on recruiting personnel, raising capital and aggregating content to attract and retain users. In February 1998, we re-launched our Web site under www.sohu.com.cn, and during 1998, we also:

- . launched our online directory and search engine;
- . began offering content channels, including news and sports;
- . improved and upgraded our services;
- . expanded our production staff; and
- . increased our marketing activities in order to build the Sohu brand.

In 1999, we re-named our company Sohu.com Inc., and continued the development of our Web site, as well as our business, sales and marketing activities. In particular, we:

- . experienced substantial growth in registered users and page views;
- . upgraded our search engine capabilities and launched our e-mail services;
- . significantly increased our production, marketing and sales staff;
- . expanded our branded content channels, featuring news, sports, business and finance and other topics of interest to Internet users in China; and
- . began providing e-commerce services on a trial basis.

Substantially all of our operations are conducted through Sohu ITC Information Technology (Beijing) Co., Ltd., or Beijing ITC, our wholly owned PRC subsidiary, which was incorporated in 1997. Under current PRC regulations, foreign companies such as Sohu.com Inc. may not own or operate telecommunications businesses in China, which may include the operation of Internet content provision businesses. As a result, we recently restructured our operations in the PRC. As part of this restructuring, our content-related operations were transferred to Beijing Sohu Online Internet Service, Ltd., or Beijing Sohu, a PRC company that is 80% owned by Charles Zhang, our founder, President and Chief Executive Officer, and 20% owned by He Jinmei, an executive officer of Beijing ITC. Beijing Sohu is not a subsidiary of our company, and its assets, liabilities and results of operations will not be included in our consolidated financial statements. For a description of the pro forma effects of the restructuring on our consolidated financial statements for the year ended December 31, 1999 and the three months ended March 31, 2000, see "Corporate Restructuring -- Pro Forma Effect of Corporate Restructuring".

Revenues

We have derived substantially all of our revenues from the sale of advertisements on our portal. Advertising revenues are derived principally from:

- . advertising arrangements under which we receive fixed fees for banners placed on our Web sites for specified periods of time and with a guaranteed number of impressions;

- . sponsorship arrangements which allow advertisers to sponsor an area on our Web site in exchange for a fixed payment; such arrangements may also guarantee a number of impressions over a specified period of time; and
- . design, coordination and production of advertising campaigns to be placed on our portal.

Rates for banner advertising depend on:

- . term of the contract;
- . whether the impressions are for general audiences or targeted audiences;
- . where the banner advertisements are placed within our portal; and
- . the number of guaranteed impressions or other performance obligations.

Sponsorship arrangements generally have higher advertising rates than banner advertising, because sponsorship arrangements typically provide advertisers with the right to specify the content to be included, and may also provide the exclusive right to advertise in a specific, designated location on our Web site for a specified period of time. Sponsorship arrangements also may have longer terms and other performance obligations. These performance obligations relate to the design, integration and co-ordination of content and links in the content channels on our Web site.

Advertising revenues are recognized ratably in the period in which the advertisement is displayed, provided that no significant obligations remain at the end of the period and collection of the resulting receivable is probable. To the extent minimum guaranteed impression levels or other performance obligations are not met, we defer recognition of the corresponding revenues until guaranteed levels are achieved or the remaining performance obligations are met.

Under some of our content arrangements, we have agreed to pay royalties to content providers based on a percentage of the advertising revenues derived from advertisements placed on our channels. Under some of the other content arrangements, we pay fixed fees for content provided over a specified period of time, generally ranging from three to 24 months. Where content agreements provide for royalties, those royalty rates generally range from 15% to 50% of the related revenues. In 1999, 6.6% of our revenues were subject to such royalty agreements with content providers, with royalties in the amount of \$27,000 being paid to content providers. In the first quarter of 2000, approximately 4% of our revenues were subject to such royalty arrangements, with \$7,000 in royalties being paid to content providers. We have recorded the entire amount of revenues subject to royalty arrangements in our consolidated revenues and the royalties due to our content providers in our cost of revenues.

To date, we have not recorded any revenues from barter transactions.

In 1999, the duration of our advertising contracts ranged from 2 days to 365 days, with an average duration of 45 days, compared to an average duration of 107 days in 1998. In the first quarter of 2000, the duration ranged from 2 days to 268 days, with an average of 56 days. In addition, in 1999, we charged an average price of \$18 per 1,000 guaranteed impressions, compared to an average price of \$13 in 1998. The average price in the first quarter of 2000 was \$20 per 1,000 guaranteed impressions. We believe that our online advertising rates are currently set at general market levels.

To date, we have not recorded any e-commerce revenues, but have engaged in pilot trials of e-commerce activities.

Costs and Expenses

Our cost of revenues is made up of Internet access and bandwidth leasing charges, royalty payments, content fees, Web site maintenance costs, amortization of purchased technology, depreciation of computer equipment and other production costs.

Product development expenses include compensation and related expenses for personnel engaged in the enhancement of our Web site and online directory, amortization of software licenses and other third party technology expenses and compensation and related costs of employees in the business development department. Costs incurred in the enhancement of our Web site and the classification and organization of listings within our portal and enhancements to existing products are charged to product development expense as incurred. Material software development costs incurred during the application development stage, including the costs related to the development of our Web site, are capitalized as other assets and are amortized over three years.

Sales and marketing expenses primarily consist of advertising and promotion on television, online and in print; promotional materials and sponsorship of special events; and compensation, benefits and sales commissions to our direct sales force. Our sales and marketing costs are expected to increase in the future as we enhance our selling and marketing efforts. In particular, the largest component of our sales and marketing expenses is marketing costs for new user acquisition, which is closely tied to our user growth.

General and administrative expenses primarily consist of compensation and benefits for general management, finance and administrative personnel costs, professional fees, depreciation of office equipment and other office expenses. We intend to expand our Guangzhou and Shanghai offices to conduct sales and marketing, and to assist Beijing Sohu in developing content partner relationships. This may result in our hiring of additional staff and purchasing of additional office equipment and computer and networking equipment, all of which will increase our general and administrative expenses.

In 1999, we recorded deferred stock-based compensation of approximately \$67,000. In general, deferred stock-based compensation is recognized based on the difference, if any, between the estimated fair value of our common stock and the amount an employee must pay to acquire the stock, as determined on the date the option is granted. The difference is initially recorded as a reduction of shareholders' equity and then amortized and charged to expense on an accelerated basis over the vesting period of the applicable options, which is typically four years or less. Of the total stock-based compensation amount, \$46,000 was amortized and charged to expense in 1999.

In January 2000, we granted options for the purchase of 127,000 shares of common stock to certain of our employees and a director at an exercise price of \$15.00. In connection with these option grants, we recorded deferred stock compensation of approximately \$1.2 million which will be amortized and charged to expense on an accelerated basis over the vesting period of the applicable options. The options granted generally vest over periods ranging from one to four years beginning with the first quarter subsequent to the date of grant of the options. Compensation expense associated with this grant and recognized during the three months ended March 31, 2000 totaled \$120,000.

Based on options issued and outstanding as of April 30, 2000, we currently expect to amortize and charge to expense the following amounts of stock-based compensation:

- . 2000 - \$625,000;
- . 2001 - \$335,000;
- . 2002 - \$164,000;
- . 2003 - \$ 71,000; and
- . 2004 - \$ 4,000.

At March 31, 2000, we had incurred approximately \$981,000 of transaction expenses relating to this offering, which are being deferred and included as other assets. Upon the consummation of this offering, these costs will be offset against the proceeds of this offering in additional paid-in-capital.

Accretion of Mandatorily Redeemable Convertible Preferred Stock

After March 5, 2003, holders of our Series B and B-1 preferred stock may request that our company redeem all of their shares at a price of \$2.069 per share plus any declared but unpaid dividends. After

September 9, 2004, holders of our Series C preferred stock may request that our company redeem all of their shares at a price of \$9.404 per share plus any declared but unpaid dividends. Accordingly, the Series B, B-1 and C preferred stock are being accreted to their estimated redemption value through periodic charges to retained earnings. After January 25, 2005, holders of our Series D preferred stock may request that our company redeem all of their shares at a price of \$77.152 per share plus any declared but unpaid dividends. Accordingly, the Series D preferred stock are being accreted to its estimated redemption value through periodic charges to retained earnings. For 1999, charges with respect to the Series B and B-1 preferred stock totaled \$467,000, while charges with respect to the Series C preferred stock totaled \$450,000. For the three months ended March 31, 2000, charges with respect to the Series B and B-1 preferred stock totaled \$116,000 and charges with respect to the Series C preferred stock totaled \$345,000, while charges with respect to the Series D preferred stock totaled \$1,098,000. These charges are also reflected in our statement of operations as accretion on mandatory convertible preferred stock.

Since all of the outstanding shares of preferred stock will be mandatorily converted into shares of common stock upon the consummation of this offering, we do not expect to incur additional accretion of mandatorily redeemable convertible preferred stock after the consummation of this offering.

Limited Operating History

We have incurred significant net losses and negative cash flows from operations since our inception. At March 31, 2000, we had an accumulated deficit of \$9.4 million. These losses have been funded primarily through the issuance of preferred stock. We have not achieved profitability, and expect to continue to incur net losses in 2000 and subsequent fiscal periods. We intend to invest heavily in marketing and brand development, content enhancements and technology and infrastructure development, which would result in substantial net losses and negative cash flows for the foreseeable future. Moreover, the amount of these losses is expected to increase from current levels. Even if we do achieve profitability, we may be unable to sustain or increase profitability in the future.

We have a limited operating history for you to use as a basis for evaluating our business. You must consider the risks and difficulties frequently encountered by early stage companies like us in new and rapidly evolving markets, including the Internet advertising market in the PRC.

Dependence on a Limited Number of Advertisers

In the first quarter of 2000, two of our advertisers, Nokia Corporation and Alibaba.com, each accounted for over 8% of our revenues, and our five largest advertisers accounted for more than 34% of our revenues and 40% of our accounts receivable. In 1999, two of our advertisers, Intel Corporation, which is one of our shareholders, and Nokia Corporation, each accounted for more than 10% of our revenues, and our five largest advertisers accounted for approximately 34% of our revenues and 43% of our accounts receivable. In 1998, two advertisers each accounted for greater than 10% of our revenues, and our five largest advertisers accounted for 71% of our revenues and 93% of our accounts receivable. In 1997, two advertisers each accounted for greater than 10% of our revenues, and our five largest advertisers accounted for 65% of our revenues and 91% of our accounts receivable.

During January 2000, we entered into multi-year advertising agreements with an affiliate of Pacific Century Cyberworks Limited, an affiliate of Legend Holdings Limited and Hikari Tsushin, Inc. We expect to derive a significant portion of our revenues over the next three years from these agreements. The loss of any of these agreements or any of our significant advertisers, or a decrease in the volume of advertising by any of the advertisers, would have a material adverse effect on our business, financial condition and results of operations. See "Risk Factors -- The loss of one of our top advertisers would reduce our advertising revenues and materially and adversely affect our business".

Results of Operations

Comparison of the Three-Month Periods ended March 31, 2000 and March 31, 1999

Revenues

Our revenues increased to \$842,000 for the three months ended March 31, 2000 compared to \$233,000 for the same period in 1999. This increase was primarily due to a significant increase in advertising revenue, which was in turn a result of a significant increase in our marketing and sales promotional activities during this period. Approximately 79% of our revenues in the three months ended March 31, 2000 was attributable to new customer sales, and approximately 21% was attributable to sales to customers existing in the three months ended March 31, 1999. We did not record any e-commerce revenues during these periods.

Cost and Expenses

Cost of Revenues. Our cost of revenues increased to \$811,000 for the three months ended March 31, 2000 compared to \$172,000 for the same period in 1999. This increase was principally the result of an increase of \$410,000 in bandwidth leasing charges due to our leasing of additional bandwidth from the Beijing Telecom Administration and an increase of \$139,000 in personnel costs due to a significant expansion of the services provided on our Web site. Bandwidth leasing charges and personnel costs constituted approximately 52% and 30%, respectively, of our cost of revenues during this period.

Product Development Expenses. Our product development expenses increased to \$348,000 for the three months ended March 31, 2000 compared to \$55,000 for the same period in 1999. This increase was mainly a result of an increase of \$130,000 in compensation and related expenses for personnel engaged in the enhancement of our Web site and the establishment of our business development department in the latter part of 1999. Personnel costs constituted approximately 49% of our product development expenses during this period.

Sales and Marketing Expenses. Our sales and marketing expenses increased to \$1,533,000 for the three months ended March 31, 2000 compared to \$126,000 for the same period in 1999. This increase was primarily due to an increase in costs of \$652,000 in our cost of advertising activities and an increase of \$488,000 for special promotional events, such as our two-year anniversary concert in February 2000. Advertising expenses constituted approximately 42% of our sales and marketing expenses during this period.

General and Administrative Expenses. Our general and administrative expenses increased to \$516,000 for the three months ended March 31, 2000 compared to \$163,000 for the same period in 1999. This increase was principally a result of an increase of \$148,000 in personnel costs due to the hiring of additional administrative personnel and an increase of \$53,000 in professional fees. Personnel costs and professional fees constituted approximately 36% and 18%, respectively, of our general and administrative expenses during this period.

Stock-Based Compensation Expenses. Our stock-based compensation expenses were \$129,000 for the three months ended March 31, 2000. This amount represents the amortization during this period of our deferred stock-based compensation relating to stock options granted in 1999 and 2000. We did not incur stock-based compensation expenses during the same period in 1999.

Operating Loss

As a result of the foregoing, we had an operating loss of \$2,495,000 for the three months ended March 31, 2000 compared to an operating loss of \$283,000 for the same period in 1999.

Interest Income

Interest income increased to \$31,000 for the three months ended March 31, 2000 compared to \$7,000 for the same period in 1999. This increase was primarily due to increased cash balances held at bank accounts or invested in short-term instruments or certificates of deposit.

Net Loss, Accretion on Mandatorily Redeemable Convertible Preferred Stock,
Income Tax and Net Loss Attributable to Common Stockholders

As a result of the foregoing, our net loss increased to \$2,464,000 for the three months ended March 31, 2000 compared to \$276,000 for the same period in 1999. Accretion on mandatorily redeemable convertible preferred stock was \$1,559,000 for the three months ended March 31, 2000 compared to \$114,000 for the same period in 1999. As we have incurred losses since inception, no provision for income taxes has been made. Net loss attributable to common stockholders was \$4,023,000 for the three months ended March 31, 2000 compared to \$390,000 for the same period in 1999.

Comparison of the Years 1999 and 1998

Revenues

Our revenues increased to \$1,617,000 in 1999 compared to \$472,000 in 1998. This was primarily due to an increase in the number of advertising contracts and in the average dollar amount of the contracts. We did not record any e-commerce revenues during these periods. Approximately 66% of our revenues in 1999 was attributable to new customer sales and approximately 34% was attributable to sales to customers existing in the prior year. Approximately 78% of our revenues in 1998 was attributable to new customer sales and approximately 22% were attributable to sales to existing customers.

Costs and Expenses

Cost of Revenues. Our cost of revenues increased to \$1,576,000 in 1999 compared to \$215,000 in 1998. This was principally a result of a significant increase of \$481,000 due to the hiring of additional personnel and related personnel costs, as well as an increase of \$515,000 in Internet access and bandwidth leasing charges due to our leasing of additional bandwidth from the Beijing Telecom Administration. This increase was also due to an increase of \$100,000 in hardware and software amortization costs and an increase of \$55,000 in royalty and fixed fee payments to content providers. Most of these costs are fixed costs. Personnel costs, Internet bandwidth and leasing charges, hardware and software amortization costs and payments to content providers constituted approximately 38%, 33%, 7% and 1%, respectively, of our cost of revenues in 1999.

Product Development Expenses. Our product development expenses increased to \$427,000 in 1999 compared to \$208,000 in 1998. This increase was largely a result of an increase of \$124,000 due to the increase in the number of personnel and related personnel costs, as well as the costs incurred during the preliminary project stage of new product development projects, such as the development of our branded content channels and the upgrading of our Chinese key word search software and e-mail service. In addition, we established a business development department in 1999. Personnel costs constituted approximately 61% of our product development expenses in 1999.

Sales and Marketing Expenses. Our sales and marketing expenses increased to \$1,758,000 in 1999 compared to \$351,000 in 1998. This increase was primarily due to an increase of \$1,043,000 related to the launch of our new advertising campaign, including print, radio and billboard advertising, as well as an increase of \$199,000 in personnel costs associated with the expansion of our sales and marketing staff to 30 persons in 1999 from 15 persons in 1998. Prior to 1999, we did not incur any advertising costs. Advertising expenses constituted approximately 59% of our sales and marketing expenses in 1999.

General and Administrative Expenses. Our general and administrative expenses increased to \$1,270,000 in 1999 compared to \$308,000 in 1998. This increase was mainly caused by an increase of \$176,000 related to the hiring of additional administrative personnel, increased professional service fees of \$425,000 and costs associated with the opening of our Guangzhou office. In addition, we recognized \$60,000 in expenses associated with services provided by affiliates of one of our shareholders in 1999. Personnel costs and professional service fees constituted approximately 20% and 41% of our general and administrative expenses in 1999.

Stock-Based Compensation Expenses. Our stock-based compensation expenses were \$46,000 in 1999. This amount represents the amortization during this period of our deferred stock-based compensation relating to stock options granted in 1999. We did not incur stock-based compensation expenses in 1998.

Operating Loss

As a result of the foregoing, we had an operating loss of \$3,460,000 in 1999 compared to \$610,000 in 1998.

Interest Income

Interest income increased to \$25,000 in 1999 compared to \$23,000 in 1998. This increase was primarily due to increased cash balances held at bank accounts or invested in short-term instruments or certificates of deposit.

Net Loss, Accretion on Mandatorily Redeemable Convertible Preferred Stock, Income Tax and Net Loss Attributable to Common Stockholders

As a result of the foregoing, our net loss increased to \$3,449,000 in 1999 compared to \$615,000 in 1998. Accretion on mandatorily redeemable convertible preferred stock was \$917,000 in 1999 compared to \$244,000 in 1998. As we have incurred losses since inception, no provision for income taxes has been made. Net loss attributable to common stockholders was \$4,366,000 in 1999 compared to \$859,000 in 1998.

Comparison of the Years 1998 and 1997

Revenues

Our revenues increased to \$472,000 in 1998 compared to \$78,000 in 1997. This increase was primarily due to an increase in the number of advertising contracts and in the average size of the contracts, including a sponsorship arrangement with Intel for a fixed fee of \$150,000. Approximately 78% of our revenues in 1998 were attributable to new customer sales and approximately 22% were attributable to sales to customers existing in the prior year. Substantially all of our revenues in 1997 were attributable to new customer sales.

Costs and Expenses

Cost of Revenues. Our cost of revenues increased to \$215,000 in 1998 compared to \$19,000 in 1997. This increase was primarily due to the launching of our online directory and search engine and

improvements to our infrastructure, which resulted in significantly higher expenditures related to Internet access and bandwidth leasing, personnel and other production costs. Personnel costs increased by \$99,000 and constituted approximately 52% of our cost of revenues in 1998.

Product Development Expenses. Our product development expenses increased to \$208,000 in 1998 compared to \$50,000 in 1997. This increase was largely due to an increase of \$109,000 in personnel costs related to the increase of our product development team from six persons in 1997 to 23 persons in 1998. During 1998, we also launched our online directory and search engine and continued to make enhancements to our Web site. Personnel costs constituted approximately 66% of our product development expenses in 1998.

Sales and Marketing Expenses. Our sales and marketing expenses increased to \$351,000 in 1998 compared to \$94,000 in 1997. This increase was primarily due to an increase of \$137,000 resulting from higher sales and marketing personnel costs and related expenses. These costs and expenses constituted approximately 80% of our sales and marketing expenses in 1998.

General and Administrative Expenses. Our general and administrative expenses increased to \$308,000 in 1998 compared to \$75,000 in 1997. This increase was mainly a result of an increase in personnel costs of \$54,000 due to the hiring of additional personnel, increased professional service fees of \$77,000 and costs associated with the opening of our Shanghai office. Personnel costs and professional service fees constituted approximately 26% and 31% of our general and administrative expenses in 1998.

Stock-Based Compensation Expenses. We did not have any stock-based compensation expenses in 1998 and 1997.

Operating Loss

As a result of the foregoing, we had an operating loss of \$610,000 in 1998 compared to \$160,000 in 1997.

Interest Income

We had interest income of \$23,000 in 1998, mainly as a result of cash balances held in interest bearing accounts or invested in short-term instruments or certificates of deposit. We did not have any interest income in 1997, as all of our cash balances were held in non-interest bearing accounts.

Net Loss, Accretion on Mandatorily Redeemable Convertible Preferred Stock, Income Tax and Net Loss Attributable to Common Stockholders.

As a result of the foregoing, our net loss increased to \$615,000 in 1998 compared to \$160,000 in 1997. Accretion on mandatorily redeemable convertible preferred stock was \$244,000 in 1998. No mandatorily redeemable convertible preferred stock was issued in 1997. As we have incurred losses since inception, no provision for income taxes has been made. Net loss attributable to common stockholders was \$859,000 in 1998 compared to \$160,000 in 1997.

Quarterly Results of Operations

The following table sets forth, for the periods presented, our unaudited quarterly results of operations for the eight fiscal quarters ended March 31, 2000. The data have been derived from our unaudited consolidated financial statements, and in our management's opinion, they have been prepared on substantially the same basis as the annual financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the financial results for the periods presented. This information should be read in conjunction with the annual financial statements included elsewhere in this prospectus. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

	Three months ended							
	June 30, 1998	September 30, 1998	December 31, 1998	March 31, 1999	June 30, 1999	September 30, 1999	December 31, 1999	March 31, 2000
	(in thousands) (unaudited)							
Revenues.....	\$ 75	\$ 62	\$ 309	\$ 233	\$ 434	\$ 401	\$ 549	\$ 842
Costs and expenses:								
Cost of revenues(1)....	25	41	129	172	272	494	638	811
Product development(1).....	39	58	82	55	84	116	172	348
Sales and marketing(1).....	45	85	185	126	163	465	1,004	1,533
General and administrative(1)....	48	96	125	163	250	377	480	516
Stock-based compensation.....	--	--	--	--	36	6	4	129
Total costs and expenses.....	157	280	521	516	805	1,458	2,298	3,337
Operating loss.....	(82)	(218)	(212)	(283)	(371)	(1,057)	(1,749)	(2,495)
Interest income.....	2	6	15	7	5	6	7	31
Interest expense -- related party.....	(3)	--	--	--	--	(14)	--	--
Net loss.....	(83)	(212)	(197)	(276)	(366)	(1,065)	(1,742)	(2,464)
Accretion on mandatorily redeemable preferred stock.....	(32)	(87)	(114)	(114)	(114)	(118)	(571)	(1,559)
Net loss attributable to common stockholders....	<u>\$(115)</u>	<u>\$(299)</u>	<u>\$(311)</u>	<u>\$(390)</u>	<u>\$(480)</u>	<u>\$(1,183)</u>	<u>\$(2,313)</u>	<u>\$(4,023)</u>

(1) Excluding stock-based compensation. See our consolidated financial statements.

Liquidity and Capital Resources

To date, we have primarily financed our operations through the sale of our preferred stock, a one-time extension of an interim loan from one of our shareholders, which was converted into shares of our Series C preferred stock as part of our Series C preferred stock financing in October of 1999, and a short-term bank in March 2000. As of March 31, 2000, we had approximately \$33,106,000 in cash and cash equivalents.

Net cash used in operating activities was \$2,351,000 for the three months ended March 31, 2000 compared to \$341,000 for the same period in 1999. Net cash used in operating activities was \$1,720,000 in 1999 compared to \$678,000 in 1998. To date, we have experienced significant negative cash flows from operating activities. Costs associated with increases in personnel and increased sales and marketing initiatives contributed to our negative cash flow position.

Net cash used in investing activities was \$1,325,000 for the three months ended March 31, 2000 compared to \$66,000 for the same period in 1999. Net cash used in investing activities was \$2,521,000 in 1999 compared to \$227,000 in 1998. Net cash used in investing activities during these periods primarily resulted from the purchase of fixed assets and computer software from third party vendors.

Net cash provided by financing activities was \$32,858,000 for the three months ended March 31, 2000 compared to \$0 for the same period in 1999. Net cash provided by financing activities was \$6,933,000 in 1999 compared to \$2,026,000 in 1998. Net cash provided by financing activities for the three months ended March 31, 2000 primarily consisted of the issuance of our Series D preferred stock for \$30.0 million and a short-term bank loan for \$2,899,000 which has been subsequently repaid. Net cash provided by financing activities during 1999 primarily consisted of the interim loan of \$1.5 million from one of our shareholders and the issuance of our Series C preferred stock for \$5.4 million.

Net cash used in operating activities was \$678,000 in 1998 compared to \$46,000 in 1997. Significant uses of cash in operations that contributed to our negative cash flow position in 1998 include costs associated with our marketing initiatives, technology development and increased staffing in our content aggregation and business operations.

Net cash used in investing activities was \$227,000 in 1998 compared to \$30,000 in 1997. Net cash used in investing activities during these periods related to the purchase of fixed assets.

Net cash provided by financing activities was \$2,026,000 in 1998 compared to \$100,000 in 1997. The 1997 amounts represented loans and investments from our founders. In 1998, net cash provided by financing activities primarily consisted of proceeds from the sale of Series B preferred stock.

Our principal commitments consist of obligations outstanding under lease contracts for our office space in Beijing. We made capital expenditures of approximately \$0.9 million in 1999, and expect to make capital expenditures totaling approximately \$4.0 million for 2000 and \$13.0 million for 2001. The capital expenditures in 1999 principally consisted of purchases of, or investments in, our network infrastructure. We expect our capital expenditures in 2000 and 2001 to primarily consist of purchases of additional servers, computer software and workstations. In addition, we expect that our capital expenditures will increase significantly in the future as we make technological improvements to our network infrastructure and enter into strategic joint ventures or acquisitions. We also intend to upgrade our financial and accounting systems and infrastructure. In addition to capital expenditures, we have substantial future cash needs for our planned substantial future increases in expenses, including sales, marketing, promotional and work force expenses and bandwidth leasing charges.

Our net accounts receivable balance increased significantly from \$401,000 at December 31, 1999 to \$776,000 at March 31, 2000. The number of days sales outstanding in accounts receivable also increased from an average of 55 days during 1999 to 77 days during the first quarter of 2000. These increases were primarily due to the fact that our resources devoted to accounts receivable collection did not catch up with our revenue

growth. During March and April 2000, we have: (1) increased staff dedicated to billing and collections; (2) tied our sales staff's commissions to accounts receivable collections; and (3) in some cases, required prepayments for our advertising contracts.

We believe that our current cash and cash equivalents, cash flow from operations and the proceeds from this offering will be sufficient to meet our anticipated cash needs, including for working capital and capital expenditures, 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 our cash requirements, we may seek to sell additional equity or debt securities or to obtain a credit facility. The sale of additional equity or convertible debt securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating and financial covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Holding Company Structure

We are a holding company with no operations other than our ownership of Beijing ITC, our wholly-owned subsidiary in the PRC that, together with Beijing Sohu, owns and conducts our entire Internet business. As a result, we rely on dividends and other distributions paid by Beijing ITC, including the funds necessary to service any debt we may incur. If Beijing ITC incurs debt on its own behalf in the future, the instruments governing the debt may restrict Beijing ITC's ability to pay dividends or make other distributions to us. In addition, PRC legal restrictions permit payment of dividends to us by Beijing ITC only out of U.S. Beijing ITC's net income, if any, determined in accordance with PRC accounting standards and regulations. Under PRC law Beijing ITC is also required to set aside a portion of its net income, if any, each year to fund certain reserve funds. These reserves are not distributable as cash dividends. See note 5 to our consolidated financial statements included in this prospectus.

Taxation

Sohu is subject to income taxes in the United States while our PRC operating subsidiary, Beijing ITC, is subject to income tax in the PRC.

Beijing ITC is subject to the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises and Foreign Enterprises and various local tax laws. Under these tax laws, Beijing ITC is subject to income tax at a statutory rate of 33% (30% state income taxes plus 3% local income taxes) on PRC taxable income. Although Beijing ITC's income is generally not taxable in the United States, dividends distributed from Beijing ITC to our company are subject to income tax in the United States. Under the applicable PRC tax laws, these dividends are exempt from withholding tax in China. Subject to certain limitations, the income taxes paid by Beijing ITC on its earnings are creditable against Sohu's tax liabilities in the United States.

Sohu and Beijing ITC have not paid any income taxes because we have incurred losses since inception. As of December 31, 1999, we had a net operating loss for U.S. federal income tax purposes of \$689,000 and a net operating loss for PRC income tax purposes of \$2,915,000 available to offset future U.S. federal and PRC income tax liabilities, respectively. The net operating loss for U.S. federal income tax purposes will expire from 2012 to 2020, while the net operating loss for PRC income tax purposes will expire from 2002 to 2004. We have provided a full valuation allowance against deferred tax assets relating to these net operating losses due to the uncertainty surrounding their realization.

China contribution plan and profit appropriation

Beijing ITC participates in a government-mandated, multi-employer defined contribution plan, through which employees receive retirement, medical and other welfare benefits. PRC labor regulations stipulate that

Beijing ITC must pay a monthly contribution to the local labor bureau. The monthly contribution rate is based on the monthly basic compensation amount of qualified employees. Beijing ITC has no further commitments beyond its monthly contribution, and the relevant local labor bureau is responsible for meeting all retirement benefit obligations.

Under applicable PRC laws, Beijing ITC is required to make appropriations from after-tax profit to non-distributable reserve funds which are determined by its board of directors. These reserve funds must include a general reserve, an enterprise expansion fund and a staff bonus and welfare fund. Ten percent of after-tax profit (as determined under PRC GAAP) must be put in the general reserve fund per annum, while the other fund appropriations are at Sohu's discretion. Since Beijing ITC is in a loss position, no appropriations have been made.

Foreign Currency Exchange Losses

While our reporting currency is the U.S. dollar, to date virtually all of our revenues and costs are denominated in Renminbi and a significant portion of our assets and liabilities are denominated in Renminbi. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be impacted by fluctuations in the exchange rate between U.S. Dollars and Renminbi. If the Renminbi depreciates against the U.S. Dollar, the value of our Renminbi revenues and assets as expressed in our U.S. Dollar financial statements will decline. We do not hold any derivative or other financial instruments that expose us to substantial market risk. See "Risk Factors -- We may suffer currency exchange losses if the Renminbi depreciates relative to the U.S. Dollar". See note 3 to our consolidated financial statements included in this prospectus.

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. To date, we have not entered into any hedging transactions in an effort to reduce our exposure to foreign currency exchange risk. While we may decide to enter into hedging transactions in the future, the effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure at all. Accordingly, we may incur economic losses in the future due to foreign exchange rate fluctuations which may have a negative impact on our financial condition and results of operations.

Recent Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No.133, which is effective, as amended, for all quarters in fiscal years beginning after June 15, 2000, establishes accounting and reporting standards for derivative financial instruments and hedging activities related to those instruments, as well as other hedging activities. As we do not currently engage in derivative or hedging activities, we do not expect the adoption of this standard to have a significant impact on our consolidated financial statements.

BUSINESS

Overview

We are a leading Internet portal in China in terms of brand recognition, page views and registered users. During the seven-day period ended May 20, 2000, we averaged in excess of 12.4 million page views per day. Our mission is to make Sohu an indispensable part of the daily life of every person in China.

Our portal consists of sophisticated Chinese language Web navigational and search capabilities, 12 main content channels, Web-based communications and community services and a platform for e-commerce services. As of May 20, 2000 our online directory contained over 250,000 Chinese language Web listings, each reviewed and classified by our editorial staff. In addition, we have contractual content relationships with over 85 Chinese language media and information providers. 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 promote user affinity to Sohu by providing free Chinese language e-mail, online bulletin boards, chat rooms and instant messaging. All of our products and services are designed to meet the specific interests and needs of Internet users in China.

We are a pioneer of the Internet industry in China, having introduced the first Chinese language online directory and search engine. We have exclusively targeted the Internet market in China since our inception. Our Web site is tailored to the particular thinking and viewing habits of Internet users in China. According to a survey conducted in December 1999 by Hui Cong Research, one of the largest information technology market research firms in the PRC, Sohu was the most favored Chinese language Web site among PRC Internet users. In addition, according to studies commissioned by our company and conducted by The Gallup Organization in February and April 2000 in three of the largest cities in the PRC (Beijing, Shanghai and Guangzhou), Sohu had the highest overall level of unaided Web site awareness among Internet users.

As a leading Internet portal in China, we are well positioned to capitalize on the emergence of the Web as a new advertising medium and commerce platform in China. We believe that by providing a well tuned and highly relevant navigational context and comprehensive range of China-specific content, we provide advertisers and merchants with targeted access to an audience with highly desirable demographic profiles. To expand our user and revenue base, we began offering free Web-based e-mail in July 1999 and, as of May 20, 2000, we had over 2.2 million registered e-mail users. 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. We have attracted several strategic investors, including Dow Jones & Company, Inc., Intel Corporation, an affiliate of Pacific Century Cyberworks Limited, an affiliate of Legend Holdings Limited and Hikari Tsushin, Inc.

Industry Background

The Internet has developed into a significant global mass medium that allows millions of people worldwide to find information, interact with others and conduct business electronically. International Data Corporation, or IDC, estimates that the number of Internet users worldwide will grow from approximately 196.1 million at the end of 1999 to approximately 502.4 million by the end of 2003. The rapidly growing number of users and the ability of corporations to effectively target them has led to online advertising and e-commerce opportunities. According to Forrester Research, the dollar value of Internet advertising worldwide is expected to increase from approximately \$3.3 billion in 1999 to approximately \$24.1 billion in 2003. In addition, IDC is also projecting an increase in e-commerce transactions on the Internet from \$111.4 billion in 1999 to approximately \$1,317 billion in 2003.

The Growth of the Internet in China

Internet use in China has grown rapidly in recent years and is expected to significantly outpace growth in worldwide Internet use over the next several years. According to IDC, between January 1, 1999 and

December 31, 1999, the number of PRC Internet users increased from approximately 2.4 million to approximately 3.8 million. In addition, IDC projects the number of Internet users in China will grow to approximately 25.2 million in 2003.

Increased competition among telecommunications providers and increased infrastructure spending have accelerated network infrastructure improvements. Together with significant decreases in charges for telephone installation and usage and Internet access, these factors have contributed, and are expected to continue to contribute, to the growth of Internet use in China. Furthermore, personal computer penetration in urban centers in China has increased rapidly, and we expect this penetration rate to continue to increase as prices of personal computers decline. In addition, the potential for Internet access through alternative devices, such as television set-top boxes and wireless telephones, as well as the development of broadband Internet access services, may further accelerate the growth of the number of Internet users in China. According to the PRC National Bureau of Statistics, as of December 31, 1998, there were approximately 330 million households, of which 90% owned televisions, and, per the Ministry of Information Industry, approximately 40 million cellular telephone users in China.

As Internet use becomes more pervasive in China, and as the PRC online population continues to develop and expand, the opportunities for online advertising and commerce will also expand. Although China's per capita GDP is relatively low, there is a large and growing segment of the population that is well educated and relatively affluent and has demonstrated a willingness to embrace new technologies. For example, according to statistics published by the PRC National Bureau of Statistics and estimates prepared by the MII, the number of cellular subscribers in China grew from approximately 1.6 million subscribers in 1994 to approximately 40 million subscribers in 1999.

Zenith Media estimates that advertising expenditures for television, newspapers, magazines, TV, radio and other traditional media in China totaled over \$4.1 billion in 1999. In addition, Forrester Research estimates that the aggregate online advertising market in China in 1999 was only \$8.0 million. As the number of Internet users increases, we believe that online advertising will capture an increasing percentage of the overall PRC advertising market. Zenith Media has estimated that in 2002 China's overall advertising market will total \$6.1 billion, while Forrester Research has estimated that China's online advertising market will total \$100.0 million in 2002 and \$440.0 million in 2004. Similarly, the volume of e-commerce transactions in China is expected to increase significantly as the online population expands. According to IDC, total e-commerce revenue in China is expected to grow from approximately \$43.0 million in 1999 to approximately \$11.7 billion in 2004.

The projected amounts set forth above have been derived from or copied from market research reports. You should note that there can be no assurance any of these projected amounts will be achieved.

Unique Challenges and Demands of China's Internet Market

We believe that China's Internet market faces the following unique challenges and demands:

- . Demand for Chinese directories and local content tailored for Internet users in China. PRC Internet users demand content and services that are distinct from those offered in the overseas Chinese language Internet markets, such as Hong Kong, Taiwan and the North American Chinese communities. China uses a simplified version of the Chinese characters while the overseas Chinese-speaking population typically uses the traditional characters. The distinct cultural and historical background of China's Internet users also translates into viewing and thinking habits that are distinct from those in other markets. This requires not only that online directories and content contain different information, but that such information be uniquely structured to best reflect such viewing and thinking habits in order to provide users with the most user-friendly online experience.
- . Chinese language is not key word search-friendly. Key word searches in Chinese are more complicated than searches in English and require specially designed software. In particular, sentences

in Chinese are made up of phrases, equivalent to words in English, that consist of one to several characters. Unlike in English where words in a sentence are separated by spaces, Chinese phrases with varying numbers of characters are not separated out in a sentence. Therefore, Chinese text must be indexed to separate out the phrases before they can be subjected to key word/phrase searches. In addition, a Chinese phrase generally has more synonyms or closely associated phrases than the equivalent English word, which makes it crucial to develop a comprehensive database of synonyms and closely associated phrases for an effective Chinese key word search function. The fact that each character in Chinese requires twice the number of bytes needed for a letter in English may also create additional software complications.

. Limited Bandwidth Resources. The telecommunications infrastructure in China remains underdeveloped. In particular, bandwidth remains relatively expensive and scarce, posing significant challenges to Web sites that encounter heavy and fluctuating traffic. In addition, the services provided by network backbone operators and server hosting facilities are still relatively poor. Moreover, most users in China currently access the Web through low-speed dial-up modems. As a result, Internet companies offering content and services in China must design their operations within the confines of these technological constraints and execute their business strategies accordingly.

. Underdeveloped product distribution networks and payment systems hinder the growth of e-commerce. The most important factor affecting the development of e-commerce in China is the availability of efficient product distribution channels that provide timely and satisfactory fulfillment of purchase orders. 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. Furthermore, an additional barrier to the development of e-commerce is the lack of reliable payment systems. In particular, the use of credit cards or another viable means of electronic payment in sales transactions in China is not as well developed as some other countries, such as the United States.

. The business and regulatory environment in China is often uncertain and difficult to understand and navigate. The business and regulatory environment in China remains poorly understood by most businesses outside China. China has only recently transformed itself from a predominantly socialist economy to a market-oriented economy, and many industries are still monopolized by state-owned companies. Business relationships are often defined by past practices and mutual understandings as opposed to precise contractual provisions. As a result, foreign companies, including overseas Chinese companies, often find China's business environment frustrating. In addition, the regulatory environment for the Internet in China and for businesses in general remains uncertain in many respects. Without extensive knowledge about China, businesses often fail to effectively interact with regulators and such failure may result in fatal delays in their strategy execution. The distinctiveness of the PRC Internet market from the other overseas Chinese markets also limits the advantages a regional Internet business may gain by leveraging across the mainland China and overseas Chinese markets, especially since the mainland China market is expected to be far larger than other overseas Chinese markets within several years.

The Sohu.com Solution

We have developed our portal to address the unique challenges and needs of China's Internet market. We believe that our success to date is attributable to the following factors, and we believe that these factors will continue to be our competitive strengths:

Exclusive Focus on Mainland China

We focus exclusively on the Internet market in China. Our products and services are tailored to the specific interests, needs and viewing habits of our PRC Internet users. We have based our operations in China since our inception, and substantially all of our employees are based in the PRC. Our local presence allows us

to better understand the needs of advertisers and business partners that operate in China, and to build and maintain strong relationships with them. For example, we have established contractual content relationships with over 85 Chinese language media and information providers. Moreover, as a result of our local presence, we are able to maintain a regular dialogue with the relevant PRC regulatory authorities, and consequently we believe we are better attuned to operating an Internet business within the existing PRC business and regulatory environment.

First Mover Advantage and Brand Leadership

We are a pioneer of the Internet industry in China, having introduced the first Chinese language online directory and search engine. According to a survey conducted in December 1999 by Hui Cong Research, one of the largest information technology market research firms in the PRC, Sohu was the most favored Chinese language Web site among PRC Internet users. In addition, according to studies commissioned by our company and conducted by The Gallup Organization in February and April 2000 in three of the largest cities in the PRC (Beijing, Shanghai and Guangzhou), Sohu.com had the highest overall level of unaided Web site awareness among Internet users. A significant part of our branding strategy revolves around the creation of public awareness of Sohu when we introduce new concepts and standards to PRC Internet users. In so doing, we believe we have become synonymous with the evolution and development of the PRC Internet industry. Our brand recognition has enabled us to attract a growing user audience and leading companies as advertisers and e-commerce partners.

Proprietary Web Navigational and Search Capabilities

Our Sohu online directory, the centerpiece of our portal, was carefully designed and has been continuously refined to reflect the unique cultural characteristics and thinking and viewing habits of PRC Internet users. As of April 30, 2000, our online directory contained over 250,000 Chinese language Web listings, each reviewed and classified by our editorial staff. We currently receive approximately 1,000 requests every day from other Web sites for inclusion in our directory. Most Web site listings in our directory are classified in multiple subcategories, and each site sits at the end point of, on average, three different paths in our directory. As a result, our directory is highly complex, proprietary and China-specific, and we believe it would be very difficult for our competitors to duplicate our directory. In addition, our customized Web search software is designed to meet the unique challenges posed by the Chinese language and its pictographic characters. In particular, our large database of Chinese synonyms and closely associated phrases enables users to execute key word searches effectively both for Web site listings and within our content channels.

Highly Attractive Platform for Advertising and Commerce

We believe that Sohu is a highly attractive platform for advertisers and merchants because we have a leading Internet brand in China and provide access to a user group with a highly desirable demographic profile. We have developed a client service group dedicated to enhancing our relationship with advertisers and maximizing the effectiveness of their advertising campaigns. We also provide advertisers with detailed and timely data regarding the number of advertisements displayed and the number of users who clicked through for additional information. Moreover, we intend to take advantage of our high visitor traffic by developing a user-friendly e-commerce platform that will allow merchants with the necessary fulfillment capabilities to easily transact business on our Web site. We also plan to facilitate transactional activity by handling order tracking as well as product database management. In addition, we are working with a number of commercial banks in China on the development of reliable electronic payment systems.

Technical Expertise in Dealing with Bandwidth Limitations

Bandwidth limitations resulting from the underdeveloped telecommunications infrastructure and server hosting environment in China may adversely affect the ability of a Web site to accommodate and process heavy

Web traffic reliably and quickly. As a result of our experience in China, we believe we have substantial technical expertise and are an industry leader in designing our operations within the confines of these technological constraints. We constantly seek to conserve our bandwidth resources by adjusting and fine-tuning our network and traffic routing configurations to minimize passing traffic between our servers. In addition, all of our sites are designed to maximize download speed, and our content aggregation is tailored for a limited bandwidth environment.

Our Strategy

Our objective is to strengthen our position as a leading Internet portal in China. In order to accomplish this objective, we plan to:

Maintain and Extend Our Brand Recognition

We intend to continue building our brand and strengthening our brand leadership in China through:

- . focusing our marketing efforts on increasing user registration;
- . promoting services and features that target the youth market;
- . building new marketing and distribution relationships;
- . leveraging the media attention and publicity afforded to Sohu in our capacity as a pioneer of the PRC Internet industry; and
- . sponsoring television shows, newspaper columns, events and concerts.

Increase the Number of Visitors to Our Portal and the Duration of Each Visit

In addition to our marketing efforts, we intend to increase the number of visitors to our portal, as well as the duration of each visit to our portal (commonly referred to as the "stickiness" of our Web site), through continuing efforts to improve our content, online directory and search engine, including the following measures:

- . leverage our brand leadership in China to build new content, advertising and e-commerce relationships and add new product offerings;
- . continue to add new utility features and communication tools to extend the function/solution aspects of our content channels with the goal of making our portal an indispensable source of solutions and information for our users; and
- . enhance our community offerings and increase interactivity among users;
- . enable our users to personalize and customize the comprehensive range of products, services and utility features we offer;
- . continue to integrate our channels and sub-channels to better reflect the thinking and viewing habits of Chinese online users and create maximum ease of use and simplicity;
- . continue our focus on increasing the download speed of our sites and maintaining the high quality and uniform appearance of our sites.

Increase Online Advertising Revenues and Develop an E-Commerce Business

We plan to increase our online advertising revenue streams by increasing the number of advertisers and, as the user base grows, increasing our net advertising rates. We also intend to increase the number of Web site sponsorship arrangements with leading advertisers in China, which are of longer term and higher value than typical banner advertising sales arrangements. We plan to achieve this mainly by expanding our sales force

targeting large corporations and Internet companies, as well as continuing to improve the quality of our client services group. Furthermore, we plan to increase user registration and enhance our advertising measurement capabilities in order to gain a better understanding of our user demographics and improve our ability to target advertisement delivery.

We also plan to leverage our brand recognition and heavy traffic volume to generate revenues from e-commerce activities. In particular, we intend to become an aggregator of online merchants by providing online space on our portal to third party merchants. Companies that have sold products on a trial basis on our Web site include Motorola (pagers) and Compaq (personal computers). In addition to providing merchants with access to our users, we plan to provide order tracking, product database management and payment facilities. Presently, we have no intention to handle direct-to-customer product fulfillment. We intend to charge online merchants fees and, in some cases, commissions for e-commerce transactions conducted through our portal. Currently, three merchants are online on our portal.

Acquire Complementary Assets, Technologies and Businesses

We intend to actively identify and acquire assets, technologies and businesses that are complementary to our existing portal business. We expect to target our acquisition efforts to businesses that can help us:

- . expand our user and revenue base;
- . widen geographic coverage within China;
- . enhance our content and service offerings;
- . advance our technology; and
- . strengthen our technical talent pool.

The Sohu.com Portal

The following is a brief description of the products and services we offer under the main categories of home page and navigational context, aggregated content, communication tools and e-commerce services. We intend to continue to add new products and services to our portal, to better integrate our products and services and to expand the function/solution aspects of our content channels. In 1999, a majority of our revenues were derived from online advertising on our home page and our Business and Finance, Technology and Learning channels.

Home Page and Navigational Context
 Online Directory
 Search Engine

Aggregated Content
 Main Channels:
 News

Communication Tools

Business and Finance

Free E-Mail

Dow Jones
 Sports
 Information Technology

Chat Rooms
 Instant Messaging

Women

Message Boards
 Online Polling

Entertainment

Music

E-Commerce Services

Learning
 Career
 Real Estate

Shopping Channel

Games

Auction Channel

Home Page and Navigational Context

Our portal is organized around the Sohu.com home page and the central feature of our home page is our online directory. A screen shot of our home page is included on the inside front cover of this prospectus.

Online Directory. Our online directory was designed and has been continuously refined to reflect the unique cultural characteristics and thinking and viewing habits of PRC Internet users. We are the first site in China to introduce manual Web classification, and Chinese Web site classification remains one of our key strengths. On average we add approximately 400 new listings (less deletions of inactive Web links) to our directory per day. As of April 30, 2000, our directory contained over 250,000 Chinese language Web listings under the following 18 principal categories:

Arts	Literature	Science/Technology
Business/Finance	Living/Service	Social Sciences
Computer/Internet	Medicine/Health	Society/Culture
Country/Region	News/Media	Sports/Exercise
Education	Politics/Law	Travel/Transportation
Entertainment/Leisure	Reference	

Personal Homepage

Our Web sites are further organized under these principal categories within approximately 550 hierarchical subcategories and, as appropriate, individual Web items are referenced under multiple subcategories. Each site sits at the end point of, on average, three different paths in our directory. In addition, each site has been reviewed and classified by our editorial staff, and our basic Web site listings are in most cases supplemented by a brief descriptive commentary. As a result, our directory is highly complex, proprietary and China-specific, and we believe it offers comprehensiveness and relevance that would be very difficult for our competitors to duplicate.

Search Engine. Users can browse our directory listings through a Chinese keyword search request that scans the contents of the entire directory or within any category or subcategory. Our search software enables us to build and continuously fine-tune a large database of Chinese synonyms and closely associated phrases, which is essential for the accurate and efficient execution of Chinese key word searches. We believe our large database is also difficult for our competitors to duplicate.

We also offer a function called "Global Web Search". The Global Web Search uses our proprietary association database to browse the World Wide Web and collect and organize Chinese language Web content.

In addition, users can access the co-branded Snap/Sohu search to surf the Web in English.

Aggregated Content

We aggregate content on a variety of topics, organized around the above-mentioned 12 main channels. Each main channel contains numerous sub-channels and features news, commentaries and various utilities and solutions relating to a specific topic. As of April 30, 2000, we had over 85 content suppliers, which enable us to provide a wide range of content offerings. Our content suppliers are leading Chinese language media and information providers in a variety of fields with coverage over all major cities in China. The arrangements we have with our content suppliers are typically short-term and not exclusive and often provide for revenue sharing as compensation to our content suppliers.

All of our channels, including co-branded third party content on our portal, are defined by the following features that together constitute the distinct Sohu "look and feel": the Sohu.com logo, our "search fox" mascot that displays different postures in different channels, the navigation bar, the color combination, the size and type of the Chinese characters, the large spacing used in our directories and the reporting style. The first row of the navigation bar remains the same in each channel, listing the 12 main channels as set forth below, but the links in the second row of the navigation bar are selected to reflect users' interests in that specific channel.

Main Content Channels:

News	Delivers a comprehensive selection of local, national and international news from newspapers, magazines and other information providers throughout China. Full text search is available on each page.
Business and Finance	Features business and financial news provided by leading financial information services in China, as well as content translated and updated by the Dow Jones team in Beijing. This channel also features a co-branded Dow Jones Business Center that is popular among Chinese professionals. Users can retrieve real-time stock quotes, exchange rates and annual reports, research reports and other information on selected companies on this channel.
Dow Jones	Delivers business, financial and other information provided by Dow Jones & Company, Inc. This channel primarily focuses on international business and financials news.
Sports	Provides the latest in national and international sports headlines, results, commentaries and analyses. Users can also compete in contests over national soccer tournament rankings and participate on our sports bulletin board.
Information Technology	Features information technology news, product reviews and software downloads. This channel also provides Web navigation handbooks for Internet novices, as well as Webmonkey China (translated daily from HotWired), which offers Web design tutorials for sophisticated Web users.
Women	Covers a broad range of lifestyle-related topics that are of particular interest to Chinese women. This channel includes content from fashion publications, such as the Chinese editions of Cosmopolitan and Trends magazines, as well as publications covering beauty, society, travel and other areas.
Entertainment	Contains extensive coverage of the entertainment arenas that are of interest to Chinese users, including dining, movies, television programs, plays and operas and best-selling and classic books.
Music	Covers music stars, events, record releases and other news and reports relating to the music industry, as well as music rankings in China, Taiwan, Hong Kong and the United States. This channel also offers music downloads, interviews and contests.
Learning	Provides educational resources and information. This channel is unique among Chinese language portals, and introduces the Internet and Sohu.com to many children. Intel financially sponsored the establishment of this channel, and we developed this channel with top providers of electronic publishing education programs in China.
Career	Provides job listings and resume databases, as well as career advice and career-related news and reports.
Real Estate	Offers a directory of apartment and other residential housing listings, and publishes advice on general real estate matters.
Games	Features news and reviews related to games and a game-related bulletin board. It also offers free, downloadable and frequently updated games.

Communication and Community Tools

We offer a variety of communication and community tools for our Chinese online users which are important in promoting user affinity to our portal:

Free E-Mail

We began offering free Web-based e-mail services in July 1999, and as of May 20, 2000, we had over 2.2 million registered e-mail users. We recently upgraded our e-mail technology.

Chat Room

Our Java-based chat services enable participants to interact in real-time group discussions or create their own private one-on-one chat rooms. We currently have chat rooms covering 12 broad interest areas such as sports, romance, finance and current events. Twice a week, we host live celebrity chats that offer our users the chance to discuss a variety of topics with well-known personalities. For example, in the past, we have hosted major events on these forums that drew tens of thousands of participants, such as the July 1999 question and answer session on the PRC national college entrance examinations.

Instant Messaging

Our instant messaging service enables our users to detect whether their friends and other users with similar interests are online, as well as send messages in Chinese directly to them. Our users can subscribe for specific interest groups and communicate with people who share similar interests.

Message Boards

Users can post and exchange information on message boards covering 16 main topics ranging from education and immigration to fashion and sports. On average, 50,000 messages are posted online each day.

Online Polling

From time to time our channels place short, focused pollings covering a variety of topics that are of interest to our users and advertisers.

E-Commerce Services

We have introduced e-commerce activities on our portal and have conducted limited e-commerce transactions on a trial basis. We have established an e-commerce platform, and are in the early stages of actively marketing our e-commerce services to potential customers. We plan to leverage our brand and position as a leading PRC Internet portal and utilize our heavy visitor traffic to develop our e-commerce business. Under our e-commerce business model, merchants and manufacturers will provide, handle and distribute merchandise, while banks and technology companies will manage the operational aspects of e-commerce transactions, such as payment collection and settlement. We will also work closely with our technology suppliers to further develop and refine our e-commerce software platform.

Shopping Channel

We currently have three merchants on our portal, one of which is the largest television shopping network in Beijing. This television shopping network offers its products on our e-commerce platform, and handles all matters relating to product fulfillment. All transactions are settled either through debit cards or by cash on delivery.

Auction Channel

We have built a business-to-consumer online auction platform, and we conducted online auctions on our Web site in September 1999 and December 1999. We intend to further develop our online auction platform and may enter into strategic alliances with other online auction houses.

Online Advertising Sales

Advertising Programs

Our typical advertising contract involves an advertiser or advertising agency paying us a fixed fee for displaying an advertisement for a specified period of time with a guaranteed number of impressions. As our advertising revenues are recognized ratably over the term of the contract (subject to meeting the guaranteed impression levels), any increase in our page views over the life of an advertising contract would not increase our revenues. Our advertising contracts typically have terms ranging from three to 24 months. Advertising on our portal currently consists of banner-style advertisements and buttons from which viewers can hyperlink directly to the advertiser's own Web site. In addition, we also offer advertisers text links and sponsorships of subchannels, message boards and chat rooms. Our standard charge in terms of cost per thousand impressions, commonly referred to as CPMs, for banner advertisements varies depending on the terms of the contract and the advertisement's location within our portal.

Discounts from standard rates are typically provided for higher volume, longer-term advertising contracts, and may be provided for promotional purposes. We have also, from time to time, performed Chinese language Web site design services for our advertising customers (although design services are not a material part of our revenues). In addition, we offer promotional advertising programs, such as contests and sampling, in order to build brand awareness, generate leads and drive traffic to an advertiser's site. In the near future, we plan to increasingly develop Web site sponsorship arrangements with leading advertisers in China. We expect these arrangements to be of longer term and higher value than typical banner advertising arrangements.

Advertising Customers

During 1999, 117 companies advertised on our portal, up from 90 advertisers during 1998 and 40 advertisers during 1997. During 1999, our principal advertising customers included:

- . Intel;
- . Legend;
- . Motorola;
- . Nokia; and
- . NBCi/Snap.

We have derived substantially all of our revenues to date from the sale of online advertising. In 1999, two of our advertisers, Intel and Nokia, each accounted for over 10% of total revenues. During the same period, our five largest advertisers accounted for approximately 34% of total revenues. In the first quarter of 2000, two of our advertisers, Nokia Corporation and Alibaba.com, each accounted for over 8% of our revenues, and our five largest advertisers accounted for more than 34% of our revenues and 40% of our accounts receivable.

In May 2000, the State Administration of Industry and Commerce, or SAIC, selected 11 Internet companies in China to participate in a one-year online advertising trial program. The SAIC is expected to formulate online advertising regulations based on the information gathered during the trial program. We were selected as one of the Internet companies that will participate in the trial program. We obtained a one-year advertising business permit from the SAIC on May 18, 2000.

In January 2000, the Company also entered into long-term advertising contracts with its Series D Preferred shareholders. Under the contracts, the Series D shareholders have committed to purchase certain services from the Company, including banner advertising, sponsorship of website channels, directory services and use of the Company's e-commerce platform, over the terms of the contracts, which range from 2 1/2 to 3 years. The contract price will be paid in quarterly payments over the life of the agreements. The detailed description of specific services to be provided under these agreements will be decided over the term of the contracts, with the individual fees for services consistent with rates charged to the Company's most preferred customers.

Strategic Relationships

Intel Corporation. Intel Corporation, one of our shareholders, provided funding of \$150,000 toward the creation of our Learning channel. Intel has also selected us as a primary Internet link in its Pentium III promotion program in China. As part of the promotion, portions of our Learning and Shopping channels were Pentium III enabled.

Dow Jones & Company, Inc. Dow Jones & Company, one of our shareholders, is an important, non-exclusive content provider to our Business and Finance channel. The Dow Jones team in Beijing translates and updates the latest business and finance information 40 times a day. Dow Jones also operates the Dow Jones Business Center within our Business and Finance channel, which provides categorized and comprehensive business information, and has been especially popular among Chinese professionals. In addition, Dow Jones provides us with real-time information on international financial markets. Furthermore, Dow Jones has the right to sell a portion of our banner advertising inventories on our Business and Finance channel inside and outside China. Dow Jones also has the non-exclusive right to sell advertising for the directories, the keyword search and other channels to customers who require advertising space beyond the Business and Finance channel. Dow Jones shares in a percentage of the revenues derived from our Business and Finance channel. This arrangement has a one-year term which commenced in December 1999.

NBCi/Snap. We operate an exclusive, co-branded Snap/Sohu search engine for all English language searches requested by our users. Under this arrangement, Snap provides us with a customized version of its standard search and aggregation service free of charge. This arrangement had an initial term of one year commencing in December 1998, which was subsequently extended for an additional six months. In addition, Snap paid us a one-time payment of \$50,000 in exchange for advertising on our Web site.

Pacific Century Cyberworks Limited. We have entered into a non-exclusive advertising contract at market rates with an affiliate of Pacific Century Cyberworks Limited. This agreement has a two and a half-year term commencing July 2000. An affiliate of Pacific Century Cyberworks is one of our shareholders. Pacific Century Cyberworks is a Hong Kong Stock Exchange listed company that is primarily involved in Internet technology-related businesses. Pacific Century Cyberworks recently entered into an agreement to acquire all of the outstanding shares of common stock of Cable & Wireless HKT, the leading fixed line and wireless telecommunication provider in Hong Kong.

Legend Holdings Limited. We have entered into a non-exclusive advertising contract at market rates with an affiliate of Legend Holdings Limited. This agreement has a three-year term commencing in January 2000. Legend Holdings is one of the largest manufacturers of personal computers and other computer hardware in the PRC. Legend is listed on the Hong Kong Stock Exchange. An affiliate of Legend Holdings is one of our shareholders.

Hikari Tsushin, Inc. Hikari Tsushin, one of our shareholders, is one of the leading retail distributors of cellular telephones and paging devices in Japan. We have entered into a non-exclusive advertising contract at market rates with Hikari Tsushin. This agreement has a three-year term commencing in January 2000.

Nokia Corporation. We have entered into a non-exclusive agreement with Nokia, under which we are Nokia's preferred partner in China for the co-development of wireless access protocol, or WAP, mobile Internet services, as well as Nokia's short message service, or SMS. We are currently Nokia's only content partner for WAP and SMS services in China, and are responsible for aggregating content and services, such as stock quotes, news, e-mail and advertising, and tailoring it for mobile telephone users. We commenced providing content for this WAP service on April 27, 2000. Service and advertisement revenues derived from WAP-based and SMS-based services will be shared between our company and Nokia based on a ratio to be agreed upon at the end of the initial trial phase. This agreement has a one-year term commencing March 2000.

Sales and Marketing

Sales Organization

We mainly rely on direct sales by our internal sales force for the placement of our online advertisement inventory, and plan to expand sales through agencies outside of China and in regions of China not covered by our direct sales force. Our sales organization is dedicated to maintaining close relationships with top advertisers and large multinational corporations operating in China. As of March 31, 2000, our direct sales organization consisted of 28 sales staff located in Beijing, Shanghai and Guangzhou. These offices cover sales in the northern, eastern and southern regions of China, respectively. We intend to expand and develop our sales organization in our key markets in China. The compensation package for our sales staff typically consists of a base salary plus sales commissions.

Marketing and Brand Awareness

The focus of our marketing strategy is to generate brand awareness for Sohu.com. Since our inception through March 31, 2000, we spent approximately \$3.7 million in sales and marketing expenses, an amount we believe to be much smaller than that spent by some of our competitors. However, primarily as a result of the media attention afforded to Sohu in our capacity as a pioneer of the PRC Internet industry, we have been able to generate substantial public awareness of Sohu. As of March 31, 2000, our marketing department consisted of 22 persons located in Beijing, Shanghai and Guangzhou.

Competition

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

We have many competitors in the PRC Internet portal market, including China.com, Netease, Sina.com and Yahoo!China. In addition, a number of existing or new PRC Internet portals, including those controlled or sponsored by PRC government entities, may have competitive advantages over us in terms of:

- . global brand recognition;
- . financial and technical resources; and
- . better access to original content.

However, we believe we have competitive advantages over our competitors because of:

- . our brand name, which is one of the most recognized among PRC Internet companies;
- . our exclusive focus on China;
- . our ability to offer products and services that are tailored to the specific interests, needs and viewing habits of PRC Internet users; and
- . the experience and quality of our management team.

We compete with other portals in China for advertising and e-commerce revenues primarily on the following basis:

- . brand recognition;
- . volume of traffic and users;
- . quality of web site and content;

- . strategic relationships;
- . quality of online advertising and e-commerce services;
- . effectiveness of sales and marketing efforts; and
- . price.

Our existing competitors may in the future achieve greater market acceptance and gain additional market share. It is also possible that new competitors may emerge and acquire significant market share. In particular our online directory also faces competition from software and other Internet products and services incorporating search and retrieval capabilities. In addition, operators of leading Web sites or Internet service providers, including large corporations such as Microsoft/MSN, Yahoo!, Lycos and America Online, currently offer, and could expand, their online products and services targeting China. We believe the rapid increase in China's online population will draw more attention from these multinational players to the PRC Internet market. We also compete with traditional forms of media, like newspapers, magazines, radio and television for advertisers and advertising revenue. Please refer to "Risk Factors" for a more detailed discussion of the risks we face from our competitors.

Intellectual Property and Proprietary Rights

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

We have registered the domain name "www.Sohu.com" with Network Solutions and the domain name "www.Sohu.com.cn" with China Internet Network Information Center, a domain name registration service in China, and have full legal rights over these domain names. We have also filed trademark applications for the mark "Sohu.com" with the China Trademark Office. China's trademark law, however, adopts a system whereby the first applicant to receive a registration certificate for a mark will preempt all other applicants. Prior use of an unregistered mark is generally irrelevant except for "well-known" marks. As a result, until actual registration certificates are issued by the China Trademark Office, we do not have any legal rights over the mark "Sohu.com".

We have filed a service mark application for the "Sohu.com" service mark with the U.S. Patent and Trademark Office. We are in the process of publishing the "Sohu.com" service mark and expect to complete the registration process in the near future. We have also filed service mark applications in Hong Kong and Taiwan, and are in the process of applying for registration in Malaysia and Singapore. Policing unauthorized use of our marks, however, is difficult and expensive. In addition, it is possible that our competitors will adopt product or service names similar to ours, thereby impeding our ability to distinguish our brand and possibly leading to customer confusion.

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

We also intend to continue licensing technology from third parties, including technology relating to the following:

Licensor	Function	Duration
Netgravity	Ad serving software	One-time technology purchase with perpetual license; annual maintenance fee.
Lodesoft	Instant messaging software	One-time technology purchase with perpetual license; additional payments after reaching 50 million registered users.
OMRON	Search engine software	One-time technology purchase with perpetual license.
Microsoft	Commercial Internet system	One-time technology purchase with perpetual license for 5,000 active users; additional payments for additional active users.

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

Technology Infrastructure

We maintain all of our servers at the premises of the Beijing Telecom Administration, or BTA, pursuant to one-year server hosting agreements and we do not maintain any backup servers outside Beijing. The BTA is the administrator of the central hub of the ChinaNet backbone, and is currently the only provider of interconnection services to the ChinaNet backbone in Beijing. Our servers are hosted by the BTA in the same building where ChinaNet is administered. We have leased two 100 Mbps circuits that connect directly to the ChinaNet backbone, and we expect to require additional circuits as our Web site traffic continues to grow. Internet access rates in China, when compared to rates in the United States and other more developed countries, remain relatively expensive.

We have developed a close working relationship with the BTA. Our operations depend on the ability of the BTA to protect their systems against damage from fire, power loss, telecommunications, failure, break-ins, or other events. The BTA provides us with support services 24 hours per day, 7 days per week. The BTA also provides connectivity for our servers through multiple high-speed connections. All facilities are protected by multiple power supplies.

For reliability, availability, and serviceability, we have created an environment in which each server can function separately. Key components of our server architecture are served by multiple redundant machines. We also employ in-house and third-party monitoring software. Reporting and tracking systems generate daily traffic, demographic, and advertising reports.

Our portal must accommodate a high volume of traffic and deliver frequently updated information. Components or features of our portal have in the past suffered outages or experienced slower response time because of equipment or software down time. These events did not have a material adverse effect on our business, but we cannot assure you that such events will not have a material adverse effect in the future.

Employees

As of April 30, 2000, we had 236 full-time employees, of whom 28 worked in sales, 96 in product and content, 22 in marketing, 53 in technology and business development, and 37 in finance and administration. From time to time, we employ independent contractors to support our research and development, marketing, sales and editorial departments. None of our personnel are represented under collective bargaining agreements. We consider our relations with our employees to be good.

All of our management and key executives, and substantially all of our other employees, have entered into confidentiality, non-competition and non-solicitation agreements with us. In addition, all of our management and key executives, and substantially all of our department managers and group leaders, have entered into employment 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. A significant number of our employees hold incentive stock options in Sohu, which provide financial opportunities to them that vest on average over a period of two to four years.

Facilities

Our principal executive offices are located in approximately 26,295 square feet of office space in Beijing, China under leases that expires on December 31, 2001 and December 31, 2002. We also lease sales and marketing office space in Shanghai and Guangzhou.

Legal Proceedings

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

REGULATION OF THE PRC INTERNET INDUSTRY

The following description of PRC laws and regulations is based upon the opinion of TransAsia Lawyers, our PRC counsel. For a description of certain legal risks relating to our ownership structure and businesses, see "Risk Factors".

Overview

Certain areas related to the Internet, such as telecommunications, international connections for computer information networks, information security and censorship, as well as foreign investment in those areas, are covered in detail by a number of existing laws and regulations. The PRC Internet industry is regulated by various governmental authorities, such as the Ministry of Information Industry, or MII (formerly the Ministry of Post and Telecommunications, or MPT), the State Administration of Industry and Commerce, or SAIC, and the Ministry of Public Security.

The PRC has recently announced its policies, and is in the process of enacting regulations, regarding the legality of foreign investment in the PRC Internet industry, the existence and enforcement of content restrictions on the Internet e-commerce activities and online news dissemination, as well as domestic approval procedures for Internet companies in the PRC wishing to offer securities in China or abroad. In November 1999, China and the United States reached an agreement concerning China's entry into the World Trade Organization, or WTO. The provisions of this agreement will likely be reflected in new PRC legislation, and will likely affect the interpretation of existing regulations relating to the PRC Internet sector. However, we cannot predict the timing or the effect of future developments in the regulatory framework for the PRC Internet sector.

Under current PRC regulations, foreign companies such as Sohu.com Inc. cannot own or operate value-added telecommunications businesses in the PRC. It is not clear whether the operation of Internet content provision services is considered value-added telecommunications services. The China-U.S. WTO agreement has since confirmed that the value-added telecommunications sector may include online information or content provision services. As a result, we recently restructured our operations. As part of this restructuring, Beijing ITC entered into a series of agreements with Beijing Sohu and Beijing Sohu's two shareholders. Beijing Sohu is a PRC company that is 80% owned by Dr. Charles Zhang, our founder, President and Chief Executive Officer, and 20% owned by Ms. Jinmei Hei, an executive officer of Beijing ITC. Under the restructuring, Beijing Sohu will be structured as an Internet information service provider and has obtained a license to provide Internet content and information services.

In the opinion of our PRC counsel, the ownership structures of Sohu, Beijing ITC and Beijing Sohu, both currently and after giving effect to this offering, and the businesses and operations of Sohu, Beijing ITC and Beijing Sohu as described in this prospectus, comply with all existing laws, rules and regulations of the PRC. In addition, no consent, approval or license other than those already obtained is required under any of the existing laws, rules and regulations of the PRC for such ownership structures, businesses and operations or this offering. The restructuring of our business in the PRC was conducted pursuant to the advice of MII officials.

Foreign Investment in the Telecommunications Sector

In the opinion of TransAsia Lawyers, there are currently no laws, rules or regulations prohibiting foreign investment in the PRC Internet sector, but there are regulations promulgated by the MII relating to foreign investment in the telecommunications sector in China, including:

- . Provisional Administrative Measures Regarding the Examination and Approval of Deregulated Telecommunications Operations (1993);

- . Provisional Regulations for the Administration of the Deregulated Telecommunications Operations Market (1995); and
- . Definitions of Various Deregulated Telecommunications Operations (1995).

These regulations prohibit a foreign person or entity, including any foreign investment enterprise established in the PRC, such as Beijing ITC, from investing in, or operating or participating in the operation of, any business that provides "value-added telecommunications services". These services are defined under PRC legislation to include, among other services, "computer information services" and "electronic mail box services". These regulations were promulgated and the definitions were adopted, however, prior to the emergence of the Internet in China and prior to the signing of the WTO accord between China and the United States. In the opinion of TransAsia Lawyers, our business activities in China following our restructuring do not fall within the definition of "computer information services" or "electronic mail box services", each as defined under the Definitions of Various Deregulated Telecommunications Operations (1995), because:

- . the term "computer information services" is intended to refer to China's public telecom database network, where fees are levied on database users; and
- . the term "electronic mail box" refers to a service launched by China Telecom at the beginning of 1992 on the ChinaPAC platform, which is a completely different data transmission network than the Internet.

International Connections for Computer Information Networks

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

- . Provisional Regulations of the People's Republic of China for the Administration of International Connections to Computer Information Networks (1997) and their Implementing Measures (1998);
- . Measures for the Administration of International Connections to China's Public Computer Interconnected Networks (1996); and
- . Reply Concerning the Verification and Issuance of Operating Permits for Business Relating to International Connections for Computer Information Networks and for Public Multimedia Telecommunications Business (1998).

Under these regulations, any entity seeking access to international connections for computer information networks in China, such as Beijing ITC and Beijing Sohu, must comply with the following requirements:

- . be a PRC legal person;
- . have the appropriate equipment, facilities and technical and administrative personnel;
- . have implemented and registered a system of information security and censorship; and
- . effect all international connections with an authorized Internet service provider in China.

In the opinion of TransAsia Lawyers, both Beijing ITC and Beijing Sohu are in proper compliance with all of these requirements.

Information Security and Censorship

The principal PRC regulations concerning information security and censorship are:

- . The Law of the People's Republic of China on the Preservation of State Secrets (1988) and its implementing rules (1990);
- . The Law of the People's Republic of China on State Security (1993) and its implementing rules (1994);

- . Rules of the People's Republic of China for Protecting the Security of Computer Information Systems (1994);
- . Notice Concerning Work Relating to the Filing of Computer Information Systems with International Connections (1996);
- . Administrative Measures for Protecting the Security of Computer Information Network with International Connections (1997); and
- . Regulations for the Protection of State Secrets for Computer Information Systems on the Internet (2000).

The aforementioned regulations specifically prohibit the use of Internet infrastructure which results in a breach of public security or the provision of socially destabilizing content or transmits state secrets.

- . "A breach of public security" includes breach of national security or disclosure of state secrets; infringement on state, social or collective interests or the legal rights and interests of citizens; or illegal or criminal activities.
- . "Socially destabilizing content" includes any action that incites defiance or violation of Chinese laws and regulations; incites subversion of state power and the overturning of the socialist system; fabricates or distorts the truth, spreads rumors or disrupts social order; or spreads feudal superstition, involves obscenities, pornography, gambling, violence, murder, horrific acts or instigates criminal acts.
- . "State secrets" are defined as "matters that affect the security and interest of the state". The term covers such broad areas as national defense, diplomatic affairs, policy decisions on state affairs, national economic and social development, political parties and "other state secrets that the State Secrets Bureau has determined should be safeguarded".

According to these regulations, it is mandatory for Internet companies in China to complete security filing procedures with the local public security bureau and for them to update regularly with the local public security bureau regarding information security and censorship systems for their Web sites. In the opinion of TransAsia Lawyers, Beijing Sohu has, as required by PRC law and as agreed under the restructuring agreements, established an internal security committee and adopted security maintenance measures, employed a full-time bulletin board system supervisor and exchanged information with the local public security bureau with regard to sensitive or censored information and Web sites on a regular basis, and therefore is in full compliance with the above regulations.

In addition, the State Secrets Bureau has recently issued regulations authorizing the blocking of access to any site it deems to be leaking state secrets or failing to meet the relevant regulations regarding the protection of state secrets in the distribution of online information. Specifically, Internet companies in China with bulletin board systems, chat rooms or similar services, such as our company, must apply for the approval of the State Secrets Bureau. As implementing rules for the regulations have not been issued, however, details concerning how Web sites should comply with the regulations remain to be clarified.

Encryption Software

In October 1999, the State Encryption Administration Commission promulgated the Regulations for the Administration of Commercial Encryption, which was followed in November 1999 by the Notice of the General Office of the State Encryption Administration Commission. Both of these regulations address the use in China of software with encryption functions. According to these regulations, encryption products purchased for use must be reported. Violation of the encryption regulations may result in the issuance of a warning, levying of a penalty, confiscation of the encryption products and even criminal liabilities. Since there are currently no publicly issued official interpretations of, or detailed implementing rules for, these regulations, it is unclear how PRC Internet companies should comply with these regulations.

Web-Based Services

In the opinion of TransAsia Lawyers, there are no existing PRC laws, rules or regulations that address the development and provision of Web-based services, such as online directories, search engines, free e-mail boxes, e-commerce and online advertising, except for two product-specific regulations governing the online sale of audio-visual products and books that forbid foreign-invested companies from conducting such businesses in China. In addition, there are no existing PRC laws, rules or regulations that regulate bulletin board systems, chat rooms and instant messenger functions. However, the information that is exchanged among users using such functions is itself subject to the various legislation mentioned above governing information security and censorship, with which we are in compliance. The Beijing Administration of Industry and Commerce recently issued a regulation requiring all companies engaging in online business activities to complete filing and registration procedures. Beijing ITC has done so and is therefore in compliance with the regulation.

In the opinion of TransAsia Lawyers, online advertising is neither regulated nor prohibited by any existing PRC laws, rules or regulations, including the Advertising Law of the People's Republic of China (1994). The SAIC, the government authority responsible for the area, is currently considering adopting new regulations governing online advertising. We cannot predict the timing and effects of such new regulations. On May 18, 2000, the SAIC issued to Beijing ITC a one-year advertising business permit, which enables us to conduct online advertising business.

There are no existing PRC laws, rules or regulations that specifically define or regulate Internet content providers. According to the Measures for the Administration of China Public Multimedia Telecommunications, "information sources providers" are required to report to the MII for verification and to execute an interconnections agreement and an understanding letter for information security with China Telecom or other "node service providers". In the opinion of TransAsia Lawyers, after the restructuring, Beijing ITC is not an "information source provider" as defined under the above regulation and merely operates a technical platform on which content provided by information source providers is displayed.

Accordingly, in the opinion of TransAsia Lawyers, the current and proposed web-based services provided by us, including our online directories, search engine, email, e-commerce and online advertising services, comply with the existing PRC laws, rules and regulations.

Business License and Approval for Foreign Investment

Beijing ITC is structured as a technology-oriented company engaged in the development of Internet technologies and related software, as well as online advertising businesses and e-commerce activities. Under current PRC law, the legal establishment of such a technology company must be approved by the relevant local Commission for Foreign Economic Relations and Trade, and may commence operations only upon the issuance of a business license by the SAIC. In the opinion of TransAsia Lawyers, Beijing ITC has satisfied all of the aforementioned requirements.

Beijing Sohu is structured as an Internet information services company engaged in online information services and content development. Despite the absence of relevant legislation, the establishment of Beijing Sohu with these business activities was approved by the MII. In the opinion of TransAsia Lawyers, Beijing Sohu has satisfied all relevant regulations and MII requirements.

MANAGEMENT

Directors and Executive Officers of Sohu.com

The following table sets forth information regarding the directors and executive officers of Sohu.com:

Name - - - - -	Age ---	Position -----
Directors and Executive Officers		
Charles Zhang.....	36	Chairman of the Board of Directors, President and Chief Executive Officer
Edward Roberts.....	64	Director
James McGregor.....	46	Director
George Chang.....	47	Director
Mary Ma.....	48	Director
Thomas Gurnee.....	49	Chief Financial Officer and Senior Vice President, Finance
Alan Li.....	51	Chief Operating Officer
Victor Koo.....	34	Senior Vice President, Corporate Business Development
Edwin Chan.....	55	Senior Vice President, Marketing and Sales
Gary Zhao.....	37	Vice President, Finance
Xin Ye.....	36	Vice President, Technology

Dr. Charles Zhang is the founder of Sohu and has been Chairman of the Board, President and Chief Executive Officer since August 1996. Prior to founding Sohu, Dr. Zhang worked for Internet Securities Inc. (ISI) and helped establish its China operations. Prior to joining ISI, he worked as Massachusetts Institute of Technology's liaison officer with China. Dr. Zhang has a Ph.D degree in experimental physics from Massachusetts Institute of Technology and a Bachelor of Science degree from Qinghua University in Beijing. Dr. Zhang is a native of the People's Republic of China.

Dr. Edward Roberts has been a director of Sohu since September 1996. He is the David Sarnoff Professor of Management of Technology at Massachusetts Institute of Technology's Alfred P. Sloan School of Management. He has chaired the Sloan School Management of Technology program since 1967. Dr. Roberts has been a co-founder and director of numerous emerging technology companies and venture capital funds, including Zero Stage and First Stage Capital Equity Funds, Medical Information Technology, Advanced Magnetics, NETSilicon, Pegasystems and Selfcare. He has authored over 140 articles and eleven books, the most recent being *Entrepreneurs in High Technology* (Oxford University Press, 1991), winner of the Association of American Publishers' award as Outstanding Book of 1991 in Business and Management. Dr. Roberts received four degrees from M.I.T., including a Ph.D degree in 1962.

James McGregor has been a director of Sohu since August 1998. He is Vice President, China, of Dow Jones & Company, Inc. and the chief business representative for Dow Jones in China. From July 1990 to the end of 1993, Mr. McGregor was The Wall Street Journal's bureau chief in China. Mr. McGregor served as chairman of the American Chamber of Commerce in Beijing in 1996 and as president of the Foreign Correspondents Club in Beijing in 1991. Mr. McGregor received a journalism degree from University of Minnesota.

George Chang has been a director of Sohu since January 2000. He is a director of various companies within the Morningside group, a private global investment house, including Morningside Asia Advisory Limited. Morningside Asia Advisory Limited is an affiliate of Maxtech Enterprises Limited, one of our shareholders. Prior to joining Morningside in 1991, Mr. Chang held senior financial positions with various trading companies in Hong Kong, and was chief financial officer of a major multinational trading and sourcing operation. Mr. Chang has worked with Arthur Andersen in Hong Kong and in Toronto, Canada. He holds both Bachelor of Business Administration and Master of Business Administration degrees from the University of Wisconsin, and is a member of the American Institute of Certified Public Accountants, the Canadian Institute of Chartered Accountants and the Hong Kong Society of Accountants.

Mary Ma has been a director of Sohu since March 2000. She is the Executive Director and Senior Vice President of Legend Holdings Limited, a public company with shares listed on the Hong Kong Stock Exchange and an affiliate of one of our shareholders. She is responsible for the management of the overall operations, strategic planning and business development of Legend Holdings. She has over 22 years' experience in the strategic developments of international alliances. Ms. Ma graduated from Capital Normal University in 1976 with a Bachelor of Arts degree, and also studied English literature through a scholarship program at King's College in Britain.

Thomas Gurnee has been the Chief Financial Officer and Senior Vice President, Finance, of Sohu since January 2000. Prior to joining Sohu, Mr. Gurnee held a number of senior positions with Chartered Semiconductor Manufacturing Ltd, one of the world's leading independent semiconductor foundries, including Vice President for Business Development, President (North America), Chief Operating Officer (Singapore) and Chief Financial Officer (Singapore). Prior to joining Chartered Semiconductor Manufacturing, Mr. Gurnee spent thirteen years at Schlumberger Ltd, an oil field services and measurement systems company, as finance director of various divisions in France, Singapore and the United States. Mr. Gurnee obtained a Bachelor of Arts degree from Stanford University and a Master of Business Administration degree from University of Santa Clara.

Alan Li has been the Chief Operating Officer of Sohu since March 2000. Prior to joining Sohu, Mr. Li held a number of senior positions with Oracle China, including Executive Director responsible for strategic and new venture development and Managing Director. Prior to joining Oracle China, Mr. Li spent fourteen years with Digital Equipment Corporation, and was the General Manager of Huadi Computer Co. Ltd., a joint venture between Digital and China Aerospace Corporation. Prior to joining Digital, he spent eight years with IBM in Hong Kong. Mr. Li holds a Bachelor of Science degree from Hong Kong University and a Masters of Business Administration degree from The Chinese University of Hong Kong, and has completed all course work for the Doctorate of Business Administration degree from Nova University.

Victor Koo has been Senior Vice President, Corporate Business Development of Sohu since January 2000. He also served as Senior Vice President, Operations and Chief Financial Officer of Sohu between March and December of 1999. Prior to joining Sohu, Mr. Koo held numerous senior positions in Richina Group, a China based venture capital firm, since 1994, including as Vice President and Director of Business Development. Prior to his employment with Richina Group, Mr. Koo was with Bain & Company in San Francisco and Procter & Gamble International in Hong Kong. Mr. Koo received a Masters of Business Administration degree from Stanford University where he won a fellowship from the Center for East Asian Studies. He was a Regent's Scholar at the University of California at Berkeley, where he received a Bachelor of Science degree.

Edwin Chan has been Senior Vice President, Marketing and Sales of Sohu since September 1999. Prior to joining Sohu, Mr. Chan founded his own advertising agency and, after its merger with another agency, served as a partner of the combined agency. Prior to that, Mr. Chan served for nearly ten years as managing director at multinational advertising agencies J. Walter Thompson and BBDO. Mr. Chan received a Bachelor of Arts degree from Hong Kong University.

Gary Zhao has been Vice President, Finance, of Sohu since January 2000. Prior to joining Sohu, he held senior positions with Motorola Corporation, GE Capital Corporation, A.T. Kearney, Lehman Brothers and General Motors. Mr. Zhao holds a Bachelor of Science degree from Tsinghua University, a Master of Science degree from University of Minnesota and a Master of Business Administration degree from the University of Pennsylvania's Wharton School of Business.

Xin Ye has been Vice President, Technology, of Sohu since May 2000. Prior to joining Sohu, he held senior positions with a number of Silicon Valley technology firms, including Marimba, Innovix Technologies, Inc., Renaissance Software, Tibco and Watkins-Johnson Co. Mr. Ye holds a Bachelor of Science degree in Computer Engineering from Tsinghua University and a Master of Science degree in Computer Science from Marquette University.

Audit and Compensation Committees

We have established an audit committee and a compensation committee. The audit committee reviews our internal accounting procedures and considers and reports to the board of directors with respect to other auditing and accounting matters, including the selection of our independent auditors, the scope of annual audits, fees to be paid to our independent auditors and the performance of our independent auditors. The audit committee currently consists of James McGregor, George Chang and Mary Ma.

The compensation committee reviews and recommends to the board of directors the salaries, benefits and stock option grants of all employees, consultants, directors and other individuals compensated by us. The compensation committee also administers our stock option and other employee benefits plans. The compensation committee currently consists of Edward Roberts.

Classified Board of Directors

Our board of directors is divided into two classes of directors serving staggered two-year terms. Upon the expiration of the term of a class of directors, the directors in that class will be elected for two-year terms at the annual meeting of shareholders in the year in which their term expires. With respect to each class, a director's term will be subject to the election and qualification of their successors, or their earlier death, resignation or removal. These provisions, when coupled with the provision of our fifth amended and restated certificate of incorporation authorizing the board of directors to fill vacant directorships or increase the size of the board of directors, may deter a shareholder from removing incumbent directors and simultaneously gaining control of the board of directors by filling vacancies created by such removal with its own nominees.

Our board of directors has resolved that Mr. George Chang and Ms. Mary Ma will serve as Class I Directors whose terms expire at the 2001 annual meeting of shareholders, and Dr. Charles Zhang, Dr. Edward Roberts and Mr. James McGregor will serve as Class II Directors whose terms expire at the 2002 annual meeting of shareholders.

Directors, Executive Officers and Key Employees of Beijing ITC

The following table sets forth information regarding the directors, executive officers and key employees of Beijing ITC:

Name - - - - -	Age - - -	Position - - - - -
Executive Officers		
Charles Zhang.....	36	Chairman of the Board of Directors, President and Chief Executive Officer
Thomas Gurnee.....	49	Chief Financial Officer and Senior Vice President, Finance
Alan Li.....	51	Chief Operating Officer
Victor Koo.....	34	Senior Vice President, Corporate Business Development
Edwin Chan.....	55	Senior Vice President, Marketing and Sales
Gary Zhao.....	37	Vice President, Finance
Xin Ye.....	36	Vice President, Technology
Key Employees		
Min Yang.....	32	Financial Controller
Jinmei He.....	28	Marketing Director
Peter Song.....	33	Technology Director
Michael Ma.....	33	Regional Sales Director
Elaine Feng.....	28	Business Development Director
Jianjun Wang.....	30	Manager of Classification Group
Maggie Wu.....	26	Content Development Director
Tony Cheung.....	29	Regional Sales Manager

Min Yang joined Beijing ITC in 1998 and has been the Financial Controller since May 1999. He was previously finance and administration manager at Zeneca SinoPharm in Beijing. Prior to that, he worked at De Nora Electrochemical Industrial Corporation. Mr. Yang received a Bachelor of Arts degree from Northeast University of Finance and Economics.

Jinmei He joined Beijing ITC in September 1997 and has been the Marketing Director since November 1999. She was previously with Internet Securities Inc.'s Beijing representative office. She received a Bachelor of Arts degree from Southwest Jiatong University.

Peter Song has been Beijing ITC's Technology Director since April 1998. He was previously with SINOPEC, a PRC state-owned oil company, and has held several programming and technical positions. Mr. Song received a Bachelor of Science degree from Tianjin University.

Michael Ma joined Beijing ITC in January 2000 and is the Regional Sales Director. Prior to joining Beijing ITC, he held a number of marketing positions with Gillette (China) Ltd. Mr. Ma received a Bachelor of Business Administration degree from Zhongshan University School of Management and a Certificate in Business Administration from the University of California at Berkeley.

Elaine Feng joined Beijing ITC in May 1998 as the Sales Manager and has been the Business Development Director since November 1999. She was previously a business development manager at Star TV. Prior to that, Ms. Feng worked for Richina Media.

Jianjun Wang has been the Manager of Beijing ITC Classification Group since August 1999. He is also a part-time lecturer at Beijing Teachers' University. Dr. Wang received his doctorate degree from Beijing Teachers' University.

Maggie Wu joined Beijing ITC in 1997 and held positions in marketing and sales prior to becoming Content Development Director in 2000. She received a Bachelor of Arts degree from International Trade Shanghai Financial and Economic University.

Tony Cheung joined Beijing ITC in September 1999 and is the Regional Advertising Sales Manager. He was previously advertising manager and senior manager, China region at CAAC Inflight Magazine. He received a Bachelor of Business Administration degree from the University of Oregon and a Master of Business Administration Degree from Sheffield Hallam University.

Executive Officers

Our board of directors appoints our executive officers. Our executive officers serve at the discretion of our board of directors.

Director Compensation

Directors do not currently receive any cash compensation for serving on the board of directors of Sohu or Beijing ITC, although they are reimbursed for reasonable travel expenses incurred in connection with attending board of directors and committee meetings.

In January 2000, Edward Roberts received options to purchase 4,000 shares of common stock pursuant to our stock incentive plan. These options have an exercise price of \$15.00 and vest on a quarterly basis, with options to purchase 1,000 shares vesting at the end of each quarter of the year beginning with the vesting commencement date.

Executive Compensation

The following table sets forth the compensation earned for all services rendered to us in all capacities during 1999 by our executive officers.

Summary Compensation Table

Name and Principal Position	Fiscal Year	Annual Compensation(1)		Long-Term Compensation Awards
		Salary	Bonus	Securities Underlying Options(#)
Charles Zhang..... Chairman of the Board, President and Chief Executive Officer	1999	\$ 50,000	\$ --	50,000
Thomas Gurnee(2)..... Chief Financial Officer and Senior Vice President, Finance	1999	\$ --	\$ --	70,000
Alan Li(3)..... Chief Operating Officer	1999	\$ --	\$ --	--
Victor Koo(4)..... Senior Vice President, Corporate Business Development	1999	\$ 75,000	\$ --	80,349
Edwin Chan(5)..... Senior Vice President, Marketing and Sales	1999	\$ 58,334	\$ --	30,000
Gary Zhao(6)..... Vice President, Finance	1999	\$ --	\$ --	--
Xin Ye(7)..... Vice President, Technology	1999	\$ --	\$ --	--

- (1) The column for "Other Annual Compensation" has been omitted because there is no compensation required to be reported in that column. The aggregate amount of perquisites and other personal benefits provided to each officer listed above is less than 10% of the total annual salary and bonus of that officer.
- (2) Mr. Gurnee joined Sohu in January 2000. His employment agreement provides for an annual salary in 2000 of \$170,000.
- (3) Mr. Li joined Sohu in March 2000. His employment agreement provides for an annual salary in 2000 of \$170,000, and he was granted options to purchase 70,000 shares of common stock in March 2000.
- (4) Mr. Koo joined Sohu in April 1999. His employment agreement provides for an annual salary in 2000 of \$120,000.
- (5) Mr. Chan joined Sohu in September 1999. His employment agreement provides for an annual salary in 2000 of \$200,000.
- (6) Mr. Zhao joined Sohu in January 2000. His employment agreement provides for an annual salary in 2000 of \$120,000, and he was granted options to purchase 30,000 shares of common stock in January 2000.
- (7) Mr. Ye joined Sohu in May 2000. His employment agreement provides for an annual salary in 2000 of \$120,000.

Option Grants In Fiscal Year 1999

The following table sets forth information regarding stock options granted to our executive officers listed on the Summary Compensation Table for 1999. We have never granted any stock appreciation rights.

Name	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(1)	
	Number of Securities Underlying Options Granted	Percent of Total Options Granted to Employees in Fiscal Year 1999	Exercise Price per Share	Expiration Date	5%	10%
Charles Zhang.....	50,000(2)	14%	\$ 4.70	Sept. 21, 2009	\$ 42,464	\$ 206,874
Thomas Gurnee.....	70,000(3)	19%	\$10.00	Dec. 5, 2009	\$ 65,320	\$ 518,644
Alan Li(4).....	--	--	--	--	--	--
Victor Koo.....	80,349(5)	22%	\$ 4.70	Nov. 1, 2009	\$ 145,327	\$ 455,192
Edwin Chan.....	30,000(6)	8%	\$10.00	Dec. 5, 2009	\$ 27,994	\$ 222,276
Gary Zhao(7).....	--	--	--	--	--	--
Xin Ye(8).....	--	--	--	--	--	--

(1) The potential realizable value is based on the term of the option at the time of its grant, which is ten years for the stock options granted to the executive officers in the table. The assumed 5% and 10% annual rates of appreciation over the term of the options are set forth in accordance with rules and regulations adopted by the Securities and Exchange Commission and do not represent our estimates of stock price appreciation. The potential realizable value is calculated by assuming that the fair market value of the underlying common stock on the date of grant, as determined by our board of directors based on a combination of an independent valuation and the pricing of other equity transactions with third parties, appreciates at the indicated rate, compounded annually, for the entire term of the option and that the option is exercised and the stock sold on the last day of its term at this appreciated stock price. No valuation method can accurately predict future stock prices or option values because there are too many unknown factors. No gain to the optionee is possible unless the stock price increases over the option term. Such a gain in stock price would benefit all stockholders.

(2) Options granted vest ratably on a quarterly basis over one year commencing from September 21, 1999.

(3) Options granted vest over a three year period commencing January 1, 2000, with one-third of the options vesting at the end of the first year and the remaining options vesting ratably on a quarterly basis over the remaining term of the options.

(4) Mr. Li joined our company in March 2000.

(5) Options granted vest ratably over three years on a quarterly basis commencing from May 1, 1999.

(6) Options granted vest over a four year period commencing September 15, 1999, with one-quarter of the options vesting at the end of the first year and the remaining options vesting ratably on a quarterly basis over the remaining term of the options.

(7) Mr. Zhao joined our company in January 2000.

(8) Mr. Ye joined our company in May 2000.

Aggregate Option Exercises in Fiscal Year 1999 And Fiscal Year-End Option Values

The following table sets forth information concerning the exercise of stock options during the fiscal year ended December 31, 1999 by our officers listed on the Summary Compensation Table and the fiscal year-end value of unexercised in-the-money options held by such officers.

Name	Shares Acquired on Exercise	Value Realized(2)	Number of Securities Underlying Unexercised Options at December 31, 1999		Value Of Unexercised In-the-money Options at December 31, 1999(1)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Charles Zhang.....	--	--	12,500	37,500	\$12,500	\$37,500
Thomas Gurnee.....	--	--	--	70,000	--	\$70,000
Alan Li(3).....	--	--	--	--	--	--
Victor Koo.....	--	--	13,392	66,957	\$13,392	\$66,957
Edwin Chan.....	--	--	--	30,000	--	\$30,000
Gary Zhao(4).....	--	--	--	--	--	--
Xin Ye(5).....	--	--	--	--	--	--

(1) There was no public market for the common stock on December 31, 1999. The value of unexercised in-the-money options at December 31, 1999 has been calculated based on the mid-point of the price for the initial public offering of our common stock, less the applicable exercise price per share multiplied by the number of underlying shares.

(2) None of our executive officers exercised any stock options during 1999.

(3) Mr. Li joined our company in March 2000.

(4) Mr. Zhao joined our company in January 2000.

(5) Mr. Ye joined our company in May 2000.

In January 2000, our board of directors granted options for the purchase of 127,000 shares of common stock to certain of our employees and a director at an exercise price of \$15.00 per share. The options granted generally vest over periods ranging from one to four years beginning with the first quarter subsequent to the date of grant of the options.

Employment Arrangements

Each of Charles Zhang, Thomas Gurnee, Alan Li, Victor Koo, Edwin Chan and Gary Zhao has entered into a confidentiality, non-competition and non-solicitation agreement with us. Such agreements prohibit each of them from competing with us or soliciting our employees, customers, suppliers or partners in competition with us during his employment with us and for a period of one year after the termination of his employment for any reason. Under such agreement, each executive officer has also agreed to use any confidential information belonging to us or held by us in confidence solely for our benefit and not to disclose such confidential information during and after his employment with us.

In addition, all of our executive officers have entered into employment 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 in certain respects when compared to the degree of protection afforded under the laws of other jurisdictions.

Stock Incentive Plan

We have adopted a stock incentive plan as of January 25, 2000 to assist us in attracting and retaining highly competent people to serve as employees, directors and advisors who will contribute to our success and the success of the members of our network. We also seek to motivate those people to achieve long-term

objectives which will benefit our shareholders. The following groups of people are eligible to receive options under the stock incentive plan:

- . employees;
- . directors;
- . advisors and consultants.

Our stock incentive plan also provides these groups of people with opportunities to make direct purchases of our common stock.

Our board of directors administers the stock incentive plan and has wide discretion to award options. Subject to the provisions of the stock incentive plan, our board of directors determines who will be granted options, the type and timing of options to be granted, vesting schedules and other terms and conditions of options, including the exercise price. A significant number of our employees are granted options. The number of options awarded to a person is based on the person's potential ability to contribute to our company's success, the person's position with our company and sometimes length of service.

Our board of directors may award "incentive" options or "non-qualified" options. We have granted both incentive and non-qualified options under the stock option plan. If the holder of an incentive option exercises the option and holds the shares of common stock he receives for the holding periods required by the Internal Revenue Code, the exercise of the incentive does not result in taxable income to the holder. We are therefore not entitled to a corresponding tax deduction. The incentive options we granted under the stock incentive plan are designed to meet the requirements of the Internal Revenue Code, including a requirement that the exercise price is at least 100% of the fair market value of our common stock on the date we grant the option and that the option has a term no longer than ten years. However, no person who owns, directly or indirectly, more than 10% of the total combined voting power of all classes of our shares may receive incentive options unless the exercise price is at least 110% of the fair market value of our common stock on the grant date and the term is no longer than five years. Options granted under the stock incentive plan are not transferable by the optionee, other than by will or by the laws of descent and distribution.

By contrast, if the holder of a non-qualified option exercises the option, the holder will be required to recognize taxable income on the date of exercise. The taxable income is equal to the difference between the fair market value of the shares acquired by exercising the option and the exercise price of the option. We are then entitled to a corresponding tax deduction.

At April 30, 2000, options to purchase 522,647 shares of common stock were outstanding under the stock incentive plan and 412,043 shares remained available for future option grants. The weighted average exercise price for these outstanding options is \$8.17 per share. Most of these outstanding options become exercisable on a schedule at least as rapid as the following:

- . with respect to 25% of the shares subject to the option, on the first anniversary of the date of grant; and
- . with respect to the remaining 75% of the shares subject to the option in twelve equal quarterly installment beginning one calendar quarter after the date of such anniversary.

These options terminate upon the earliest to occur of the following: 90 days after termination of an optionee's employment, 180 days after an optionee's employment is terminated for any other reason, including retirement, disability or death, and ten years after the grant date. Notwithstanding the foregoing, upon a change of control (for example, a merger or similar transaction or the removal of a majority of the members of our current board of directors) of our company, all unvested portions of options then outstanding will vest in full on that date.

Our board of directors may amend, alter, suspend, or terminate the stock incentive plan at any time, provided, however, that the board must first seek the approval of shareholders, if required by law or regulation, and that of each affected optionee if such amendment, alteration, suspension or termination would adversely affect his or her rights under any option granted prior to that date.

PRINCIPAL SHAREHOLDERS

The following table, sets forth information with respect to the beneficial ownership, within the meaning of Section 13(d)(3) of the Securities Exchange Act 1934, as amended, of our common stock, as of April 30, 2000 and as adjusted to reflect the sale of the shares of common stock offered in this offering for:

- . each person who we know owns beneficially more than 5% of our common stock;
- . each of our directors;
- . each of our executive officers; and
- . all of our executive officers and directors as a group.

The following information gives effect to the conversion of all outstanding shares of our preferred stock into common stock upon the consummation of this offering.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned Before this Offering		Shares of Common Stock Beneficially Owned After this Offering		Number of exercisable options/warrants(1)	Number of excluded options/warrants(2)
	Number	Percentage	Number	Percentage		
Charles Zhang(3)(14)....	3,444,423	33.6%			12,500	37,500
Maxtech Enterprises Limited(4)(14).....	2,528,036	24.5			81,798	--
Intel Corporation(5)(14)....	1,288,750	12.6			--	--
Edward Roberts(6)(14)...	519,595	5.1			2,000	2,000
James McGregor(7).....	--	--			--	--
George Chang(8).....	--	--			--	--
Thomas Gurnee(9).....	*	*			--	70,000
Alan Li (10).....	*	*			--	70,000
Victor Koo(11).....	*	*			20,087	60,262
Edwin Chan(12).....	*	*			--	30,000
Gary Zhao(13).....	*	*			--	30,000
All directors and executive officers as a group (6 persons).....	4,033,257	39.4%			32,587	271,762

* Indicates less than one percent of the common stock

(1) Shows shares of our common stock issuable upon exercise of options that are currently exercisable or are exercisable within 60 days of the date of this prospectus. These shares are included in the total number of shares beneficially owned.

(2) Shows shares of our common stock issuable upon exercise of options that will not be exercisable within 60 days of the date of this prospectus. These shares are not included in the total number of shares beneficially owned.

(3) Dr. Zhang's address is c/o Sohu.com Inc., 7 Jianguomen Nei Avenue, Suite 519, Tower 2, Bright Chiina Chang An Building, Beijing 100005, People's Republic of China.

(4) A British Virgin Islands corporation that is wholly-owned by Morningside Technologies Inc., a Cayman Islands corporation, which is in turn wholly-owned by Morningside CyberVentures Holdings Limited, a British Virgin Islands corporation, which is in turn wholly-owned by The NTX-II Trust, an Isle of Man Trust. The trustee of the trust is Verrall Limited, an Isle of Man corporation. Verrall Limited controls indirectly, through The NTX-II Trust, a 100% ownership interest in Maxtech Enterprises Limited, and has sole power to vote and dispose of the shares of Sohu held by Maxtech Enterprises Limited. The address of Maxtech Enterprises Limited is Suite 835A, Europort, Gibraltar. The address of Verrall Limited is c/o Dickinson, Cruickshank & Co., 33/37, Athol Street, Douglas IM1 1LB, Isle of Man.

(5) Intel Corporation's address is 2200 Mission College Boulevard, Santa Clara, CA 95052, U.S.A.

- (6) Dr. Roberts' address is c/o M.I.T. Sloan School of Management, 50 Memorial Drive, E52-535, Cambridge, MA 02142-1347, U.S.A.
- (7) Mr. McGregor's address is c/o Dow Jones China, Unit 1101, Tower A, Beijing Ke Lun Building, 12A Guanghua Lu, Chaoyang District, Beijing 100020, People's Republic of China.
- (8) Mr. Chang's address is c/o Morningside Asia Advisory Limited, Room 1503, Hang Lung Centre, 2-20 Paterson Street, Causeway Bay, Hong Kong.
- (9) Mr. Gurnee's address is c/o Sohu.com Inc., 7 Jianguomen Nei Avenue, Suite 1519, Tower 2, Bright China Chang An Building, Beijing 100005, People's Republic of China.
- (10) Mr. Li's address is c/o Sohu.com Inc., 7 Jianguomen Nei Avenue, Suite 1519, Tower 2, Bright China Chang An Building, Beijing 100005, People's Republic of China.
- (11) Mr. Koo's address is c/o Sohu.com Inc., 7 Jianguomen Nei Avenue, Suite 1519, Tower 2, Bright China Chang An Building, Beijing 100005, People's Republic of China.
- (12) Mr. Chan's address is c/o Sohu.com Inc., 7 Jianguomen Nei Avenue, Suite 1519, Tower 2, Bright China Chang An Building, Beijing 100005, People's Republic of China.
- (13) Mr. Zhao's address is c/o Sohu.com Inc., 7 Jianguomen Nei Avenue, Suite 1519, Tower 2, Bright China Chang An Building, Beijing 100005, People's Republic of China.
- (14) These shareholders and certain other shareholders are parties to a voting agreement. Under the agreement (i) Dow Jones and Intel may each nominate one director to our board of directors; (ii) Harrison Enterprises and Maxtech Enterprises may jointly nominate one director to our board of directors; (iii) all parties to the agreement will vote the voting securities owned by them in favor of the nominees specified above; and (iv) none of parties will vote to remove any director nominated in accordance with the stockholders' voting agreement, other than for cause, without the consent of the party or parties entitled to nominate the director. For each of Dow Jones and Intel, its nomination rights will terminate when it no longer holds at least 50% of the preferred stock it had purchased or at least 50% of the common stock into which any such preferred stock has been converted. For Harrison Enterprises and Maxtech Enterprises, their joint nomination rights will terminate when, between them, they no longer hold at least 50% of the preferred stock they had purchased or at least 50% of the common stock into which any such preferred stock has been converted. The nomination rights for all parties will terminate in their entirety when none of (x) Harrison Enterprises and Maxtech Enterprises collectively, (y) Dow Jones or (z) Intel holds at least 50% of the preferred stock originally purchased or at least 50% of the common stock into which any such preferred stock has been converted.

RELATED PARTY TRANSACTIONS

We have entered into an agreement whereby we provide Internet advertising and promotional services to a subsidiary of Intel Corporation, one of our shareholders. The total amount of revenue recorded under this agreement was \$0, \$175,000 and \$178,000 for the years ended December 31, 1997, 1998 and 1999, respectively. During 1999, affiliates of Maxtech Enterprises Limited, one of our shareholders, provided certain professional and managerial services to us. The estimated fair value of these services was approximately \$60,000 for the year ended December 31, 1999. In connection with these services, Maxtech received a warrant from us in October 1999 giving it the right to purchase 81,798 shares of our common stock at a price of \$6.1126 per share. This warrant is exercisable during the two year period from the date of its issuance.

Sohu, Dr. Charles Zhang and holders of our Series A, B, B-1 and C preferred stock are parties to the second amended and restated stockholders' voting agreement. This agreement provides that, among other things:

- . Dow Jones and Intel may each nominate one director to our board of directors;
- . Harrison Enterprises and Maxtech Enterprises may jointly nominate one director to our board of directors;
- . all of the parties will vote the voting securities owned by them in favor of the nominees specified above; and
- . none of the parties will vote to remove any director nominated in accordance with the stockholders' voting agreement, other than for cause, without the consent of the party entitled to nominate the director.

The parties to the stockholders' voting agreement, with the exception of Dr. Charles Zhang, together with Hikari Tsushin, Inc., Internet Creations Limited, a subsidiary of Pacific Century Cyberworks Limited, and Legend New-Tech Investment Limited, a subsidiary of Legend Holdings Limited, have entered into the third amended and restated investor rights agreement. This agreement provide that, among other things:

- . parties holding more than 20% of our outstanding common stock (excluding shares of common stock acquired by our founding shareholders pursuant to the exercise of stock options or warrants or the conversion of preferred stock) have the right to require the filing of a registration statement with the Securities and Exchange Commission during any period, and no more than two over any period, to register for sale shares of our common stock owned by them;
- . parties proposing to sell common stock at an aggregate price to the public of \$500,000 or more have the right to require the filing of a Form S-3 registration statement with the Securities and Exchange Commission during any period to register for sale the shares of common stock owned by them; and
- . all parties have rights to participate in registration statements filed by Sohu for the sale of our common stock in an underwritten offering for its own account or for the account of other shareholders;
- . however, we are not obligated to file a registration statement with the SEC if, within the six month period preceding the date of the request for registration, we have already effected a registration statement in accordance with the terms of the agreement.

The existence and exercise of these registration rights may make it more difficult for us to arrange future financing and may have an adverse effect on the market price of our common stock. See "Description of Capital Stock -- Registration Rights".

During 1999, Kummell Investments Limited, an affiliate of Maxtech Enterprises, extended a one-time \$1,500,000 loan to us. This loan was subsequently converted into 319,013 shares of our Series C preferred stock as part of our Series C preferred stock financing.

On May , 2000, we and our wholly owned PRC subsidiary, Beijing ITC, entered into a series of agreements with Beijing Sohu and Beijing Sohu's two shareholders. Beijing Sohu is a PRC company that is 80% owned by Dr. Charles Zhang, our founder, President and Chief Executive Officer, and 20% owned by Ms. Jinmei He, an executive officer of Beijing ITC.

Cooperation Agreement

Under this agreement, Beijing Sohu agreed to provide to Beijing ITC, for a monthly service fee of RMB Internet information services including the following:

- . providing, collecting, classifying, editing, supervising and disseminating content for use by Beijing ITC on the www.sohu.com Web site;
- . collecting and supervising the original content that Beijing ITC may use to develop the digitalized content to be released in online and wireless access protocol, or WAP, versions;
- . upon consultation with Beijing ITC, developing and entering into new content supplier relationships;
- . providing online space for use by Beijing ITC in conducting its online advertising and commerce activities on the www.sohu.com Web site;
- . providing Beijing ITC with other internet information services reasonably requested by Beijing ITC.

The monthly service fee is subject to periodic adjustment as agreed by the parties. The parties intend that the fee will be an amount necessary to reimburse Beijing Sohu for all its costs and expenses incurred in conducting its content operations under the cooperation agreement.

Moreover, in order to allow Beijing Sohu to provide the services described above, Beijing ITC has granted to Beijing Sohu and will assist Beijing Sohu in obtaining from our company, the following licenses by agreements to be separately signed for a fixed monthly fee:

- . domain name licenses for the non-exclusive use of the www.sohu.com and www.sohu.com.cn domain names;
- . trade name and trademark license for the non-exclusive use of the English and Chinese language versions of the "Sohu" name and trademark; and
- . copyright license for the non-exclusive use of our overall Web site design and the digitalized content developed and owned by Beijing ITC to be released in online and WAP versions.

All of the licenses granted above are granted only for Beijing Sohu's services to be provided to Beijing ITC pursuant to this agreement in China.

Beijing Sohu is responsible for obtaining and maintaining the necessary operating permits, including an information services permit, an online news dissemination permit, if required, and computer network security registrations and complying with PRC law regarding the distribution of content on our website.

In order to support Beijing Sohu's operations and services, Beijing ITC has agreed that it will provide exclusive technical services to Beijing Sohu in the following areas:

- . portal Web site technology;
- . Web site server application software;
- . solutions for system operations; and
- . training for technical personnel and provision for technical consulting.

In addition, Beijing Sohu agreed to rely exclusively on Beijing ITC's technical support and services and will enter into a separate agreement for the specifics of these services.

The cooperation agreement has a term of 20 years, and may be terminated by either party upon (i) a breach of the agreement that is not remedied within ten days after notice of the breach has been provided by the non-breaching party to the breaching party, or (ii) a force majeure event that continues for 30 days or more and makes it impossible for one or both parties to continue performing under the agreement.

Beijing Sohu also has agreed that without Beijing ITC's written consent, Beijing Sohu may not transfer, mortgage or sub-license to any third party or use for the benefit of any third party any of its rights under this agreement and may not use the rights granted under this agreement in any way detrimental to the commercial reputation of Beijing ITC.

Each party's obligations under this agreement can be excused from performance upon a force majeure event, which is defined to include unforeseeable and unavoidable events, including hacker attacks.

This agreement is governed by PRC law and disputes arising under this agreement will be subject to arbitration proceedings in China.

Assets and Business Restructuring Agreement

Under this agreement, Beijing ITC agreed to, among other things, do the following:

- . transfer all ten of its content-related servers and related equipment to Beijing Sohu for an amount equal to the net book value of the servers and the equipment as audited by our accountants, which we estimate to be approximately RMB\$740,000 and is payable six months after the transfer date;
- . assign up to 25 of its content editors and supervisors to Beijing Sohu.

In return, Beijing Sohu agreed to, among other things, the following:

- . use the content-related servers and related equipment solely for the purpose of providing information services to our www.sohu.com Web site in China; and
- . be responsible for the compensation, welfare and employment of the content editors and supervisors assigned to Beijing Sohu.

The assets and business restructuring agreement has a term of 20 years, and may be terminated by either party upon (1) a breach of the agreement that is not remedied within ten days after notice of the breach has been provided by the non-breaching party to the breaching party or (2) a force majeure event that continues for 30 days or more and makes it impossible for one or both parties to continue performing under the agreement.

Each party's obligations under this agreement can be excused from performance upon a force majeure event, which is defined to include unforeseeable and unavoidable events, including hacker attacks.

This agreement is governed by PRC law and disputes arising under with this agreement will be subject to arbitration proceedings in China.

Option Agreement

Beijing ITC entered into an exclusive twenty year option agreement with the shareholders of Beijing Sohu, Dr. Charles Zhang and Ms. Jinmei He. Under this agreement, Beijing ITC or a third party designated by Beijing ITC will have the right, at any time, subject to the laws of the PRC, including any applicable restrictions on foreign investment, to purchase from Dr. Zhang and Ms. He at an aggregate price of RMB\$2,000,000, their entire ownership interest in Beijing Sohu. The option may be exercised in whole or in part on one or more occasions. This agreement expires upon the earlier of twenty years after its execution and the date on which the entire ownership interest of Beijing Sohu is acquired by Beijing ITC.

This agreement is governed by PRC law and disputes arising under this agreement will be subject to arbitration proceedings in China.

Loan Agreements

We plan to enter into a loan agreement for \$176,000 with Dr. Charles Zhang and a loan agreement for \$43,000 with Ms. Jinmei He. The sole purpose of these loans is to help them fund their additional equity investments in Beijing Sohu as a result of our corporate restructuring. The loans will not bear any interest, will have a term of ten years and will be repayable in full at maturity. In the event Beijing ITC or its designee purchases shares of Beijing Sohu pursuant to the option agreement described above, the net proceeds to Dr. Zhang and Ms. He from the sale of shares will be applied towards partial repayment of the loans. Dr. Zhang and Ms. He have pledged all of their shares in Beijing Sohu to us as security for the loans.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our stock. We cannot predict the effect, if any, that sales of shares or the availability of shares for sale will have on the market price prevailing from time to time. Future sales of substantial amounts of our stock in the public market, or the perception that such sales may occur, could adversely affect the prevailing market price of our stock.

Upon completion of this offering, we expect to have shares of common stock outstanding or shares if the U.S. underwriters and international managers fully exercise their over-allotment option to purchase additional shares. Of these shares, all of the shares sold in this offering will be freely tradeable without restriction under the Securities Act, except for any such shares which may be acquired by one of our affiliates. Rule 144 defines an affiliate of a company as a person that, directly or indirectly, through one or more intermediaries, controls or is controlled by, or is under common control with, our company. All shares of common stock outstanding prior to this offering are "restricted securities", as such term is defined under Rule 144, because they were issued in private transactions not involving a public offering. These shares may not be sold in the absence of registration other than in accordance with Rule 144 or Rule 701 under the Securities Act or another exemption from registration. This prospectus may not be used in connection with any resale of shares of common stock acquired in this offering by our affiliates.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus, except issuances pursuant to the exercise of employee stock options outstanding on the date hereof.

Our officers, directors and preferred shareholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any such aforementioned transaction is to be settled by delivery of our common stock or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus.

Rule 144

In general, under Rule 144 if a period of at least one year has elapsed since the later of the date the restricted shares were acquired from Sohu and the date they were acquired from an affiliate, then the holder of such restricted shares, including an affiliate, is entitled to sell a number of shares within any three-month period that does not exceed the greater of:

- . one percent of the then outstanding shares; and
- . the average weekly reported volume of trading of such shares on Nasdaq during the four calendar weeks preceding the date on which notice of the sale is filed with the Securities and Exchange Commission.

The holder may only sell such shares through unsolicited brokers' transactions. Sales under Rule 144 are also subject to certain requirements pertaining to:

- . the manner of such sales;

- . notices of such sales; and
- . the availability of current public information concerning Sohu.

Rule 144(k)

Under Rule 144 (k), a holder of restricted shares may sell shares immediately without regard to the volume limitations and other restrictions described above if:

- . a period of at least two years has passed between the later of (1) the date restricted securities were acquired from Sohu and (2) the date they were acquired from an affiliate, as applicable;
- . the holder is not an affiliate at the time of the sale; and
- . the holder has not been an affiliate for at least three months prior to the sale.

Rule 144 does not require the same person to have held the securities for the applicable periods. The foregoing summary of Rule 144 is not intended to be a complete description.

Rule 701

In general, under Rule 701 of the Securities Act as currently in effect, each of our directors, officers, employees, consultants or advisors who purchased shares of common stock from us in connection with a compensatory share plan or other written agreement may be eligible to resell such shares 90 days after the closing of this offering in reliance on Rule 144, but without compliance with certain restrictions, including the holding period, contained in Rule 144. Beginning 90 days after the date of this prospectus, shares acquired upon exercise of options issued under our stock option plan will be outstanding and eligible for sale in reliance upon Rule 701. Additional shares may be available if options are exercised in the 180-day period following the date of this prospectus.

Registration Rights

After completion of this offering, the holders of approximately shares of common stock, or their transferees, will be entitled to exercise rights to cause us to register those shares for resale under the Securities Act. These holders have these registration rights under the provisions of a registration rights agreement that was entered into in connection with the private placement of our Series B, Series B-1, Series C and Series D preferred stock. These rights cover the shares of common stock into which the preferred stock will be converted upon completion of this offering, as well as any shares obtained by these shareholders from time to time after this offering. Registration of these shares of our common stock would permit the sale of these shares without regard to the restrictions of Rule 144. For a further description of these registration rights, see the "Certain Relationships" section of this prospectus.

Stock Incentive Plan

Immediately after this offering, we intend to file a registration statement under the Securities Act covering 900,000 shares of common stock reserved for issuance under our stock incentive plan. This registration statement is expected to be filed as soon as practicable after the closing of this offering.

Through April 30, 2000, options to purchase 522,647 shares had cumulatively been issued and are outstanding. All of these shares will be eligible for sale in the public market from time to time, subject to vesting provisions, Rule 144 volume and other limitations applicable to our affiliates and, in the case of some of the options, the expiration of lockup agreements.

DESCRIPTION OF CAPITAL STOCK

General

Our fifth amended and restated certificate of incorporation and our amended and restated bylaws, which will become effective upon the closing of this offering, authorize the issuance of up to 29,000,000 shares of common stock, par value \$0.001 per share, and 1,000,000 shares of preferred stock, par value \$0.001 per share, the rights and preferences of which may be established from time to time by our board of directors. The following summarizes the terms and provisions of our capital stock upon the closing of this offering. The summary is not complete, and you should read the forms of our fifth amended and restated certificate of incorporation and bylaws, which will be filed as exhibits to the registration statement of which this prospectus is a part. As of April 30, 2000, 3,621,410 shares of common stock were issued and outstanding, 5,459,400 shares of convertible preferred stock (Series A, B, B-1, C and D) convertible into 6,618,673 shares of common stock were issued and outstanding and options and warrants to purchase 621,790 shares of common stock were issued and outstanding.

Common Stock

Under our fifth amended and restated certificate of incorporation, holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of the shareholders, including the election of directors. They do not have cumulative voting rights, so that holders of a plurality of the shares of common stock present at a meeting at which a quorum is present will be able to elect all of our directors eligible for election in a given year. The holders of a majority of the voting power of the issued and outstanding common stock will constitute a quorum. Subject to preferences that may be applicable to any then outstanding preferred stock, holders of our common stock are entitled to receive ratably dividends, if any, as may be declared by the board of directors out of legally available funds. In case of our liquidation, dissolution or winding up, the holders of common stock will be entitled to share ratably in the net assets legally available for distribution to shareholders after payment of all of our liabilities and liquidation preference of any preferred stock then outstanding. Holders of common stock have no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of holders of common stock are subject to the rights of the holders of shares of any series of preferred stock that we may designate and issue in the future. After the closing of this offering, there will be no shares of preferred stock outstanding.

Preferred Stock

Our board of directors will be authorized to issue preferred stock in one or more series and to establish the number of shares to be included in each series and to fix the designations, powers, preferences and rights of the shares of each series and any qualifications, limitations or restrictions of each series. Because the board of directors will have the power to establish the preferences and rights of the shares of any series of preferred stock, it may afford the holders of any series of preferred stock preferences, powers and rights, including voting rights, senior to the rights of the holders of common stock. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of our company.

Registration Rights

A number of our shareholders are parties to the third amended and restated investor rights agreement. Under the terms of the agreement, parties holding more than 20% of our outstanding common stock (excluding shares of common stock acquired by our founding shareholders pursuant to the exercise of stock options or warrants or the conversion of preferred stock) has the right to require the filing of a registration statement with the SEC to register for sale shares of common stock owned by them. We are also obligated to register any of the shares of common stock issuable upon conversion of the preferred stock held by other parties to the agreement if they request to be included in the registration. These parties, in the aggregate, have two demand

registration rights. Furthermore, if we become eligible to file registration statements on Form S-3, parties proposing to sell common stock at an aggregate price to the public of US\$500,000 or more have the right to require us to file a registration statement on Form S-3 under the Securities Act to register for sale shares of common stock owned by them. We are also obligated to register the shares of common stock issuable upon conversion of the preferred stock held by parties to the agreement if they request to be included in the registration, although we will not be required to effect any Form S-3 registration more than once in any 180 day period. However, we are not obligated to file a registration statement with the SEC if, within the six month period preceding the date of the request for registration, we have already effected a registration statement in accordance with the terms of the agreement. Holders of preferred stock which are parties to the agreement will be entitled to require us to register the common stock owned by them or issuable upon the conversion of their preferred stock when we register common stock for our own account or the account of other shareholders. This type of registration right is commonly known as a "piggyback" registration right.

The foregoing registration rights are subject to certain conditions and limitations, including:

- . the right of the U.S. underwriters in any underwritten offering to limit the number of shares of common stock held by shareholders with registration rights to be included in any demand, Form S-3 or piggyback registration; and
- . our right to delay for up to 90 days the filing or effectiveness of a registration statement pursuant to a demand for registration if the board of directors determines that the registration would not be in our best interest at that time.

We are generally required to bear all of the expenses of all registrations, except underwriting discounts and commissions. Registration of any of the shares of common stock held by shareholders with registration rights would result in those shares becoming freely tradable without restriction under the Securities Act immediately after effectiveness of the registration. We have agreed to indemnify the holders of registration rights in connection with demand, Form S-3 and piggyback registration under the terms of the third amended and restated investor rights agreement.

Anti-Takeover Effects of Delaware Law and Our Fifth Amended and Restated Certificate of Incorporation and Bylaws

Section 203 of the Delaware General Corporation Law

We must comply with the provisions of Section 203 of the Delaware General Corporation Law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a "business combination" with an "interested shareholder" for a period of three years after the date of the transaction in which the person became an interested shareholder, unless the business combination is approved in a prescribed manner.

A "business combination" includes a merger, asset sale or other transaction resulting in a financial benefit to the interested shareholder. An "interested shareholder" is a person who, together with affiliates and associates, owns, or, in some cases, within three years prior, did own, 15% or more of the corporation's voting stock. Under Section 203, a business combination between our company and an interested shareholder is prohibited unless it satisfies one of the following three conditions:

- . our board of directors must have previously approved either the business combination or the transaction that resulted in the shareholder becoming an interested shareholder;
- . upon consummation of the transaction that resulted in the shareholder becoming an interested shareholder, the interested shareholder owned at least 85% of our voting stock outstanding at the time the transaction commenced, excluding, for purposes of determining the number of shares outstanding, shares owned by (1) persons who are directors and also officers and (2) employee stock plans, in some instances; or

- . the business combination is approved by our board of directors and authorized at an annual or special meeting of the shareholders by the affirmative vote of the holders of at least 66 2/3% of the outstanding voting stock that is not owned by the interested shareholder.

Provisions of our fifth amended and restated certificate of incorporation and amended and restated bylaws, which are summarized in the following paragraphs, may be deemed to have an anti-takeover effect and may delay, defer or prevent a tender offer or takeover attempt that a shareholder might consider to be in its best interest, including those attempts that might result in a premium over the market price for the shares of common stock held by our shareholders.

Classified Board of Directors

Our certificate of incorporation provides that the number of directors shall be determined in accordance with the bylaws. Upon the completion of this offering, our board of directors will be divided into two classes of directors serving staggered two-year terms. As a result, approximately one-half of the board of directors will be elected each year. With respect to each class, a director's term will be subject to the election and qualification of their successors, or their earlier death, resignation or removal. In addition, our board of directors may be removed only for cause. These provisions, when coupled with the provision of our fifth amended and restated certificate of incorporation authorizing the board of directors to fill vacant directorships or increase the size of the board of directors, may deter a shareholder from removing incumbent directors and simultaneously gaining control of the board of directors by filling the vacancies created by such removal with its own nominees.

Stockholder Action; Special Meetings of Shareholders

Our fifth amended and restated certificate of incorporation eliminates the ability of shareholders to act by written consent. It further provides that special meetings of our shareholders may be called only by the chairman of the board, president or a majority of the board of directors. These provisions may render it more difficult for shareholders to take action opposed by the board of directors.

Advance Notice Requirements for shareholder Proposals and Director Nominations

Our amended and restated bylaws provide that stockholders seeking to bring business before an annual meeting of shareholders, or to nominate candidates for election as directors at an annual meeting of shareholders, must provide timely notice in writing. To be timely, a shareholder's notice must be delivered to or mailed and received at our principal executive offices not less than 60 days nor more than 90 days prior to the anniversary date of the immediately preceding annual meeting of shareholders; provided, that in the event that the annual meeting is called for a date that is not within 30 days before or after such anniversary date, notice by the shareholder in order to be timely must be received not later than the close of business on the tenth day following the date on which notice of the date of the annual meeting was mailed to shareholders or made public, whichever first occurs. In the case of a special meeting of shareholders called for the purpose of electing directors, notice by the shareholder in order to be timely must be received not later than the close of business on the tenth day following the day on which notice of the date of the special meeting was mailed or public disclosure of the date of the special meeting was made, whichever first occurs. Our amended and restated bylaws also specify certain requirements as to the form and content of a shareholder's notice. These provisions may preclude shareholders from bringing matters before an annual meeting of shareholders or from making nominations for directors at an annual meeting of shareholders.

Supermajority approvals

Our amended and restated by laws provide that the provisions of our certificate of incorporation referred to above will not be able to be altered without approval by our stockholders holding not less than 80% of the voting power of the outstanding shares.

Authorized But Unissued Shares

The authorized but unissued shares of preferred stock are available for future issuance without shareholder approval. The existence of authorized but unissued shares of preferred stock could render more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

Indemnification, and Limitation of Liability for Directors and Officers

Our fifth amended and restated certificate of incorporation provides that we will indemnify our directors and officers to the fullest extent permitted by the laws of the State of Delaware. Our charter also provides that a director of our company shall not be personally liable to us or our stockholders for monetary damages for breach of fiduciary duty as a director, except to the extent such exemption from liability or limitation thereof is not permitted under the Delaware General Corporation Law as the same exists or may hereafter be amended.

The indemnification rights conferred by our certificate of incorporation are not exclusive of any other right to which a person seeking indemnification may otherwise be entitled. We will also provide liability insurance for our directors and officers for certain losses arising from claims or charges made against them, while acting in their capacities as directors or officers.

Transfer Agent and Registrar

Our transfer agent is The Bank of New York.

TAXATION

Certain United States Tax Consequences to Non-U.S. Holders of Common Stock

This section summarizes certain United States federal income and estate tax consequences of the ownership and disposition of common stock by a non-U.S. holder. You are a non-U.S. holder if you are, for United States federal income tax purposes:

- . a nonresident alien individual,
- . a foreign corporation,
- . a foreign partnership, or
- . an estate or trust that in either case is not subject to United States federal income tax on a net income basis on income or gain from common stock.

This section does not consider the specific facts and circumstances that may be relevant to a particular non-U.S. holder and does not address the treatment of a non-U.S. holder under the laws of any state, local or foreign taxing jurisdiction. This section is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, existing and proposed regulations, and administrative and judicial interpretations, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

You should consult a tax advisor regarding the United States federal tax consequences of acquiring, holding and disposing of common stock in your particular circumstances, as well as any tax consequences that may arise under the laws of any state, local or foreign taxing jurisdiction.

Dividends

Generally, a percentage of any dividend paid by a United States corporation that received at least 80% of its gross income from one or more active foreign businesses for the three tax years before the tax year in which the dividend is paid (or, if the corporation has no gross income for such three-year period, in the tax year in which the dividend is paid) is not subject to withholding of United States federal income tax. The applicable percentage is determined by dividing the corporation's foreign gross income for the testing period by the corporation's total gross income for that period. Any remaining portion of the dividend would be subject to withholding tax as described below. We believe that we are likely to satisfy the 80% foreign business requirement, but this conclusion is a factual determination made annually and no assurances can be made that we will do so.

Except for that portion of any dividend not subject to withholding as described above and except as described below, if you are a non-U.S. holder of common stock, dividends paid to you are subject to withholding of United States federal income tax at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate. Under currently effective United States Treasury regulations, for purposes of determining if dividends are subject to the 30% withholding tax, dividends paid to an address in a foreign country are presumed to be paid to a resident of that country, unless the person making the payment has knowledge to the contrary. Under current interpretations of United States Treasury regulations, this presumption also applies for purposes of determining whether a lower withholding rate applies under an income tax treaty.

Under United States Treasury regulations that will generally apply to dividends paid after December 31, 2000, you must satisfy certain certification requirements in order to claim the benefit of a lower treaty rate. Additionally, if you are a partner in a foreign partnership that holds the common stock, you, in addition to the foreign partnership, must satisfy the certification requirements and the partnership must provide certain information as well. The Internal Revenue Service will apply a look-through rule in the case of tiered partnerships.

If you are eligible for a reduced rate of United States withholding tax under a tax treaty, you may obtain a refund of any amounts withheld in excess of that rate by filing a refund claim with the United States Internal Revenue Service.

If the dividends are "effectively connected" with your conduct of a trade or business within the United States, and, if required by a tax treaty, the dividends are attributable to a permanent establishment, or in the case of an individual a "fixed base", that you maintain in the United States, then the dividends generally are not subject to withholding tax, provided you file the appropriate Internal Revenue Service form with the payor. Instead, "effectively connected" dividends are taxed at rates applicable to United States citizens, resident aliens and domestic United States corporations.

If you are a corporate non-U.S. holder, "effectively connected" dividends that you receive may, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

Gain on Disposition of Common Stock

If you are a non-U.S. holder, you generally will not be subject to United States federal income tax on gain that you recognize on a disposition of common stock unless:

- . the gain is "effectively connected" with your conduct of a trade or business in the United States, and the gain is attributable to a permanent establishment, or in the case of an individual a "fixed base", that you maintain in the United States, if that is required by an applicable income tax treaty as a condition for subjecting you to United States taxation on a net income basis,
- . you are an individual, you hold the common stock as a capital asset, you are present in the United States for 183 or more days in the taxable year of the sale and certain other conditions are satisfied, or
- . we are or have been a "United States real property holding corporation" for federal income tax purposes and you held, directly or indirectly, at any time during the five-year period ending on the date of disposition, more than 5% of the common stock and you are not eligible for any treaty exemption.

If you are a corporate non-U.S. holder, "effectively connected" gains that you recognize may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or at a lower rate if you are eligible for the benefits of an income tax treaty that provides for a lower rate.

We have not been, are not and do not anticipate becoming a United States real property holding corporation for United States federal income tax purposes.

Federal Estate Taxes

Common stock held by an individual who is a non-U.S. holder at the time of death will be included in the holder's gross estate for United States federal estate tax purposes, unless an applicable estate tax treaty provides otherwise.

Information Reporting and Backup Withholding

Under currently applicable law, if you are a non-U.S. holder, dividends paid to you at an address outside the United States will not be subject to United States information reporting requirements or backup withholding tax. Beginning with respect to payments made after December 31, 2000, a non-U.S. holder will be entitled to such exemption only if the non-U.S. holder provides a Form W-8 (or satisfies certain documentary evidence requirements for establishing that it is a non-U.S. holder) or otherwise establishes an exemption.

If you sell your common stock outside of the United States through a non-U.S. office of a non-U.S. broker, and the sales proceeds are paid to you outside the United States, then United States backup withholding and information reporting requirements generally will not apply to that payment. However, United States information reporting, but not backup withholding, will apply to a payment of sales proceeds, even if that payment is made outside the United States, if you sell your common stock through a non-U.S. office of a broker that:

- . is a United States person,
- . derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States,
- . is a "controlled foreign corporation" as to the United States, or with respect to payments made after December 31, 2000, is a foreign partnership, if at any time during its tax year:
 - one or more of its partners are U.S. persons, as defined in United States Treasury regulations, who in the aggregate hold more than 50% of the income or capital interests in the partnership, or
 - at any time during its tax year, the foreign partnership is engaged in a United States trade or business,

unless the broker has documentary evidence in its files that you are a non-U.S. person or you otherwise establish an exemption.

If you receive payments of the proceeds of a sale of common stock to or through a United States office of a broker, the payment is subject to both United States backup withholding and information reporting unless you certify, under penalties of perjury, that you are a non-U.S. person or you otherwise establish an exemption.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the United States Internal Revenue Service.

UNDERWRITING

Under the terms and subject to the conditions contained in a U.S. and international underwriting agreement dated _____, 2000, we have agreed to sell to the underwriters named below, for whom Credit Suisse First Boston Corporation is acting as representative for the U.S. underwriters and Credit Suisse First Boston (Hong Kong) Limited is acting as representative for the international underwriters, the following respective number of shares of common stock:

U.S. Underwriters	Number of Shares
Credit Suisse First Boston Corporation.....	
Donaldson, Lufkin & Jenrette Securities Corporation.....	
UBS AG, acting through its financial services group UBS Warburg.....	----
Subtotal.....	----
International Managers	Number of Shares
Credit Suisse First Boston (Hong Kong) Limited.....	
DLJ International Securities.....	
UBS AG, acting through its financial services group UBS Warburg.....	----
Subtotal.....	----
Total.....	====

The U.S. offering and the international offering are each conditioned upon the closing of the other.

The underwriting agreement provides that the underwriters are obligated to purchase all the shares of common stock in the offering if any are purchased, other than those shares covered by the over-allotment option described below. The underwriting agreement also provides that if an underwriter defaults, the purchase commitments by the non-defaulting underwriters may be increased or this offering of common stock may be terminated.

We have granted the underwriters a 30-day option to purchase on a pro rata basis up to _____ additional shares of common stock from us at the initial public offering price, less the underwriting discounts and commissions. The option may be exercised only to cover any over-allotments of common stock.

The underwriters propose to offer the shares of common stock initially at the public offering price on the cover page of this prospectus and to selling group members at that price less a concession of \$ _____ per share. The underwriters and selling group members may allow a discount of \$ _____ per share on sales to other broker/dealers. After the initial public offering, the public offering price and concession and discount to broker/dealers may be changed by the representatives.

The following table summarizes the compensation and estimated expenses we will pay.

	Per Share		Total	
	Without Over-allotment	With Over-allotment	Without Over-allotment	With Over-allotment
Underwriting discounts and commissions paid by us.....	\$	\$	\$	\$
Expenses payable by us..	\$	\$	\$	\$

We will reimburse certain expenses of the underwriters incurred in connection with this offering.

The underwriters have informed us that they do not expect discretionary sales to exceed 5% of our common stock being offered.

Pursuant to an agreement between the U.S. underwriters and international managers, each U.S. underwriter has agreed that, as a part of its distribution of the common stock and subject to permitted exceptions, it has not offered or sold, and will not offer or sell, directly or indirectly, any shares of common stock or distribute any prospectus relating to the common stock to any person outside the United States or Canada or to any other dealer who does not so agree. Each international manager has agreed that, as part of its distribution of the common stock and subject to permitted exceptions, it has not offered or sold, and will not offer or sell, directly or indirectly, any shares of common stock or distribute any prospectus relating to the common stock in the United States or Canada or to any other dealer who does not so agree. The foregoing limitations do not apply to stabilization transactions or to transactions between the U.S. underwriters and international managers. As used herein, "United States" means the United States of America (including the States and the District of Columbia), its territories, possessions and other areas subject to its jurisdiction; "Canada" means Canada, its provinces, territories, possessions and other areas subject to its jurisdiction; and an offer or sale shall be in the United States or Canada if its is made to (i) any individual resident in the United States or Canada or (ii) any corporation, partnership, pension, profit-sharing or other trust or entity (including any such entity acting as an investment adviser with discretionary authority) whose office most directly involved with the purchase is located in the United States or Canada.

Each of the international managers severally represents and agrees that:

In the United Kingdom:

- . it has not offered or sold, and prior to the date six months after the date of issue of the common stock will not offer or sell, any shares of common stock to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulation 1995;
- . it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the common stock in, from or otherwise involving the United Kingdom;
- . it has only issued or passed on and will only issue or passed on and will only issue or pass on in the United Kingdom any document received by it in connection with the issue of the common stock to a person who is of a kind described in Article 11(3) of the Financial Services Act 1986 (Investment Advertisements) (Exemptions) Order 1996 or is a person to whom such document may otherwise lawfully be issued or passed on;

In Japan:

- . it has not offered or sold and will not offer or sell, directly or indirectly, in Japan or to or for the account of any resident of Japan any shares of common stock, except (1) under an exemption from the registration requirements of the securities and Exchange Law of Japan and (2) in compliance with any other applicable requirements of Japanese law;
- . it will send to any dealer who purchases from it any shares of common stock a notice stating in substance that, by purchasing such shares, the dealer represents and agrees that it has not offered or sold, and will not offer or sell, any shares of common stock, directly or indirectly, in Japan or to or for the account of any resident thereof except pursuant to any exemption from the registration requirements of the Securities and Exchange Law of Japan, and that the dealer will send to any other dealer to whom it sells any shares of common stock a notice containing substantially the same statement as is contained in this sentence;

In Hong Kong:

- . it has not offered or sold and will not offer or sell any shares of common stock in Hong Kong by means of any document, other than to persons whose ordinary business it is to buy or sell shares or debentures, whether as principal or agent, except in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Chapter 32) of Hong Kong;
- . it has not issued and will not issue any initiation or advertisement relating to the common stock in Hong Kong, except if permitted to do so by the securities law of Hong Kong, other than with respect to shares of common stock intended to be disposed of to persons outside Hong Kong or to be disposed of in Hong Kong only to persons whose business involves the acquisition, disposal or holding of shares whether as principal or agent; and

In Singapore:

- . it has not and will not offer or sell any shares of common stock or distribute any document or other material relating to the common stock, either directly or indirectly, to the public or any member of the public in Singapore other than (1) to an institutional investor or other person specified in Section 106C of the Companies Act, Chapter 50 of Singapore, (2) to a sophisticated investor, and in accordance with the conditions, specified in Section 106D of the Companies Act Chapter 50 of Singapore or (3) otherwise pursuant to, and in accordance with the conditions of, any other provision of the Companies Act Chapter 50 of Singapore.

A copy of this prospectus has been lodged with the Registrar of Companies and Businesses in Singapore as an information memorandum for the purposes of Section 106D of the Companies Act Chapter 50 of Singapore. The Registrar of Companies and Businesses in Singapore takes no responsibility as to the contents of this document.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the Securities and Exchange Commission a registration statement under the Securities Act relating to, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, or publicly disclose the intention to make any such offer, sale, pledge, disposition or filing, without the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus, except issuances pursuant to the exercise of employee stock options outstanding on the date hereof.

Our officers, directors and preferred shareholders have agreed that they will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any shares of our common stock or securities convertible into or exchangeable or exercisable for any shares of our common stock, enter into a transaction which would have the same effect, or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our common stock, whether any such aforementioned transaction is to be settled by delivery of our common stock or such other securities, in cash or otherwise, or publicly disclose the intention to make any such offer, sale, pledge or disposition, or to enter into any such transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of Credit Suisse First Boston Corporation for a period of 180 days after the date of this prospectus.

The underwriters have reserved for sale, at the initial public offering price, up to shares of the common stock to be sold in this offering, to strategic partners, consultants and friends and family of our officers. The number of shares available for sale to the general public in this offering will be reduced to the extent these persons purchase the reserved shares. Any reserved shares not so purchased will be offered by the underwriters to the general public on the same terms as the other shares.

The underwriters have agreed to reimburse certain of our expenses incurred in connection with this offering.

We have agreed to indemnify the underwriters against liabilities under the Securities Act, or to contribute to payments that the underwriters may be required to make in that respect.

We have applied to list our common stock on The Nasdaq Stock Market's National Market under the symbol "SOHU".

Prior to this offering, there has been no public market for our common stock. The initial public offering price will be determined by negotiation between us and the representatives and does not reflect the market price for our common stock following this offering. Among the principal factors considered in determining the initial public offering price will be:

- . the information in this prospectus and otherwise available to the representatives;
- . market conditions for initial public offerings;
- . the history of and prospects for the industry in which we will compete;
- . our past and present operations;
- . our past and present earnings and current financial position;
- . the ability of our management;
- . our prospects for future revenues and earnings;
- . the present state of our development;
- . the recent market prices of, and the demand for, publicly traded common stock of generally comparable companies; and
- . the general condition of the securities markets at the time of this offering.

We can offer no assurance that the initial public offering price will correspond to the price at which the common stock will trade in the public market subsequent to this offering or that an active trading market for the common stock will develop and continue after this offering.

The representatives on behalf of the underwriters may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934, as amended.

- . Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position.
- . Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- . Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions.
- . Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common stock originally sold by such syndicate member is purchased in a stabilizing transaction or a syndicate covering transaction to cover syndicate short positions.

These stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the common stock to be higher than it would otherwise be in the absence of such transactions. These transactions may be effected on The Nasdaq Stock Market's National Market or otherwise and, if commenced, may be discontinued at anytime.

A prospectus in electronic format will be made available on the Web sites maintained by one or more of the underwriters participating in this offering. The representatives may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the underwriters that will make Internet distributions on the same basis as other allocations.

NOTICE TO CANADIAN RESIDENTS

Resale Restrictions

The distribution of the securities in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of securities are effected. Accordingly, any resale of the securities in Canada must be made in accordance with applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made in accordance with available statutory exemptions or pursuant to a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the securities.

Representations of Purchasers

Each purchaser of securities in Canada who receives a purchase confirmation will be deemed to represent to us and the dealer from whom such purchase confirmation is received that (1) such purchaser is entitled under applicable provincial securities laws to purchase such securities without the benefit of a prospectus qualified under such securities laws, (2) where required by law, that such purchaser is purchasing as principal and not as agent, and (3) such purchaser has reviewed the text above under "Resale Restrictions".

Rights of Action (Ontario Purchasers)

The securities being offered are those of a foreign issuer and Ontario purchasers will not receive the contractual right of action prescribed by Ontario securities law. As a result, Ontario purchasers must rely on other remedies that may be available, including common law rights of action for damages or rescission or rights of action under the civil liability provisions of the U.S. federal securities laws.

Enforcement of Legal Rights

All of the issuer's directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon the issuer or such persons. All or a substantial portion of the assets of the issuer and such persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against the issuer or such persons in Canada or to enforce a judgment obtained in Canadian courts against such issuer or persons outside of Canada.

Notice to British Columbia Residents

A purchaser of securities to whom the Securities Act (British Columbia) applies is advised that such purchaser is required to file with the British Columbia Securities Commission a report within ten days of the sale of any securities acquired by such purchaser pursuant to this offering. Such report must be in the form attached to British Columbia Securities Commission Blanket Order BOR #95/17, a copy of which may be obtained from us. Only one such report must be filed in respect of securities acquired on the same date and under the same prospectus exemption.

Taxation and Eligibility for Investment

Canadian purchasers of securities should consult their own legal and tax advisors with respect to the tax consequences of an investment in the securities in their particular circumstances and with respect to the eligibility of the securities for investment by the purchaser under relevant Canadian legislation.

VALIDITY OF COMMON STOCK

The validity of the common stock will be passed upon for Sohu.com Inc. by Sullivan & Cromwell, Hong Kong and New York, New York. Certain legal matters under U.S. federal and New York law will be passed upon for the underwriters by Cravath, Swaine & Moore, Hong Kong and New York, New York. Certain legal matters as to PRC law will be passed upon for Sohu.com Inc. by TransAsia Lawyers, Beijing and for the underwriters by Commerce & Finance Law Offices, Beijing.

EXPERTS

The consolidated financial statements as of December 31, 1998 and 1999 and for each of the three years in the period ended December 31, 1999 included in this prospectus have been so included in reliance on the report of PricewaterhouseCoopers, independent accountants, given on the authority of said firm as experts in auditing and accounting. We have included in this prospectus descriptions concerning PRC laws and regulations and our regulatory compliance in reliance upon the opinion of TransAsia Lawyers and their authority as experts in PRC legal matters.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a Registration Statement on Form S-1 under the Securities Act with respect to the shares of our common stock offered in this offering. This prospectus does not contain all of the information in the Registration Statement and the exhibits. We have omitted certain portions pursuant to the rules and regulations of the Securities and Exchange Commission.

As a result of this offering, we will become subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended. In accordance with these requirements, we will file reports and other information with the Securities and Exchange Commission.

For further information with respect to us and the shares being offered in this offering, please refer to the Registration Statement, including the exhibits filed therewith. You can inspect and copy the Registration Statement and the exhibits as well as other reports and information at the public reference facilities maintained by the Securities and Exchange Commission at Judiciary Plaza, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549; and at the regional offices of the Securities and Exchange Commission at Seven World Trade Center, 13th Floor, New York, New York 10048; and at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You can obtain copies of these materials from the Public Reference Section of the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. Further information on the operation of the Public Reference Room in Washington, D.C. can be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0330.

The Securities and Exchange Commission also maintains a Web site that contains reports, proxy statements and other information about issuers, such as Sohu.com Inc., who file electronically with the Securities and Exchange Commission. The address of that site is <http://www.sec.gov>.

You should rely only on the information contained in this prospectus. We have not authorized anyone to give any information or make any representation about us or this offering that is different from, or in addition to, that contained in this prospectus or in any of the materials that we have incorporated into this document. Therefore, if anyone does give you information of this sort, you should not rely on it. If you are in a jurisdiction where offers to sell, or solicitations of offers to buy, the securities offered by this document are unlawful, or if you are a person to whom it is unlawful to direct these types of activities, then the offer presented in this document does not extend to you. The information contained in this document speaks only as of the date of this document unless the information specifically indicates that another date applies.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders of Sohu.com Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of shareholders' equity (deficit) expressed in U.S. dollars present fairly, in all material respects, the financial position of Sohu.com Inc. (the "Company") and its subsidiary at December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

PricewaterhouseCoopers

Beijing, People's Republic of China
February 2, 2000

SOHU.COM INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of US dollars, except share data)

	December 31, 1998	December 31, 1999	March 31, 2000	Pro Forma March 31, 2000
	----- (unaudited) -----			
ASSETS				
Current assets:				
Cash and cash equivalents....	\$1,232	\$3,924	\$33,106	\$33,106
Accounts receivable, net.....	68	401	776	776
Accounts receivable-related parties.....	158	37	--	--
Prepaid and other current assets.....	49	126	241	241
	-----	-----	-----	-----
Total current assets.....	1,507	4,488	34,123	34,123
Fixed assets, net.....	236	999	2,227	2,227
Other assets, net.....	35	1,589	1,761	1,761
	-----	-----	-----	-----
	\$1,778	\$7,076	\$38,111	\$38,111
	=====	=====	=====	=====
LIABILITIES AND SHAREHOLDERS EQUITY (DEFICIT)				
Current liabilities:				
Short-term loan.....	\$ --	\$ --	\$ 2,899	\$ 2,899
Accounts payable.....	72	500	1,039	1,039
Accrued liabilities.....	132	1,411	1,384	1,384
	-----	-----	-----	-----
Total current liabilities..	204	1,911	5,322	5,322
Commitments and contingencies (Note 11)				
Series B Mandatorily Redeemable Convertible Preferred Stock: \$0.001 par value per share (2,077,205 shares authorized; 2,074,790, 2,077,205 and 2,077,205 shares issued and outstanding at December 31, 1998 and 1999 and March 31, 2000 (unaudited), no shares issued and outstanding on a Pro Forma basis at March 31, 2000 (unaudited)).....	2,362	2,831	2,947	--
Series C Mandatorily Redeemable Convertible Preferred Stock: \$0.001 par value per share (1,479,507 shares authorized, issued and outstanding at December 31, 1999 and March 31, 2000 (unaudited), no shares issued and outstanding on a Pro Forma basis at March 31, 2000 (unaudited)).....		7,376	7,721	--
Series D Mandatorily Redeemable Convertible Preferred Stock: \$0.001 par value per share (777,688 shares authorized, issued and outstanding at March 31, 2000 (unaudited), no shares issued and outstanding on a Pro Forma basis at March 31, 2000 (unaudited))	--	--	31,053	--
	-----	-----	-----	-----
Total Mandatorily Redeemable Convertible Preferred Stock.....	2,362	10,207	41,721	--
Shareholders' equity (deficit):				
Series A Preferred Stock: \$0.001 par value per share (1,125,000 shares authorized, issued and outstanding at December 31, 1998 and 1999 and March 31, 2000 (unaudited), no shares issued and outstanding on a Pro Forma basis at March 31, 2000 (unaudited)).....	1	1	1	--
Common Stock: \$0.001 par value per share (11,500,000 shares authorized; 3,563,595, 3,621,410 and 3,621,410 shares issued and outstanding at December 31,				

1998 and 1999 and March 31, 2000 (unaudited); and 9,462,395 shares issued and outstanding on a Pro Forma basis at March 31, 2000 (unaudited).....	4	4	4	10
Additional paid-in capital.....	255	389	1,567	43,283
Deferred compensation and other.....	--	(22)	(1,067)	(1,067)
Accumulated deficit.....	(1,048)	(5,414)	(9,437)	(9,437)
	-----	-----	-----	-----
Total shareholders' equity (deficit).....	(788)	(5,042)	(8,932)	32,789
	-----	-----	-----	-----
	\$1,778	\$7,076	\$38,111	\$38,111
	=====	=====	=====	=====

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

SOHU.COM INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands of US dollars, except share data)

	Year ended			Three months Ended	
	December 31, 1997	December 31, 1998	December 31, 1999	March 31, 1999	March 31, 2000
				(unaudited)	
Revenues (including related party amounts of \$0, \$175, \$178, \$20 (unaudited) and \$36 (unaudited)).....	\$ 78	\$ 472	\$ 1,617	\$ 233	\$ 842
Costs and expenses:					
Cost of revenues.....	19	215	1,576	172	811
Product development....	50	208	427	55	348
Sales and marketing....	94	351	1,758	126	1,533
General and administrative (including related party amounts of \$60 in 1999).....	75	308	1,270	163	516
Stock-based compensation*.....	--	--	46	--	129
Total costs and expenses.....	238	1,082	5,077	516	3,337
Operating loss.....	(160)	(610)	(3,460)	(283)	(2,495)
Interest income.....	--	23	25	7	31
Interest expense-related party.....	--	(28)	(14)	--	--
Net loss.....	(160)	(615)	(3,449)	(276)	(2,464)
Accretion on Series B, C and D mandatorily redeemable convertible preferred stock.....	--	(244)	(917)	(114)	(1,559)
Net loss attributable to common stockholders....	\$ (160)	\$ (859)	\$ (4,366)	\$ (390)	\$ (4,023)
Basic and diluted net loss per share attributable to common stockholders.....	\$ (0.05)	\$ (0.24)	\$ (1.22)	\$ (0.11)	\$ (1.11)
Shares used in computing basic and diluted net loss per share.....	3,500	3,564	3,588	3,564	3,621
Basic and diluted pro forma net loss per share (unaudited).....			\$ (0.41)	\$ (0.03)	\$ (0.26)
Shares used in computing basic and diluted pro forma net loss per share (unaudited).....			8,314	7,925	9,462
Cost of revenues.....	\$ --	\$ --	\$ 13	\$ --	\$ 6
Product development..	--	--	11	--	3
Sales and marketing..	--	--	14	--	11
General and administrative.....	--	--	8	--	109
	\$ --	\$ --	\$ 46	\$ --	\$ 129

*Stock-based compensation:

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

SOHU.COM INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of US dollars, except share data)

	Year ended			Three months ended,	
	December 31, 1997	December 31, 1998	December 31, 1999	March 31, 1999	March 31, 2000
	(unaudited)				
Cash flows from operating activities:					
Net loss.....	\$(160)	\$ (615)	\$(3,449)	\$(276)	\$(2,464)
Adjustments to reconcile net loss to net cash used in operating activities:					
Loss on disposal of fixed assets.....	--	--	6	--	--
Depreciation and amortization.....	3	23	277	23	163
Services rendered by shareholder.....	--	--	60	--	--
Stock-based compensation expense.....	--	--	46	--	129
Amortization of discount on convertible promissory notes....	--	25	--	--	--
Changes in assets and liabilities:					
Accounts receivable...	(13)	(55)	(333)	(245)	(374)
Accounts receivable--related parties.....	--	(158)	121	8	36
Prepays and other current assets.....	56	(35)	(77)	(30)	(116)
Other assets.....	(9)	(26)	(78)	(76)	(237)
Accounts payable.....	23	49	428	(46)	539
Accrued liabilities...	(1)	114	1,279	301	(27)
	-----	-----	-----	-----	-----
Net cash used in operating activities.....	(101)	(678)	(1,720)	(341)	(2,351)
Cash flows from investing activities:					
Acquisition of fixed assets.....	(30)	(227)	(942)	(66)	(1,325)
Acquisition of other assets.....	--	--	(1,580)	--	--
Disposal of fixed assets.....	--	--	1	--	--
	-----	-----	-----	-----	-----
Net cash used in investing activities.....	(30)	(227)	(2,521)	(66)	(1,325)
Cash flows from financing activities:					
Issuance/(repayment) of Convertible Promissory Notes--related party.....	100	(100)	1,500	--	--
Issuance of Series A Preferred Stock.....	55	--	--	--	--
Issuance of Series B Mandatorily Redeemable Convertible Preferred Stock.....	--	2,118	--	--	--
Issuance of Series C Mandatorily Redeemable Convertible Preferred Stock	--	--	5,426	--	--
Issuance of Series D Mandatorily Redeemable Convertible Preferred Stock.....	--	--	--	--	29,959
Issuance of Common Stock.....	--	8	7	--	--
Short-term loan.....	--	--	--	--	2,899
	-----	-----	-----	-----	-----
Net cash provided by financing activities.....	155	2,026	6,933	--	32,858

Net increase/(decrease) in cash and cash equivalents.....	24	1,121	2,692	(407)	29,182
Cash and cash equivalents at beginning of period...	87	111	1,232	1,233	3,924
	-----	-----	-----	-----	-----
Cash and cash equivalents at end of period.....	\$ 111	\$1,232	\$ 3,924	\$ 826	\$33,106
	=====	=====	=====	=====	=====
Non-cash financing activity:					
Conversion of convertible promissory note and accrued interest into Series C Mandatorily Redeemable Convertible Preferred Stock.....	\$ --	\$ --	\$ 1,514	\$ --	\$ --
	=====	=====	=====	=====	=====

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

SOHU.COM INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(Amounts in thousands of US dollars, except share data)

	Series A Preferred Stock		Common Stock		Additional Paid-in-Capital	Deferred Compensation and Other	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares Issued	Amount	Shares Issued	Amount				
Balance, January 1, 1997.....	850,000	\$ 1	3,500,000	\$ 4	\$ 167	\$ --	\$ (29)	\$ 143
Issuance of Series A Preferred Stock.....	275,000	--	--	--	55	--	--	55
Issuance of warrants...	--	--	--	--	25	--	--	25
Net loss.....	--	--	--	--	--	--	(160)	(160)
Balance, December 31, 1997.....	1,125,000	1	3,500,000	4	247	--	(189)	63
Issuance of common stock.....	--	--	63,595	--	8	--	--	8
Accretion of Series B Mandatorily Redeemable Convertible Preferred Stock.....	--	--	--	--	--	--	(244)	(244)
Net loss.....	--	--	--	--	--	--	(615)	(615)
Balance, December 31, 1998.....	1,125,000	1	3,563,595	4	255	--	(1,048)	(788)
Issuance of common stock.....	--	--	57,815	--	7	--	--	7
Accretion of Series B and C Mandatorily Redeemable Convertible Preferred Stocks.....	--	--	--	--	--	--	(917)	(917)
Issuance of compensatory stock options.....	--	--	--	--	67	(67)	--	--
Amortization of deferred compensation.....	--	--	--	--	--	46	--	46
Services rendered by shareholder.....	--	--	--	--	60	--	--	60
Foreign currency translation adjustment.....	--	--	--	--	--	(1)	--	(1)
Net loss.....	--	--	--	--	--	--	(3,449)	(3,449)
Balance, December 31, 1999.....	1,125,000	\$ 1	3,621,410	\$ 4	\$ 389	\$ (22)	\$ (5,414)	\$ (5,042)
Issuance of common stock (unaudited)....	--	--	--	--	--	--	(1,559)	(1,559)
Accretion of Series B, C and D Mandatorily Redeemable Convertible Preferred Stock (unaudited).....	--	--	--	--	--	--	(1,559)	(1,559)
Issuance of compensatory stock options (unaudited)...	--	--	--	--	1,178	(1,178)	--	--
Amortization of deferred compensation (unaudited).....	--	--	--	--	--	129	--	129
Foreign currency translation adjustment (unaudited).....	--	--	--	--	--	4	--	4
Net loss (unaudited)...	--	--	--	--	--	--	(2,464)	(2,464)
Balance, March 31, 2000 (unaudited).....	1,125,000	\$ 1	3,621,410	\$ 4	\$1,567	\$(1,067)	\$(9,437)	\$(8,932)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of US dollars, except number of shares and per share data)

1. Organisation and Nature of Operations

Sohu.com Inc. (the "Company") was incorporated in Delaware, USA in August 1996 under the name of Internet Technologies China, Inc. The Company changed its name to Sohu.com Inc. in September 1999. The Company does not have any substantive operations of its own and substantially all of its primary business operations are conducted through its wholly-owned subsidiary, Sohu ITC Information Technology (Beijing) Co., Ltd., which was incorporated in the People's Republic of China during 1997. The Company offers internet-based advertising and content through its internet portal site, Sohu.com. The Company conducts its business within one industry segment and markets its products and services to clients primarily in the People's Republic of China.

The consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America.

2. Summary of Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary incorporated in the People's Republic of China. All intercompany balances and transactions have been eliminated.

(b) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(c) Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Cash equivalents are composed primarily of investments in money market accounts stated at cost, which approximates fair value.

(d) Fixed assets and depreciation

Fixed assets, comprising computer hardware and office furniture and equipment, are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally three to five years.

(e) Other assets, net

Other assets includes rental deposits, as well as computer software purchased from unrelated third parties which is being amortized over its estimated useful life of three years. Also included in other assets are direct costs related to the development of the Company's website which have been capitalized and are being amortized over their estimated useful life of three years.

At December 31, 1999 and March 31, 2000, the Company had incurred approximately \$780 and \$981 (unaudited), respectively, of transaction expenses relating to the Company's proposed initial public offering

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

which are being deferred and included as other assets. Upon the successful closing of the Company's proposed initial public offering, these costs will be offset against the proceeds of the offering in Additional Paid-In-Capital.

(f) Impairment of long-lived assets

The Company reviews long-lived assets based upon expected gross cash flows and will reserve for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be fully recoverable. Based on its most recent analysis, the Company believes that there was no impairment of its fixed assets and intangible assets as at March 31, 2000 (unaudited).

(g) Product development

Cost incurred in the enhancement of the Company's website and the classification and organization of listings within internet properties and enhancements to existing products are charged to product development expense as incurred. Material software development costs incurred during the application development stage, including the costs related to the development of the Company's website, are capitalized as other assets once technological feasibility has been established. Website development costs are amortized over three years.

(h) Foreign currency translation

Foreign currency transactions are translated at the applicable rates of exchange in effect at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange in effect at that date. Foreign currency transaction gains and losses were not material for any period presented.

The Company's functional and reporting currency is the U.S. dollar. The functional currency of the Company's subsidiary in China is the Renminbi ("RMB"). Sales and purchase and other expense transactions are generally denominated in RMB. Accordingly, assets and liabilities of the China subsidiary are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average exchange rates in effect during the reporting period. Gains and losses resulting from foreign currency translation, if material, are recorded in a separate component of shareholders' equity. Foreign currency translation adjustments of \$0.1, \$0.2 and \$0.9 in 1997, 1998 and 1999, respectively, are included in Deferred Compensation and Other in the consolidated statement of shareholders equity (deficit) for the periods presented.

(i) Advertising expense

Advertising expenses are charged to the income statement when incurred. Included in sales and marketing expenses are advertising costs of \$597, \$0 (unaudited) and \$652 (unaudited) for the year ended December 31, 1999 and three months ended March 31, 1999 and 2000, respectively. Prior to 1999, the Company incurred no advertising costs.

(j) Revenue recognition

The Company's revenues are derived principally from the sale of banner advertisements pursuant to short-term contracts. Revenues on banner advertising contracts are recognized ratably over the period in which the advertisement is displayed. Company obligations typically also include guarantees of a minimum number of impressions or times that an advertisement appears in pages viewed by users. To the extent that minimum

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

guaranteed impressions are not met within the contractual time period, the Company defers recognition of the corresponding revenues until the remaining guaranteed impression levels are achieved. The Company also earns revenue from sponsorship contracts whereby the Company provides services relating to the design, integration and co-ordination of content and links in channels on the Company's website. These development fees are recognized as revenue once the related services have been performed and the channel and related links have been placed on the Company's website. Revenues and costs related to banner development services are recognized upon completion of the contract due to the short time period between when the contract is started and the service is completed.

For all Company services, revenue is only recognized provided that no significant Company obligations remain at the end of the period and the collection of the resulting receivable is probable.

Revenue from on-line commercial transactions will be recognized on a net commission basis following both successful on-line verification of customer payment and the shipment of products. To date, the Company has not recorded any revenues pursuant to such transactions.

To date, the Company has not recorded any material revenues from barter transactions. Revenue from barter transactions will be recognized during the period in which the advertisements are displayed on the Company's website, Barter transactions are recorded at the lower of the fair value of the goods or services received or the fair value of the advertisement given.

(k) Cost of revenues

Royalties paid to content providers are expensed as incurred and included as cost of revenues. Contracts with content providers generally range from 3 to 24 months in duration and may be terminated by either party upon notice. In addition to arrangements whereby a fixed fee is paid for content over a specified period of time, certain contracts require payments to content providers based on a stated percentage of the related advertising revenues generated. Such payments are expensed as incurred and included as cost of revenues.

(l) Stock-based compensation

The Company accounts for stock-based employee compensation arrangements in accordance with APB No. 25, "Accounting for Stock Issued to Employees", ("APB No. 25") and complies with the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", ("SFAS No. 123"). In general, compensation cost under APB No. 25 is recognized based on the difference, if any, between the estimated fair value of the Company's common stock and the amount an employee must pay to acquire the stock, as determined on the date the option is granted. Total compensation cost as determined at the date of option grant is recorded in Shareholders' Equity as Additional Paid-in-Capital with an offsetting entry to Deferred Compensation. Deferred Compensation is amortized on an accelerated basis and charged to expense in accordance with FASB Interpretation No.28 (FIN 28) over the vesting period of the underlying options, generally ranging from two to four years.

(m) Income taxes

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realised. As the Company has incurred losses since inception, no provision for income taxes has been made.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

(n) Net loss per share

The basic net loss per share is computed by dividing the net income or loss available to common shareholders for the period by the weighted average number of common shares outstanding during the period. Diluted net income or loss per share is computed by dividing the net income or 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 and warrants and the conversion of preferred stock, are included in diluted net income or 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.

(o) Interim results (unaudited)

The accompanying balance sheet as of March 31, 2000, the statement of operations and of cash flows for the three months ended March 31, 1999 and 2000 and the statement of stockholders' equity (deficit) for the three months ended March 31, 2000 are unaudited. In the opinion of management, such unaudited financial statements have been prepared on the same basis as the audited financial statements referred to above and include all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of the results of the interim period. The data disclosed in the notes to the financial statements as of such dates and for such periods are unaudited.

(p) Pro forma net loss per share (unaudited)

Pro forma net loss per share for the year ended December 31, 1999 and the three months ended March 31, 2000 are computed using the weighted average number of common shares outstanding, including the pro forma effect, on an as-if-converted basis, of the automatic conversion of Series B, C and D Mandatorily Redeemable Convertible Preferred Stock and Series A Preferred Stock into shares of common stock effective upon the closing of an initial public offering by the Company if and when the aggregate proceeds from the Offering are not less than \$20,000 and with a price to the public of at least \$38.576 per share. Pro forma diluted net loss per share is computed using the pro forma weighted average number of shares of common stock and common stock equivalents outstanding. Common stock equivalent shares, composed of shares of common stock issuable upon the exercise of stock options and warrants, are not included in pro forma diluted net loss per share as this would reduce the net loss per share.

(q) Comprehensive income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. For the Company, the difference between comprehensive loss and net loss is attributable to foreign currency translation adjustments of \$0.1, \$0.2, and \$0.9 for 1997, 1998 and 1999, respectively. Accordingly, comprehensive loss did not differ materially from net loss for the periods presented.

(r) Stock split

On October 15, 1999, the Company's Board of Directors approved a five-for-one stock split of the issued and outstanding common stock, which was effected on October 15, 1999. All shares and per share amounts have been retroactively adjusted to reflect this stock split.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

(s) Proposed initial public offering of common stock and pro forma balance sheet (unaudited)

In conjunction with an initial public offering of the Company's common stock, (the "Offering"), all of the outstanding shares of Series B, C and D Mandatorily Redeemable Convertible Preferred Stock and Series A Preferred Stock will automatically convert into shares of common stock if and when the aggregate proceeds from the Offering are not less than \$20,000 and with a price to the public of at least \$38.576 per share. The pro forma effect of this conversion of preferred stock has been reflected in the accompanying unaudited Pro Forma Consolidated Balance Sheet at March 31, 2000.

3. Risks and Uncertainties

Financial instruments that potentially subject the Company to significant concentration of credit risk consist primarily of cash, cash equivalents, and accounts receivable. As of March 31, 2000, substantially all of the Company's cash and cash equivalents were held in two financial institutions; one institution is a federally insured financial institution located in the United States and the second institution is located in the People's Republic of China. At various times, the Company maintains cash balances in excess of United States federally insured limits or in institutions in the People's Republic of China. Accounts receivable are typically unsecured, denominated in Chinese RMB, and are derived from revenues earned from customers primarily located in the People's Republic of China. The Company performs ongoing credit evaluations of its customers and, if necessary, maintains reserves for potential credit losses. Historically, such losses have been within management's expectations.

The Company's client base is limited. Revenues from its five largest customers represented 65%, 71%, 34%, 13% (unaudited) and 34% (unaudited) of total revenues for the three years ended December 31, 1997, 1998 and 1999 and the three months ended March 31, 1999 and 2000, respectively. These same five customers represent 93%, 43% and 40% (unaudited) of accounts receivable as of December 31, 1998 and 1999 and March 31, 2000, respectively.

The Company's sales and purchase and expense transactions are generally denominated in RMB and a significant portion of the Company's assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions at exchange rates set by the Bank of China. Remittances in currencies other than RMB by the Company's subsidiary in China must be processed through the Bank of China or other PRC foreign exchange regulatory bodies and require certain supporting documentation in order to effect the remittance.

The Company faces certain macro-economic and regulatory risks and uncertainties relating to the Company's China operations (see note 11).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Amounts in thousands of US dollars, except number of shares and per share data)

4. Balance Sheet Components

	December 31, 1998	December 31, 1999	March 31, 2000
	----- (unaudited)		
Accounts receivable, net			
Accounts receivable.....	\$ 68	\$ 427	\$ 836
Less: Allowance for doubtful accounts.....	--	(26)	(60)
	====	=====	=====
	\$ 68	\$ 401	\$ 776
Fixed Assets			
Computer equipment.....	\$215	\$1,029	\$2,125
Office furniture and equipment.....	48	170	399
	-----	-----	-----
	263	1,199	2,524
Accumulated depreciation.....	(27)	(200)	(297)
	-----	-----	-----
	\$236	\$ 999	\$2,227
	====	=====	=====
Other Assets			
Deferred offering costs.....	\$--	\$ 780	\$ 981
Purchased computer software.....	--	669	725
Website development costs.....	--	131	131
Rental deposits and other.....	35	113	61
	-----	-----	-----
	35	1,693	1,898
Accumulated amortization.....	--	(104)	(137)
	-----	-----	-----
	\$ 35	\$1,589	\$1,761
	====	=====	=====
Accrued liabilities			
Compensation and benefits.....	\$ 85	\$ 581	\$ 758
Professional services.....	25	657	367
Others.....	22	173	259
	-----	-----	-----
	\$132	\$1,411	\$1,384
	====	=====	=====

5. China contribution plan and profit appropriation

The Company's subsidiary in China participates in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. Chinese labor regulations require the Company's subsidiary to pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly basic compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; the Company has no further commitments beyond its monthly contribution.

Pursuant to the laws applicable to China's Foreign Investment Enterprises, the Company's subsidiary in China must make appropriations from after-tax profit to non-distributable reserve funds as determined by the Board of Directors. These reserve funds include a (i) general reserve, (ii) enterprise expansion fund and (iii) staff bonus and welfare fund. The general reserve fund requires annual appropriations of 10% of after-tax profit (as determined under PRC GAAP); the other fund appropriations are at the Company's discretion. Since the Company's PRC subsidiary is in a loss position, no appropriations have been made to the general reserve fund. During 1997, 1998 and 1999, the Company contributed a total of \$14, \$103, and \$470, respectively, to these funds.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

6. Borrowings

During 1999, the Company borrowed \$1,500 through the issuance of a convertible promissory note to a preferred shareholder. The note bore interest at an annual rate of 4.79%; during 1999, the Company recognized interest expense of \$14. The entire principal amount of the note plus accrued interest was converted automatically into Series C Preferred Stock upon the issuance of Series C Preferred Stock in October, 1999 (see Note 8).

During 1997, the Company issued promissory notes to preferred shareholders totalling \$100. These notes were subject to an annual interest rate of 10%. On March 21, 1998, the Company repaid the principal of \$100 and related interest of \$3. Warrants to purchase 46,255 shares of common stock at an exercise price of \$0.20 per share were issued and vested in connection with the Company's issuance of these promissory notes. The amount of the proceeds attributable to the relative value of the warrants in the amount of \$25 was recorded as a discount related to the promissory notes and is reflected as an adjustment to interest expense over the term of the notes. As of March 31, 2000 (unaudited), warrants to purchase 28,910 shares of Common Stock had been exercised and warrants to purchase 17,345 shares of Common Stock remained outstanding.

In March 2000, the Company entered into a \$2,899 (unaudited) short-term loan agreement with a PRC financial institution. The loan is denominated in Renminbi and bears annual interest at 6.138%. This loan was fully repaid in April 2000.

7. Series B Mandatorily Redeemable Convertible Preferred Stock

At December 31, 1999, there were 2,077,205 shares of Series B and Series B-1 Mandatorily Redeemable Convertible Preferred Stock ("Series B Preferred Stock") authorized, issued and outstanding. The following table sets forth the activity related to the Series B Preferred Stock (amounts in thousands of US dollars, except share data):

	Series B		Series B-1		Total	
	Shares	Amount	Shares	Amount	Shares	Amount
Balance at January 1, 1998...	--	\$ --	--	\$--	--	\$ --
Issuance of preferred shares for cash, net of issue costs.....	1,736,495	1,773	338,295	345	2,074,790	2,118
Accretion to estimated redemption value.....	--	204	--	40	--	244
Balance at December 31, 1998.....	1,736,495	1,977	338,295	385	2,074,790	2,362
Exercise of warrants.....	2,415	2	--	--	2,415	2
Accretion to estimated redemption value.....	--	391	--	76	--	467
Balance at December 31, 1999.....	1,738,910	\$2,370	338,295	\$461	2,077,205	\$2,831
Accretion to estimated redemption value (unaudited).....	--	97	--	19	--	116
Balance at March 31, 2000 (unaudited).....	1,738,910	\$2,467	338,295	\$480	2,077,205	\$2,947

Following amendment of the Company's Articles of Incorporation, the holders of Series B Preferred Stock have various rights and preferences as follows:

Voting

Each holder of Series B Preferred Stock has voting rights equal to the number of shares of common stock then issuable upon its conversion into common stock. Each holder of Series B Preferred Stock will generally vote together with the common stock shareholders.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

Dividends

No dividends, whether in cash, in property or in shares of the common stock of the Company shall be declared on outstanding common shares unless the Board of Directors has declared a dividend for Series B Preferred Stock. Where dividends on Series B Preferred Stock are declared, dividends will be allocated to Series B Preferred shares based on the equivalent number of common shares into which such Series B Preferred Stock could be converted. The Board through December 31, 1999 has declared no dividends on Series B Preferred Stock.

Liquidation

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series B Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of Series A Preferred Stock, an amount equal to \$1.0346 per share of Series B Preferred Stock, plus declared but unpaid dividends. After the liquidation preference of the holders of the Series B Preferred Stock has been satisfied, the holders of the Series A Preferred Stock shall be entitled to receive an amount equal to \$.20 per share, plus declared but unpaid dividends. After setting apart or paying in full the preferential amounts due to the holders of Series B Preferred Stock and Series A Preferred Stock as noted above, the holders of the Series B Preferred Stock shall be entitled to receive an amount equal to \$0.5173 per share, plus declared but unpaid dividends. Should the Company's legally available assets be insufficient to satisfy the liquidation preferences, the entire amount of assets will be distributed ratably to the holders of Series B Preferred Stock.

Conversion

Each share of Series B-1 Preferred Stock is convertible, at the option of the holder commencing from the date of issuance, into common shares on a share for share basis. Each share of Series B Preferred Stock was originally convertible, at the option of the Holder commencing from the date of issuance, to common shares on a share for share basis. Further adjustments to both of these ratios will be made where there are accrued and unpaid dividends on preferred stock or where common stock is issued at less than \$0.20 per share. Certain events which occurred in 1998 resulted in a change to the conversion ratio for Series B Preferred Stock such that each share of Series B Preferred Stock became convertible using a basis of one share of Series B Preferred Stock for 1.667 shares of common stock. This change in the conversion ratio did not represent a beneficial conversion feature at the date of issuance of the Series B Preferred Stock in 1998. The Series B Preferred Stock will be converted automatically into Common Stock, at the then applicable conversion rate, upon the closing of an underwritten public offering of shares of Common Stock of the Company at a public offering price of at least \$38.576 per share and gross proceeds to the Company in excess of \$20,000.

Redemption

After March 5, 2003, holders of Series B Preferred Stock may request that the Company redeem all the outstanding shares at a price of \$2.069 per share plus any declared but unpaid dividends. Accordingly, the Series B Preferred Stock is being accreted to its estimated redemption value through charges to retained earnings; such charges totalled \$244, \$467, \$114 (unaudited), and \$116 (unaudited) for the years ended December 31, 1998 and 1999 and three months ended March 31, 1999 and 2000, respectively.

Warrants

In connection with the issuance of the Company's Series B Convertible Preferred Stock financing in 1998, the Company granted an option to purchase 2,415 shares of the Company's Series B Convertible Preferred Stock at an exercise price of \$1.035 per share. This option was exercised in 1999.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

8. Series C Mandatorily Redeemable Convertible Preferred Stock

In October 1999, the Company entered into a Series C Preferred Stock Purchase agreement, whereby the Company authorized 1,848,885 shares of the Company's Series C Mandatory Redeemable Convertible Preferred Stock ("Series C Preferred Stock") at an issue price of \$4.702 per share. At December 31, 1999, there were 1,479,507 shares issued and outstanding. Following amendment of the Company's Articles of Incorporation, the holders of Series C Preferred Stock have various rights and preferences as follows:

Voting

Each holder of Series C Preferred Stock has voting rights equal to the number of shares of common stock then issuable upon its conversion into common stock. Each holder of Series C Preferred Stock will generally vote together with the common stock shareholders.

Dividends

No dividends, whether in cash, in property or in shares of the common stock of the Company shall be declared on outstanding common shares unless the Board of Directors has declared a dividend for Series C Preferred Stock. Where dividends on Series C Preferred Stock are declared, dividends will be allocated to Series C Preferred shares based on the equivalent number of common shares into which such Series C Preferred Stock could be converted. The Board through December 31, 1999 has declared no dividends on Series C Preferred Stock.

Liquidation

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series C Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of the Common stock, an amount equal to \$4.702 per share, plus declared but unpaid dividends.

Conversion

Each share of Series C Preferred Stock is convertible, at the option of the holder commencing from the date of issuance, into common shares on a share for share basis. Adjustments to this ratio will be made where there are accrued and unpaid dividends on preferred stock or common stock. The Series C Preferred Stock will be converted automatically into Common Stock, at the then applicable conversion rate, upon the closing of an underwritten public offering of shares of Common Stock of the Company at a public offering price of at least \$38.576 per share and gross proceeds to the Company in excess of \$20,000.

Redemption

After September 9, 2004, holders of Series C Preferred Stock may request that the Company redeem all the outstanding shares at a price of \$9.404 per share plus any declared but unpaid dividends. Accordingly, the Series C Preferred Stock is being accreted to its estimated redemption value through charges to from retained earnings; such charges totalled \$450 and \$345 (unaudited) for the year ended December 31, 1999 and three months ended March 31, 2000. The redemption rights of the Series C Preferred Stock are subordinate to the Series B Preferred Stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

9. Series D Mandatorily Redeemable Convertible Preferred Stock (unaudited)

In January and February 2000, the Company entered into a Series D Preferred Stock Purchase agreement, whereby the Company authorized 777,688 shares of the Company's Series D Mandatory Redeemable Convertible Preferred Stock ("Series D Preferred Stock") at an issue price of \$38.576 per share. At March 31, 2000, there were 777,688 shares issued and outstanding. Following amendment of the Company's Articles of Incorporation, the holders of Series D Preferred Stock have various rights and preferences as follows:

Voting

Each holder of Series D Preferred Stock has voting rights equal to the number of shares of common stock then issuable upon its conversion into common stock. Each holder of Series D Preferred Stock will generally vote together with the common stock shareholders.

Dividends

No dividends, whether in cash, in property or in shares of the common stock of the Company shall be declared on outstanding common shares unless the Board of Directors has declared a dividend for Series D Preferred Stock. Where dividends on Series D Preferred Stock are declared, dividends will be allocated to Series C Preferred shares based on the equivalent number of common shares into which such Series D Preferred Stock could be converted. The Board through March 31, 2000 has declared no dividends on Series C Preferred Stock.

Liquidation

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series D Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets of the Company to the holders of the Common stock, an amount equal to \$38.576 per share, plus declared but unpaid dividends.

Conversion

Each share of Series D Preferred Stock is convertible, at the option of the holder commencing from the date of issuance, into common shares on a share for share basis. Adjustments to this ratio will be made where there are accrued and unpaid dividends on preferred stock or common stock. The Series D Preferred Stock will be converted automatically into Common Stock, at the then applicable conversion rate, upon the closing of an underwritten public offering of shares of Common Stock of the Company at a public offering price of at least \$38.576 per share and gross proceeds to the Company in excess of \$20,000.

Redemption

After January 25, 2005, holders of Series D Preferred Stock may request that the Company redeem all the outstanding shares at a price of \$77.152 per share plus any declared but unpaid dividends. Accordingly, the Series D Preferred Stock is being accreted to its estimated redemption value through charges to retained earnings; such charges totalled \$1,098 for the three months ended March 31, 2000. The redemption rights of the Series D Preferred Stock are subordinate to the Series B Preferred Stock.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

Advertising contracts

In January 2000, the Company also entered into long-term advertising contracts with its Series D Preferred shareholders. Under the contracts, the Series D shareholders have committed to purchase certain services from the Company, including banner advertising, sponsorship of website channels, directory services and use of the Company's e-commerce platform, over the terms of the contracts, which range from 2 1/2 to 3 years. The contract price will be paid in quarterly payments over the life of the agreements. The detailed description of specific services to be provided under these agreements will be decided over the term of the contracts, with the individual fees for services consistent with rates charged to the Company's most preferred customers. During the three months ended March 31, 2000, no cash was received and no revenues were recognized pursuant to these long-term advertising contracts.

10. Series A Preferred Stock

At December 31, 1999, there were 1,125,000 shares of Series A Preferred Stock ("Preferred A") issued and outstanding at an issue price of \$0.20 per share. Following amendment of the Company's Articles of Incorporation, the holders of Preferred A shares have various rights and preferences as follows:

Voting

Each holder of Series A Preferred Stock has voting rights equal to the number of shares of common stock then issuable upon its conversion into common stock. Each holder of Series A Preferred Stock will generally vote together with the common stock shareholders.

Dividends

No dividends, whether in cash, in property or in shares of the capital stock of the Company shall be declared for Preferred A unless the Board of Directors has declared a dividend on outstanding common shares. Where dividends on Preferred A are declared, dividends will be allocated to Preferred A based on the equivalent number of common shares into which such preferred shares could be converted. The Board through December 31, 1999 has declared no dividends on Preferred A.

Liquidation

In the event of any liquidation, dissolution or winding up of the Company, either voluntary or involuntary, the holders of Series A Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Company to the holders of the Common Stock or to the holders of the Series B, B-1 and C Preferred Stock after the satisfaction of the liquidation preference indicated in Note 7 above, an amount equal to \$0.20 per share, plus declared but unpaid dividends.

Conversion

Each share of Series A Preferred Stock is convertible at the holder's option into common shares on a share for share basis. Adjustments to this ratio will be made where there are accrued and unpaid dividends on preferred stock or where common stock has been issued at less than \$0.20 per share. The Series A Preferred Stock will be converted automatically into Common Stock, at the then applicable conversion rate, upon the closing of an underwritten, public offering of shares of Common Stock of the Company at a public offering price of at least \$38.576 per share and gross proceeds for the Company in excess of \$20,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

11. Commitments and Contingencies

As of December 31, 1999 and March 31, 2000, the Company had future minimum rental lease payments under non-cancellable operating leases as follows:

	December 31, 2000	March 31, 2000
		(unaudited)
2000.....	\$ 597	\$ 448
2001.....	506	506
	-----	-----
	\$1,103	\$ 954
	=====	=====

The Company recognized \$56, \$157, \$205, \$36 (unaudited) and \$149 (unaudited) of rent expense for the years ended December 31, 1997, 1998 and 1999 and three months ended March 31, 1999 and 2000, respectively.

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 and to conduct on-line advertising in the People's Republic of China. Though the People's Republic of China has, since 1978, implemented wide range 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 and this could have a material adverse effect on the Company's financial position, results of operations and cash flows.

12. Related Party Transactions

The Company has entered into an agreement whereby the Company provides internet advertising and promotional services to a preferred shareholder. The total amount of revenue recorded under agreements with this preferred shareholder was \$0, \$175, \$178, \$20 (unaudited) and \$36 (unaudited) for the three years ended December 31, 1997, 1998, 1999 and the three months ended March 31, 1999 and 2000, respectively. As of December 31, 1998 and 1999 and March 31, 2000, \$158, \$37, \$0 (unaudited), respectively, were included in Accounts receivable--related parties related to this arrangement.

During 1999, in connection with a warrant issued by the Company to purchase 81,798 shares of common stock at an exercise price of \$6.1126 per share, one of the Company's preferred shareholders arranged for certain of its affiliates to provide certain professional and managerial services to the Company. The estimated fair value of such expenses, amounting to approximately \$60 for the year ended December 31, 1999, has been credited to additional paid-in capital. As of December 31, 1999 and March 31, 2000 (unaudited) this warrant remains outstanding.

Pursuant to a one-year agreement that commenced in December 1999, the Company has provided a link from its website to a related party's website. In addition, the related party provides internet content on an updated daily basis to the Company's website. The link allows for certain news and other informational content to be made available to users of the Company's internet portal site, with revenues generated from advertising placed in conjunction with the service to be allocated between both parties on a contractually agreed basis. For the year ended December 31, 1999 and the three months ended March 31, 2000, the Company has recognized expense of \$16, \$0 and \$4 (unaudited), respectively, as a result of this collaborative arrangement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

13. Income Taxes

The Company is subject to taxes in both the United States and the People's Republic of China. The Company's subsidiary in China is governed by the Income Tax Law of the People's Republic of China concerning Foreign Investment Enterprises and Foreign Enterprises and various local income tax laws (the "PRC Income Tax Law"). Pursuant to the PRC Income Tax Law, wholly-owned foreign enterprises are subject to income tax at a statutory rate of 33% (30% State income tax plus 3% local income tax) on PRC taxable income. The Company is in a loss position in both the U.S. and China. No provision or benefit for income taxes have been provided in any periods. The following is a reconciliation between the U.S. federal statutory rate and the Company's effective tax rate:

	December 31,		
	1997	1998	1999
U.S. federal statutory rate:	(34)%	(34)%	(34)%
Foreign tax difference from U.S. rate.....	1	1	1
Permanent book-tax differences.....	--	10	8
Valuation allowance for deferred tax assets.....	33	23	25
	0 %	0 %	0 %
	===	===	===

Significant components of the Company's deferred tax assets and liabilities consist of the following:

	December 31,	
	1998	1999
Deferred tax assets:		
Net operating loss carry forwards.....	\$ 59	\$ 1,196
Other book-tax basis differences.....	12	25
Total deferred tax assets.....	71	1,221
Valuation allowance.....	(71)	(1,190)
	--	31
Deferred tax liabilities:		
Capitalized expenses.....	--	(31)
	\$ --	\$ --
	=====	=====

The Company has provided a full valuation allowance against deferred tax assets due to the uncertainty surrounding their realization.

As of December 31, 1999, the Company had federal net operating loss ("NOL") and Chinese NOL of approximately \$689 and \$2,915, respectively, available to offset future federal and Chinese income tax liabilities, respectively. The U.S. NOL will expire from 2012 to 2020 and the Chinese NOL will expire from 2002 to 2004.

14. Financial Instruments

The carrying amount of the Company's cash and cash equivalents approximates their fair value due to the short maturity of those instruments. The carrying value of receivables and payables approximated their market values based on their short-term maturities. The fair value of related party receivables and payables is not readily determinable due to the related party nature of the accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

15. Stock Options

The Company has adopted a share option plan, which provides for the issuance of up to 900,000 shares of common stock. The share option plan allows for the grant of incentive share options qualified within the meaning of Section 422 of the U.S. Internal Revenue Code of 1986 and non-qualified share options, which do not so qualify.

The Company has reserved 900,000 shares of Common Stock for issuance under the Company's Stock Option Plan and at December 31, 1999 and March 31, 2000, 539,043 and 412,043 (unaudited) options, respectively, were available for grant under the plan.

The following table summarizes the Company's stock option activity:

	Year Ended December 31,						Three Months Ended March 31,	
	1997		1998		1999		2000	
	Options Outstanding	Weighted Average Exercise Price (\$)	Options Outstanding	Weighted Average Exercise Price (\$)	Options Outstanding	Weighted Average Exercise Price (\$)	Options Outstanding	Weighted Average Exercise Price (\$)
Outstanding at beginning of Period.....	127,190	\$0.10	127,190	\$0.10	80,940	\$0.10	395,647	\$5.97
Granted.....	--	--	--	--	366,299	6.46	127,000	15.00
Exercised.....	--	--	(46,250)	0.10	(46,250)	0.10	--	--
Cancelled.....	--	--	--	--	(5,342)	1.00	--	--
Outstanding at period end.....	127,190	\$0.10	80,940	\$0.10	395,647	\$5.97	522,647	\$8.17

(unaudited)

Range of Exercise Prices	Options Outstanding at December 31, 1999			Options Exercisable at December 31, 1999		
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)	Number outstanding	Weighted Average Exercise Price (\$)	
\$0.10	34,690	6.68	\$ 0.10	34,690	\$ 0.10	
\$1.00	62,158	9.45	\$ 1.00	28,935	\$ 1.00	
\$4.70	130,349	9.39	\$ 4.70	13,392	\$ 4.70	
\$10.00	168,450	9.95	\$10.00	--	\$10.00	

Range of Exercise Prices	Options Outstanding at March 31, 2000			Options Exercisable at March 31, 2000		
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price (\$)	Number outstanding	Weighted Average Exercise Price (\$)	
\$0.10	34,690	6.44	\$ 0.10	34,690	\$ 0.10	
\$1.00	62,158	9.21	\$ 1.00	31,643	\$ 1.00	
\$4.70	130,349	9.14	\$ 4.70	53,485	\$ 4.70	
\$10.00	168,450	9.70	\$10.00	11,986	\$10.00	
\$15.00	127,000	9.82	\$15.00	6,342	\$15.00	

(unaudited)

\$0.10	34,690	6.44	\$ 0.10	34,690	\$ 0.10
\$1.00	62,158	9.21	\$ 1.00	31,643	\$ 1.00
\$4.70	130,349	9.14	\$ 4.70	53,485	\$ 4.70
\$10.00	168,450	9.70	\$10.00	11,986	\$10.00
\$15.00	127,000	9.82	\$15.00	6,342	\$15.00

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

Stock-based compensation. In connection with certain stock option grants during the year ended December 31, 1999 and the three months ended March 31, 1999 and 2000, the Company recognized deferred stock compensation totalling \$67, \$0 (unaudited) and \$1,178 (unaudited), respectively, which is being amortized over the vesting periods of the related options, which generally range from two to four years. Compensation expense recognized during the year ended December 31, 1999 and the three months ended March 31, 1999 and 2000 totaled \$46, \$0 (unaudited) and \$129 (unaudited), respectively.

Minimum value disclosures. The Company calculated the minimum value of stock option grants on the date of grant using the Black-Scholes pricing method with the following assumptions:

	Year Ended December 31, 1999 -----
Risk-free interest rate.....	4.96%-5.37%
Expected life (years).....	1-4
Expected dividend yield.....	--
Volatility.....	--
Weighted average grant date fair value of options granted during the period.....	\$0.23-\$0.79

Had compensation cost for the Company's stock-based compensation plan been determined based on the fair value at the grant dates for the stock option awards as prescribed by SFAS No. 123, the Company's net loss per share would have resulted in the pro forma amounts disclosed below:

	Year Ended December 31, 1999 -----
Net loss attributable to common shareholders:	
As reported.....	\$(4,366)
Pro forma.....	\$(4,388)
Net loss per share, basic and diluted:	
As reported.....	\$ (1.22)
Pro forma.....	\$ (1.22)

The effects of applying SFAS No. 123 methodology in this pro forma disclosure may not be indicative of future amounts. Additional stock option awards in future years are expected.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)
(Amounts in thousands of US dollars, except number of shares and per share data)

16. Net Loss Per Share

Net loss per share. The following table sets forth the computation of basic and diluted net loss per share for the periods indicated:

	Year Ended December 31,			Three Months Ended March 31,	
	1997	1998	1999	1999	2000

	(unaudited)				
Numerator:					
Net loss.....	\$ (160)	\$ (615)	\$ (3,449)	\$ (276)	\$ (2,464)
Accretion of Series B and C Mandatorily Redeemable Preferred Stocks to redemption value.....	--	(244)	(917)	(114)	(1,559)
	-----	-----	-----	-----	-----
Net loss attributable to common shareholders.....	\$ (160)	\$ (859)	\$ (4,366)	\$ (390)	\$ (4,023)
	=====	=====	=====	=====	=====
Denominator:					
Shares used in computing basic and diluted net loss per share (in thousands).....	3,500	3,564	3,588	3,564	3,621
	=====	=====	=====	=====	=====
Basic and diluted net loss per share attributable to common shareholders.....	\$ (0.05)	\$ (0.24)	\$ (1.22)	\$ (0.11)	\$ (1.11)
	=====	=====	=====	=====	=====
Antidilutive securities including options, warrants, and preferred shares not included in net loss per shares calculation (in thousands)...	1,239	3,005	4,931	4,433	6,210
	=====	=====	=====	=====	=====

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

(Amounts in thousands of US dollars, except number of shares and per share data)

Pro forma net loss per share (unaudited) Pro forma basic and diluted net loss per share is computed using the weighted average number of shares of common stock outstanding, including the pro forma effects, on an as-if-converted basis, of the automatic conversion of Series B, C and D Mandatorily Redeemable Preferred Stocks and Series A Preferred Stock into shares of common stock effective upon the closing of an initial public offering by the Company if and when the aggregate proceeds from the Offering are not less than \$20,000 and with a price to the public of at least \$38.576 per share. Common stock equivalent shares, composed of shares of common stock issuable upon the exercise of stock options and warrants, are not included in pro forma diluted net loss per share as this would reduce the net loss per share. The following table sets forth the computation of pro forma basic and diluted net loss per share for the year ended December 31, 1999 and three months ended March 31, 2000 (unaudited):

	Pro Forma Year ended December 31, 1999	Pro Forma Three Month Ended	
		March 31, 1999	March 31, 2000
Numerator:			
Net loss.....	\$(3,449)	\$(276)	\$(2,464)
	=====	=====	=====
Denominator:			
Shares used in computing basic and diluted net loss per share.....	3,588	3,564	3,621
Adjustment to reflect assumed conversion of all preferred stock to common stock from date of issuance.....	4,726	4361	5,841
	-----	-----	-----
Shares used in computing pro forma basic and diluted net loss per share.....	8,314	7,925	9,462
	-----	-----	-----
Basic and diluted pro forma net loss per share...	\$(0.41)	\$(0.03)	\$(0.26)
	=====	=====	=====
Antidilutive securities including options and warrants not included in pro forma net loss per share calculation.....	205	72	369
	=====	=====	=====

17. Subsequent Events

During May 2000, the Company entered into certain agreements with Beijing Sohu Online Internet Information Services, Ltd. ("Beijing Sohu"), a PRC company that is owned by a major shareholder of the Company and an employee of the Company. 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.

As part of these agreements, the Company will sell certain computer equipment to Beijing Sohu for an amount equal to the net book value of the equipment, which is estimated to be approximately RMB 740 and is payable six months after the transfer date. The Company also extended loans in the amount of \$219 to the shareholders of Beijing Sohu in order to finance their equity investment in Beijing Sohu. The loans are secured by their shares of Beijing Sohu, bears no interest and are due in full at the end of ten years.

The Company's PRC subsidiary has also entered into an option agreement giving it the right, at any time, subject to PRC law, to purchase the entire ownership in Beijing Sohu of the two Beijing Sohu shareholders for RMB 2,000.

[Inside back cover --

- (1) Heading "Sohu -- The Search Fox, Opening up China to the Internet" followed by four footprints of a fox. Beside each footprint is one of four elements of the Sohu.com solution -- "Mainland China Focus", "Pure Portal Play", "Dominant Brand Presence" and "Proven Organic Growth".
- (2) Background -- The tail of the "Search Fox".]

[LOGO]

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the estimated expenses, other than the underwriting discounts and commission, payable by the Registrant in connection with the offering described in the Registration Statement (all amounts are estimated except the SEC registration fee):

Securities and Exchange Commission registration fee.....	\$ 22,770
National Association of Securities Dealers, Inc. filing fee.....	9,125
NASDAQ listing fee.....	*
Printing costs.....	*
Legal fees and expenses.....	*
Accounting fees and expenses.....	*
Transfer agent's fees and expenses.....	*
Miscellaneous.....	*

Total Expenses.....	\$ *
	=====

- - - - -
 * To be provided by amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law (the "DGCL") makes provision for the indemnification of officers and directors of corporations in terms sufficiently broad to indemnify the officers and directors of the Registrant under certain circumstances from liabilities (including reimbursement of expenses incurred) arising under the Securities Act of 1933, as amended (the "Securities Act").

As permitted by the DGCL, the Registrant's Certificate of Incorporation (the "Charter") provides that, to the fullest extent permitted by the DGCL, no director shall be liable to the registrant or to its stockholders for monetary damages for breach of his fiduciary duty as a director. Delaware law does not permit the elimination of liability (i) for any breach of the director's duty of loyalty to the registrant or its stockholders, (ii) for acts or missions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) in respect of certain unlawful dividend payments or stock redemptions or repurchases or (iv) for any transaction from which the director derives an improper personal benefit. The effect of this provision in the Charter is to eliminate the rights of the Registrant and its stockholders (through stockholders' derivatives suits on behalf of the Registrant) to recover monetary damages against a director for breach of fiduciary duty as a director thereof (including breaches resulting from negligent or grossly negligent behavior) except in the situations described in clauses (i) through (iv), inclusive, above. These provisions will not alter the liability of directors under the federal securities laws.

The Registrant's Bylaws (the "Bylaws") provide that the Registrant may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Registrant) by reason of the fact that he is or was a director, officer, employee or agent of the Registrant or is or was serving at the request of the Registrant as a director, officer, employee or agent of any other corporation or enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Registrant, and, with respect to any criminal action or proceeding, had no reasonable cause to believe such person's conduct was unlawful.

The Bylaws also provide that the Registrant may indemnify any person who was or is a party of is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Registrant to procure judgment in its favor by reason of the fact that such person acted in any of the capacities set forth above, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted under similar standards, except that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Registrant unless and only to the extent that the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine that despite the adjudication of liability, but in view of all the circumstances of the case, such person is fairly and reasonably entitled to be indemnified for such expenses which the Court of Chancery of the State of Delaware or the court in which such action was brought shall deem proper.

The Bylaws also provide that to the extent a director or officer of the Registrant has been successful in the defense of any action, suit or proceeding referred to in the previous paragraphs or in the defense of any claim, issue, or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith; that indemnification provided for in the Bylaws shall not be deemed exclusive of any other rights to which the indemnified party may be entitled; and that the Registrant may purchase and maintain insurance on behalf of a director or officer of the registrant against any liability asserted against him or incurred by him in any such capacity or arising out of his status as such whether or not the Registrant would have the power to indemnify him against such liabilities under such Bylaws.

Item 15. Recent Sales of Unregistered Securities

The Registrant has not issued or sold securities within the past three years pursuant to offerings that were not registered under the Securities Act of 1933, as amended, except as follows (all share numbers give effect to a five-for-one stock split which became effective October 15, 1999):

(a) On August 3, 1996, the Registrant sold 3,500,000 shares of its common stock to Charles Zhang for an aggregate of \$8,207.98.

(b) On October 11, 1996, the Registrant sold 375,000 shares of its Series A convertible preferred stock to Edward Roberts for an aggregate of \$75,000.

(c) On October 11, 1996, the Registrant sold 375,000 shares of its Series A convertible preferred stock to Brant Binder for an aggregate of \$75,000.

(d) On November 20, 1996, the Registrant sold 100,000 shares of its Series A convertible preferred stock to Nicholas Negroponte for an aggregate of \$20,000.

(e) On February 2, 1997, the Registrant sold 250,000 shares of its Series A convertible preferred stock to Nicholas Negroponte for an aggregate of \$50,000.

(f) On April 16, 1997, the Registrant sold 20,000 shares of its Series A convertible preferred stock to Nicholas Negroponte for an aggregate of \$5,000.

(g) On March 10, 1998, the Registrant sold 96,655 shares of its Series B convertible preferred stock to Kummell Investments Limited for an aggregate of \$100,000. These shares were subsequently transferred to Maxtech Enterprises Limited.

(h) On March 10, 1998, the Registrant sold 773,250 shares of its Series B convertible preferred stock to Intel Corporation for an aggregate of \$400,000.

(i) On March 10, 1998, the Registrant sold 96,655 shares of its Series B convertible preferred stock to Harrison Enterprises, Inc. for an aggregate of \$100,000.

(j) On March 10, 1998, the Registrant sold 190,000 shares of its Series B convertible preferred stock to PTV-China, Inc. for an aggregate of \$50,000.

(k) On March 10, 1998, the Registrant sold 579,935 shares of its Series B convertible preferred stock to Kummell Investments Limited for an aggregate of \$600,000. These shares were subsequently transferred to Maxtech Enterprises Limited.

(l) On March 23, 1998, the Registrant sold 63,595 shares of its common stock to Edward Roberts for an aggregate of \$8,094.

(m) On August 18, 1998, the Registrant sold 338,295 shares of its Series B-1 convertible preferred stock to Dow Jones & Company for an aggregate of \$350,000.

(n) On February 11, 1999, the Registrant sold 11,565 shares of its common stock to Brant Binder for an aggregate of \$2,313.

(o) On August 5, 1999, the Registrant sold 23,125 shares of its common stock to Edward Roberts for an aggregate of \$2,313.

(p) On September , 1999, the Registrant sold 2,415 shares of its common stock to Theodore Mason for an aggregate of \$2,498.56.

(q) On September 6, 1999, the Registrant sold 23,125 shares of its common stock to Edward Roberts for an aggregate of \$2,313.

(r) On October 18, 1999, the Registrant sold 1,318,588 shares of its Series C convertible preferred stock to Kummell Investments Limited for an aggregate of \$6,200,000. These shares were subsequently transferred to Maxtech Enterprises Limited.

(s) On October 18, 1999, the Registrant sold 31,902 shares of its Series C convertible preferred stock to The Roberts Family Trust, for which Edward Roberts is the trustee, for an aggregate of \$150,000.

(t) On October 18, 1999, the Registrant sold 31,902 shares of its Series C convertible preferred stock to Brant Binder for an aggregate of \$150,000.

(u) On October 18, 1999, the Registrant sold 31,902 shares of its Series C convertible preferred stock to Nicholas Negroponte for an aggregate of \$150,000.

(v) On October 18, 1999, the Registrant sold 65,213 shares of its Series C convertible preferred stock to PTV-China, Inc. for an aggregate of \$306,632.

(w) On January 29, 2000, the Registrant sold 129,615 shares of its Series D convertible preferred stock to Hikari Tsushin, Inc. for an aggregate of \$5,000,000.

(x) On January 29, 2000, the Registrant sold 129,615 shares of its Series D convertible preferred stock to Legend New-Tech Investment Limited for an aggregate of \$5,000,000.

(y) On January 29, 2000, the Registrant sold 259,229 shares of its Series D convertible preferred stock to Internet Creations Limited for an aggregate of \$10,000,000.

(z) On February 2, 2000, the Registrant sold 259,229 shares of its Series D convertible preferred shares to Internet Creations Limited for an aggregate of \$10,000,000.

The transactions set forth above were undertaken in reliance upon the exemptions from the registration requirements of the Securities Act afforded by (i) Section 4(2) thereof and/or Regulation D promulgated thereunder, as sales not involving a public offering, and/or (ii) Regulation S promulgated thereunder, as sales by an issuer in offshore transactions to non-U.S. persons (as defined in Regulation S). The purchasers of the securities described above acquired them for their own account not with a view to any distribution thereof to the public. The certificates evidencing the securities bear legends stating that the shares may not be offered, sold or transferred other than pursuant to an effective registration statement under the Securities Act or an exemption from such registration requirements.

Upon the closing of the Registrant's offering of common stock pursuant to this Registration Statement, all of the Registrant's outstanding shares of preferred stock will be converted into common stock.

Item 16. Exhibits and Financial Statement Schedules

(a) Exhibits.

Exhibit Number -----	Description -----
1.1	Form of U.S. Underwriting Agreement.**
3.1	Fourth Amended and Restated Certificate of Incorporation of Sohu.com Inc., as filed with the Delaware Secretary of State on February 1, 2000.
3.2	Bylaws of Sohu.com Inc.
3.3	Form of Fifth Amended and Restated Certificate of Incorporation of Sohu.com Inc., to be effective upon the closing of the offering.
3.4	Amended and Restated Bylaws of Sohu.com Inc., to be effective upon the closing of the offering.
4.1	Form of Specimen Certificate for the common stock.**
5.1	Opinion of Sullivan & Cromwell, United States counsel to the Registrant, as to the validity of the common stock.**
10.1	2000 Stock Incentive Plan.
10.2	Form of Stock Option Agreement.
10.3	Form of Non-Competition, Confidential Information and Work Product Agreement with the Registrant's Executive Officers.*
10.4	English Translation of Form of Employment Agreement for Employees of Beijing ITC. (refile)
10.5	Series B Preferred Stock Purchase Agreement.
10.6	Series B-1 Preferred Stock Purchase Agreement.
10.7	Series C Preferred Stock Purchase Agreement.
10.8	Series D Preferred Stock Purchase Agreement.*
10.9	Second Amended and Restated Stockholders' Voting Agreement.
10.10	Third Amended and Restated Investor Rights Agreement.*
10.11	Technical Services Agreement between Hikari Tsushin, Inc. and Sohu ITC Information Technology (Beijing) Co. Ltd.+*
10.12	Technical Services Agreement between Legend (Beijing) Limited and Sohu ITC Information Technology (Beijing) Co. Ltd. +*
10.13	Technical Services Agreement between PCCW International Marketing Limited and Sohu ITC Information Technology (Beijing) Co. Ltd.+*
10.15	Cooperation Agreement between Sohu ITC Information Technology (Beijing) Co. Ltd. and Beijing Sohu Online Internet Services, Ltd.**
10.14	Assets and Business Restructuring Agreement between Sohu ITC Information Technology (Beijing) Co. Ltd. and Beijing Sohu Online Internet Services, Ltd.**
10.16	Option Agreement between Sohu ITC Information Technology (Beijing) Co. Ltd. and Beijing Sohu Online Internet Services, Ltd.**
10.17	Loan Agreement between Sohu.com Inc. and Charles Zhang.**
10.18	Loan Agreement between Sohu.com Inc. and Jinmei He.**
11.1	Statement Regarding Computation of Per Share Earnings.*
21.1	Subsidiaries of the Registrant.*
23.1	Consent of Sullivan & Cromwell.
23.2	Consent of TransAsia Lawyers.
23.3	Consent of PricewaterhouseCoopers.
24.1	Powers of attorney are set forth under "Signatures" in this Part II of the Registration Statement.*
24.2	Additional powers of attorney.
27.1	Financial Data Schedule.*

* Previously filed.

** To be filed by amendment

+ Contains portions for which confidential treatment has been requested.

(b) Financial Statement Schedules.

Not applicable.

Item 17. Undertakings

(a) The undersigned Registrant hereby undertakes to provide to the U.S. underwriters at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the U.S. underwriters to permit prompt delivery to each purchaser.

(b) The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the provisions described in Item 14, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than payment by a registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question of whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Beijing, China, on May 26, 2000.

Sohu.com Inc.

/s/ Thomas Gurnee

By: _____

Name: Thomas Gurnee

Title: Senior Vice President,
Finance and Chief Financial
Officer

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement has been signed by the following persons on May 26, 2000, in the capacities indicated.

Signature

Title

/s/ Charles Zhang

Chairman of the Board, President
and Chief Executive Officer

Charles Zhang

*

Director

Edward Roberts

*

Director

James McGregor

*

Director

George Chang

*

Director

Mary Ma

/s/ Thomas Gurnee

Chief Financial Officer

Thomas Gurnee

*

Controller

Min Yang

/s/ Thomas Gurnee

*By: _____

Thomas Gurnee

Attorney-in-Fact

Exhibits

Exhibit Number -----	Description -----
1.1	Form of U.S. Underwriting Agreement.**
3.1	Fourth Amended and Restated Certificate of Incorporation of Sohu.com Inc., as filed with the Delaware Secretary of State on February 1, 2000.
3.2	Bylaws of Sohu.com Inc.
3.3	Form of Fifth Amended and Restated Certificate of Incorporation of Sohu.com Inc., to be effective upon the closing of the offering.
3.4	Amended and Restated Bylaws of Sohu.com Inc., to be effective upon the closing of the offering.
4.1	Form of Specimen Certificate for the common stock.**
5.1	Opinion of Sullivan & Cromwell, United States counsel to the Registrant, as to the validity of the common stock.**
10.1	2000 Stock Incentive Plan.
10.2	Form of Stock Option Agreement.
10.3	Form of Non-Competition, Confidential Information and Work Product Agreement with the Registrant's Executive Officers.*
10.4	English Translation of Form of Employment Agreement for Employees of Beijing ITC. (refile)
10.5	Series B Preferred Stock Purchase Agreement.
10.6	Series B-1 Preferred Stock Purchase Agreement.
10.7	Series C Preferred Stock Purchase Agreement.
10.8	Series D Preferred Stock Purchase Agreement.*
10.9	Second Amended and Restated Stockholders' Voting Agreement.
10.10	Third Amended and Restated Investor Rights Agreement.*
10.11	Technical Services Agreement between Hikari Tsushin, Inc. and Sohu ITC Information Technology (Beijing) Co. Ltd.+*
10.12	Technical Services Agreement between Legend (Beijing) Limited and Sohu ITC Information Technology (Beijing) Co. Ltd. +*
10.13	Technical Services Agreement between PCCW International Marketing Limited and Sohu ITC Information Technology (Beijing) Co. Ltd.+*
10.15	Cooperation Agreement between Sohu ITC Information Technology (Beijing) Co. Ltd. and Beijing Sohu Online Internet Services, Ltd.**
10.14	Assets and Business Restructuring Agreement between Sohu ITC Information Technology (Beijing) Co. Ltd. and Beijing Sohu Online Internet Services, Ltd.**
10.16	Option Agreement between Sohu ITC Information Technology (Beijing) Co. Ltd. and Beijing Sohu Online Internet Services, Ltd.**
10.17	Loan Agreement between Sohu.com Inc. and Charles Zhang.**
10.18	Loan Agreement between Sohu.com Inc. and Jinmei He.**
11.1	Statement Regarding Computation of Per Share Earnings.*
21.1	Subsidiaries of the Registrant.*
23.1	Consent of Sullivan & Cromwell.
23.2	Consent of TransAsia Lawyers.
23.3	Consent of PricewaterhouseCoopers.
24.1	Powers of attorney are set forth under "Signatures" in this Part II of the Registration Statement.*
24.2	Additional powers of attorney.
27.1	Financial Data Schedule.*

* Previously filed.

** To be filed by amendment

+ Contains portions for which confidential treatment has been requested.

FOURTH AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
SOHU.COM INC.

Sohu.com Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

A. The name of the Corporation is Sohu.com Inc. The date of the filing of its original Certificate of Incorporation (the "Original Certificate of Incorporation") with the Secretary of State of the State of Delaware was August 2, 1996, under the name of Internet Technologies China Incorporated. The Original Certificate of Incorporation was amended and restated on March 10, 1998, subsequently amended and restated on August 7, 1998, amended on September 28, 1999, and amended and restated on October 15, 1999 (the "Third Amended and Restated Certificate of Incorporation").

B. This Fourth Amended and Restated Certificate of Incorporation (the "Certificate"), which amends, restates and integrates the provisions of the Third Amended and Restated Certificate of Incorporation, as amended to date, was duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Sections 141(f), 242 and 245 of the General Corporation Law of the State of Delaware, as amended from time to time (the "DGCL"), and was duly adopted by the written consent of the stockholders of the Corporation in accordance with the applicable provisions of Sections 228, 242 and 245 of the DGCL.

C. The text of the Third Amended and Restated Certificate of Incorporation, as amended to date, is hereby amended and restated in its entirety to provide as herein set forth in full.

ARTICLE I

The name of this corporation (the "Corporation") is Sohu.com Inc..

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent at such address is The Corporation Trust Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware.

ARTICLE IV

A. Number of Shares and Classes of Stock. The Corporation is authorized

to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares of stock which the Corporation shall have authority to issue is Seventeen Million One Hundred Thousand (17,100,000) shares, consisting of Eleven Million Five Hundred Thousand (11,500,000) shares of Common Stock, \$0.001 par value per share, and Five Million Six Hundred Thousand (5,600,000) shares of Preferred Stock, \$0.001 par value per share.

B. Rights, Preferences, Privileges and Restrictions of Preferred Stock.

The rights, preferences, privileges and restrictions of the Preferred Stock are as set forth below in this Article IV.B. The Series A Convertible Preferred Stock shall consist of One Million One Hundred Twenty-Five Thousand (1,125,000) shares (the "Series A Preferred"), the Series B Convertible Preferred Stock shall consist of One Million Seven Hundred Thirty-Eight Thousand Nine Hundred Ten (1,738,910) shares (the "Series B Preferred"), the Series B-1 Convertible Preferred Stock shall consist of Three Hundred Thirty-Eight Thousand Two Hundred Ninety-Five (338,295) shares (the "Series B-1 Preferred"), the Series C Convertible Preferred Stock shall consist of One Million Four Hundred Seventy-Nine Thousand Five Hundred Seven (1,479,507) shares (the "Series C Preferred") and the Series D Convertible Preferred Stock shall consist of Seven Hundred Seventy-Seven Thousand Six Hundred Eighty-Eight (777,688) shares (the "Series D Preferred").

1. Dividends.

(a) No dividends, whether in cash, in property or in shares of the capital stock of the Corporation, shall be declared or set aside for any class or series of shares of capital stock of the Corporation unless and until the Board of Directors of the Corporation (the "Board") shall have declared and the Corporation shall have paid in full a dividend in like amount and kind on the then outstanding shares of Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred (determined based upon the number of shares of Common Stock (including fractions of a share) into which each share of Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred held by each holder thereof could be converted pursuant to the provisions hereof).

(b) No dividends, whether in cash, in property or in shares of the capital stock of the Corporation, shall be declared or set aside for any shares of Series A Preferred unless the Board shall declare a dividend on the then outstanding shares of Common Stock, in which event the holders of Series A Preferred shall be entitled to the amount of dividends per share of Series A Preferred as would be declared payable on the largest number of shares of Common Stock (including fractions of a share) into which each share of Series A Preferred held by each holder hereof could be converted pursuant to the provisions hereof, such number determined as of the record date for the determination of holders of Common Stock and Series A Preferred entitled to receive such dividend.

2. Liquidation Preference. In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, distributions to the stockholders of the Corporation shall be made in the following manner:

(a) The holders of the Series B Preferred and the holders of the Series B-1 Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Common Stock or any other series of Preferred Stock by reason of their ownership of such stock, (i) an amount equal to \$1.0346 (subject to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation) for each share of Series B Preferred or Series B-1 Preferred then held by them and (ii), an amount equal to all declared but unpaid dividends on the Series B Preferred or Series B-1 Preferred, as the case may be. If upon the occurrence of a liquidation, dissolution or winding up of the Corporation the assets and funds thus distributed among the holders of the Series B Preferred and Series B-1 Preferred shall be insufficient to permit the payment to such holders of the full preferential amount, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series B Preferred and the holders of the Series B-1 Preferred in proportion to the preferential amount each such holder is otherwise entitled to receive in accordance with the preceding sentence.

(b) After setting apart or paying in full the preferential amounts due pursuant to Subsection 2(a) above, the holders of the Series A Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Common Stock or to the holders of the Series B Preferred and Series B-1 Preferred under Subsection 2(c) by reason of their ownership of such stock, an amount equal to \$0.20 (subject to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation) for each share of Series A Preferred then held by them and, in addition, an amount equal to all declared but unpaid dividends on the Series A Preferred. If upon the occurrence of a liquidation, dissolution or winding up of the Corporation the assets and funds thus distributed among the holders of the Series A Preferred shall be insufficient to permit the payment to such holders of the full preferential amount, then the entire assets and funds of the Corporation legally available for distribution (after the payments required under Subsection 2(a) have been made) shall be distributed ratably among the holders of the Series A Preferred in proportion to the preferential amount each such holder is otherwise entitled to receive.

(c) After setting apart or paying in full the preferential amounts due pursuant to Subsections 2(a) and 2(b) above, the holders of the Series B Preferred and the holders of the Series B-1 Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Common Stock by reason of their ownership of such stock, an amount equal to \$0.5173 (subject to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation) for each share of Series B Preferred or Series B-1 Preferred then held by them. If

upon the occurrence of a liquidation, dissolution or winding up of the Corporation the assets and funds thus distributed among the holders of the Series B Preferred and the holders of the Series B-1 Preferred shall be insufficient to permit the payment to such holders of the full preferential amount, then the entire assets and funds of the Corporation legally available for distribution (after the payments required under Subsections 2(a) and 2(b) have been made) shall be distributed ratably among the holders of the Series B Preferred and the holders of the Series B-1 Preferred in proportion to the preferential amount each such holder is otherwise entitled to receive.

(d) After setting apart or paying in full the preferential amounts due pursuant to Subsections 2(a), 2(b) and 2(c) above, the holders of the Series C Preferred and the holders of the Series D Preferred shall be entitled to receive, prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of the Common Stock or any other series of Preferred Stock by reason of their ownership of such stock, (i) an amount equal to \$4.702, in the case of Series C Preferred, or \$38.576, in the case of Series D Preferred, (subject in each case to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation) for each share of Series C Preferred or Series D Preferred then held by them and (ii) an amount equal to all declared but unpaid dividends on the Series C Preferred or Series D Preferred, as the case may be. If upon the occurrence of a liquidation, dissolution or winding up of the Corporation the assets and funds thus distributed among the holders of the Series C Preferred and Series D Preferred shall be insufficient to permit the payment to such holders of the full preferential amount, then the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably among the holders of the Series C Preferred and the holders of the Series D Preferred in proportion to the preferential amount each such holder is otherwise entitled to receive in accordance with the preceding sentence.

(e) After setting apart or paying in full the preferential amounts due pursuant to Subsections 2(a), 2(b), 2(c) and 2(d) above, the remaining assets of the Corporation available for distribution to stockholders, if any, shall be distributed to the holders of the Common Stock on a pro rata basis, based on the number of shares of Common Stock then held by each holder.

(f) A consolidation or merger of this Corporation with or into any other corporation or corporations in which the shareholders of the Corporation immediately prior to such transaction own 50% or less of the voting power of the surviving entity immediately following such transaction, or a sale, conveyance or disposition of all or substantially all of the assets of this Corporation, or the effectuation by the Corporation of a transaction or series of related transactions in which more than 50% of the voting power of the Corporation is disposed of (each, a "Liquidity Event"), shall be deemed to be a liquidation, dissolution or winding up within the meaning of this Section 2.

(g) In the event the Corporation proposes to distribute assets other than cash in connection with any liquidation, dissolution or winding up of the Corporation, the value of the assets to be distributed to the holder of shares of Preferred Stock and Common Stock shall be

determined in good faith by the Board. Any securities not subject to investment letter or similar restrictions on free marketability shall be valued as follows:

(i) If traded on a securities exchange or quoted on the Nasdaq National Market, the value shall be deemed to be the average of the security's closing prices on such exchange over the ten (10) day period ending one (1) day prior to the distribution;

(ii) If quoted on the Nasdaq Small Cap Market or actively traded over-the-counter, the value shall be deemed to be the average of the closing bid prices over the thirty (30) day period ending three (3) days prior to the distribution; and

(iii) If there is no active public market, the value shall be the fair market value thereof as determined in good faith by the Board.

The method of valuation of securities subject to investment letter or other restrictions on free marketability shall be adjusted to make an appropriate discount from the market value determined as above in clauses (i), (ii) or (iii) to reflect the fair market value thereof as determined in good faith by the Board. The holders of at least a majority of the outstanding Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred, voting together as a single class, shall have the right to challenge any determination by the Board of fair market value pursuant to this Section 2(g), in which case the determination of fair market value shall be made by an independent appraiser selected jointly by the Board and the challenging parties, the cost of such appraisal to be borne equally by the Corporation and the challenging parties.

3. Voting Rights.

(a) General Voting Rights. Except as otherwise required by law or as set forth herein, the holder of each share of Common Stock issued and outstanding shall have one vote for each share of Common Stock held by such holder, and the holder of each share of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred shall be entitled to the number of votes equal to the number of shares of Common Stock into which such share could be converted at the record date for determination of the stockholders entitled to vote on such matters, or, if no such record date is established, at the date such vote is taken or any written consent of stockholders is solicited, such votes to be counted together with all other shares of stock of the Corporation having general voting power and not counted separately as a class. Holders of Common Stock, Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred shall be entitled to notice of any stockholders' meeting in accordance with the Bylaws of the Corporation.

(b) Series B Right to Elect Two Directors. So long as at least 625,000 shares of Series B Preferred (subject to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation) are issued and outstanding, the holders of Series B Preferred, voting together as a separate class, shall have the right to elect two

members of the Board, each by majority vote. Each representative may be removed from the Board only by the majority vote of the Series B Preferred.

(c) Series B-1 Right to Elect One Director. So long as at least 250,000 shares of Series B-1 Preferred (subject to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation) are issued and outstanding, the holders of Series B-1 Preferred, voting together as a separate class, shall have the right to elect one member of the Board, by majority vote. Such representative may be removed from the Board only by the majority vote of the Series B-1 Preferred.

(d) All other members of the Board shall be elected by the holders of Common Stock, Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred voting together as a class in accordance with Subsection 3(a).

4. Conversion. The holders of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred have conversion rights as follows (the "Conversion Rights"):

(a) Right to Convert Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred. Each share of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred shall be convertible, at the option of the holder thereof, at any time after the date of issuance of such share at the office of the Corporation or any transfer agent for the Preferred Stock, into such number of fully paid and nonassessable shares of Common Stock as is determined, (i) in the case of the Series A Preferred, by dividing \$0.20 by the Series A Conversion Price, determined as hereinafter provided, in effect at the time of the conversion; (ii) in the case of the Series B Preferred, by dividing \$1.0346 by the Series B Conversion Price, determined as hereinafter provided, in effect at the time of the conversion; (iii) in the case of the Series B-1 Preferred, by dividing \$1.0346 by the Series B-1 Conversion Price, determined as hereinafter provided, in effect at the time of the conversion; (iv) in the case of the Series C Preferred, by dividing \$4.702 by the Series C Conversion Price, determined as hereinafter provided, in effect at the time of the conversion; and (v) in the case of the Series D Preferred, by dividing \$38.576 by the Series D Conversion Price, determined as hereinafter provided, in effect at the time of conversion. The price at which shares of Common Stock shall be deliverable upon conversion of the Series A Preferred (the "Series A Conversion Price") initially shall be \$0.20 per share of Common Stock, the price at which shares of Common Stock shall be deliverable upon conversion of the Series B Preferred (the "Series B Conversion Price") initially shall be \$1.0346 per share of Common Stock, the price at which shares of Common Stock shall be deliverable upon conversion of the Series B-1 Preferred (the "Series B-1 Conversion Price") initially shall be \$1.0346 per share of Common Stock, the price at which shares of Common Stock shall be deliverable upon conversion of the Series C Preferred (the "Series C Conversion Price") initially shall be \$4.702 per share of Common Stock and the price at which shares of Common Stock shall be deliverable upon conversion of the Series D Preferred (the "Series D Conversion Price") initially shall be \$38.576 per share of Common Stock. The Series A, Series B, Series B-1, Series C and Series D Conversion Prices shall be subject to adjustment as hereinafter provided.

Such rights of conversion shall be exercised by the holder thereof giving written notice that the holder elects to convert a stated number of shares of Preferred Stock into Common Stock and by surrender of a certificate or certificates for the shares so to be converted to the Corporation at its principal office (or such other office or agency of the Corporation as the Corporation may designate by notice in writing to the holders of Preferred Stock) at any time during its usual business hours on the date set forth in such notice, together with a statement of the name or names (with address and taxpayer identification number) in which the certificate or certificates for shares of Common Stock shall be issued.

(b) Automatic Conversion. If at any time the Corporation shall effect a firm commitment underwritten public offering of shares of Common Stock pursuant to an effective registration statement, covering the offer and sale of securities for the account of the Corporation to the public with aggregate gross proceeds to the Corporation of not less than Twenty Million Dollars (\$20,000,000) and with a price to the public of at least \$38.576 per share (subject to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation), then effective upon the closing of the sale of such shares by the Corporation pursuant to such public offering, all outstanding shares of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred shall convert automatically to shares of Common Stock in accordance with Subsection 4(a).

(c) Issuance of Certificates; Time Conversion Effected. Promptly after the receipt of the written notice referred to in Subsection 4(a) and surrender of the certificate or certificates for the share or shares of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred to be converted, the Corporation shall issue and deliver to the holder a certificate or certificates, registered in such name or names as such holder may direct, for the number of whole shares of Common Stock issuable upon the conversion of such share or shares of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred. Such conversion shall be deemed to have been effected and the Series A Conversion Price, Series B Conversion Price, Series B-1 Conversion Price, Series C Conversion Price or Series D Conversion Price (as applicable) shall be determined as of the close of business on the date on which such written notice shall have been received by the Corporation and the certificate or certificates for such share or shares shall have been surrendered as aforesaid, and at such time the rights of the holder of such share or shares of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred (as applicable) shall cease, and the person or persons in whose name or names any certificate or certificates for shares of Common Stock shall be issuable upon such conversion shall be deemed to have become the holder or holders of record of the shares represented thereby. Notwithstanding the foregoing, in the event of the automatic conversion of the Series A Preferred, Series B Preferred Series B-1 Preferred, Series C Preferred or Series D Preferred upon a public offering as set forth in Subsection 4(b), the person(s) entitled to receive the Common Stock issuable upon such conversion of Preferred Stock shall not be deemed to have converted such Preferred Stock until immediately prior to the closing of such sale of securities.

(d) Fractional Shares; Dividends; Partial Conversion. No fractional shares of Common Stock shall be issued upon conversion of Series A Preferred, Series B Preferred,

Series B-1 Preferred, Series C Preferred or Series D Preferred into Common Stock and no payment or adjustment shall be made upon any conversion on account of any cash dividends on the Common Stock issued upon such conversion, the record date for which dividends is prior to the date such conversion is deemed to be effective as provided in Subsection 4(c). In case the number of shares of Preferred Stock represented by the certificate or certificates surrendered pursuant to Subsection 4(a) exceeds the number of shares converted into Common Stock, the Corporation shall, upon such conversion, execute and deliver to the holder, at the expense of the Corporation, a new certificate or certificates for the number of shares of Series A Preferred, Series B Preferred Series B-1 Preferred, Series C Preferred or Series D Preferred (as applicable) represented by the certificate or certificates surrendered which are not to be converted. If any fractional share of Common Stock would, except for the provisions of the first sentence of this Subsection 4(d), be delivered upon such conversion, the Corporation, in lieu of delivering such fractional share, shall pay to the holder surrendering the Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred for conversion an amount in cash equal to the greater of (a) the then current value of such fractional share as determined pursuant to Subsection 2(g) and (b) the pro rata amount of the applicable Conversion Price of such fractional share.

(e) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock solely for the purpose of effecting the conversion of the shares of the Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred such number of its shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of the Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred, in addition to such other remedies as shall be available to the holders of Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(f) No Reissuance of Preferred Stock. Shares of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred which are converted into shares of Common Stock as provided herein shall not be reissued.

5. Adjustments to Conversion Price.

(a) Special Definitions. For purposes of this Section 5, the following definitions shall apply:

(i) "Options" mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Common Stock or Convertible Securities.

(ii) "Series A Original Issue Date" shall mean the date on which the first share of Series A Preferred was issued.

(iii) "Series B Original Issue Date" shall mean the date on which the first share of Series B Preferred was issued.

(iv) "Series B-1 Original Issue Date" shall mean and shall be deemed to be (solely for purposes of this Section 5) the date on which the first share of Series B Preferred was issued.

(v) "Series C Original Issue Date" shall mean and shall be deemed to be (solely for purposes of this Section 5) the date on which the first share of Series C Preferred was issued.

(vi) "Series D Original Issue Date" shall mean and shall be deemed to be (solely for purposes of this Section 5) the date on which the first share of Series D Preferred was issued.

(vii) "Original Issue Date" shall mean the Series A Original Issue Date, the Series B Original Issue Date, Series B-1 Original Issue Date, the Series C Original Issue Date or the Series D Original Issue Date, as applicable.

(viii) "Convertible Securities" shall mean any evidences of indebtedness, shares (other than Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred, Series D Preferred and Common Stock) or other securities directly or indirectly convertible into or exchangeable for Common Stock.

(ix) "Additional Shares of Common Stock" shall mean all shares (including reissued shares) of Common Stock issued (or, pursuant to Subsection 5(c), deemed to be issued) by the Corporation after the Original Issue Date, other than:

(A) shares of Common Stock issued upon conversion of the Series A Preferred, the Series B Preferred, the Series B-1 Preferred, the Series C Preferred and the Series D Preferred authorized herein;

(B) up to 600,000 (with respect to Series A Preferred, the Series B Preferred and the Series B-1 Preferred) and up to 900,000 (with respect to Series C Preferred and the Series D Preferred) shares of Common Stock (including any of such shares which are repurchased) issued to officers, directors, employees and consultants of the Corporation pursuant to stock option or purchase plans or agreements or other incentive stock arrangements approved by the Board of Directors;

(C) as a dividend or distribution on Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred or any event for which adjustment is made pursuant to Subsections 5(e), 5(f) or 5(g) hereof;

(D) up to 46,255 shares of Common Stock issued or issuable upon exercise of warrants issued in connection with the Corporation's bridge financing in December 1997; and

(E) up to 2,415 shares of Series B Preferred issued upon exercise of options granted to a finder in connection with a portion of the Corporation's Series B Preferred financing.

(b) No Adjustment of Conversion Price. No adjustment in the Series A Conversion Price shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Series A Conversion Price of such series in effect on the date of and immediately prior to such issue; no adjustment in the Series B Conversion Price shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Series B Conversion Price of such series in effect on the date of and immediately prior to such issue; no adjustment in the Series B-1 Conversion Price shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Series B-1 Conversion Price of such series in effect on the date of and immediately prior to such issue; and no adjustment in the Series C Conversion Price shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Series C Conversion Price of such series in effect on the date of and immediately prior to such issue; and no adjustment in the Series D Preferred Conversion Price shall be made in respect of the issuance of Additional Shares of Common Stock unless the consideration per share for an Additional Share of Common Stock issued or deemed to be issued by the Corporation is less than the Series D Conversion Price of such series in effect on the date of and immediately prior to such issue.

(c) Deemed Issue of Additional Shares of Common Stock. In the event the Corporation at any time or from time to time after the Original Issue Date for Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities entitled to receive any such Options or Convertible Securities, then the maximum number of shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for a subsequent adjustment of such number that would result in an adjustment pursuant to clause (ii) below) of Common Stock issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to paragraph 5(e) hereof) of such Additional Shares of Common Stock would be less than the Series A Conversion Price, Series B Conversion Price, Series B-1 Conversion Price, Series C Conversion Price or Series D Conversion Price (as applicable) in effect on the date of and immediately prior to such issue, or such record date, as the case may be, and provided further that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(i) no further adjustment in the Series A Conversion Price, Series B Conversion Price, Series B-1 Conversion Price, Series C Conversion Price or Series D Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(ii) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Corporation, or increase or decrease in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the Series A Conversion Price, the Series B Conversion Price, the Series B-1 Conversion Price, the Series C Conversion Price and the Series D Conversion Price (as applicable) computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities;

(iii) upon the expiration of any such Options or any rights of conversion or exchange under such Convertible Securities which shall not have been exercised, the Series A Conversion Price, the Series B Conversion Price, the Series B-1 Conversion Price, the Series C Conversion Price and the Series D Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration, be recomputed as if:

(A) in the case of Convertible Securities or Options for Common Stock, the only Additional Shares of Common Stock issued were shares of Common Stock, if any, actually issued upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration actually received by the Corporation upon such exercise, or for the issue of all such Convertible Securities which were actually converted or exchanged, plus the additional consideration, if any, actually received by the Corporation upon such conversion or exchange, and

(B) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued upon the exercise thereof were issued at the time of issue of such Options, and the consideration received by the Corporation for the Additional Shares of Common Stock deemed to have been then issued was the consideration actually received by the Corporation for the issue of all such Options, whether or not exercised, plus the consideration deemed to have been received by the Corporation upon the issue of the Convertible Securities with respect to which such Options were actually exercised;

(iv) no readjustment pursuant to clause (ii) or (iii) above shall have the effect of increasing the Series A Conversion Price, the Series B Conversion Price, the Series B-1 Conversion Price, the Series C Conversion Price and the Series D Conversion Price (as applicable) to an amount which exceeds the lower of (i) the Series A Conversion Price, the

Series B Conversion Price, the Series B-1 Conversion Price, the Series C Conversion Price or the Series D Conversion Price (as applicable) on the original adjustment date, or (ii) the Series A Conversion Price, Series B Conversion Price, Series B-1 Conversion Price, Series C Conversion Price or the Series D Conversion Price that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date; and

(v) in the case of any Options which expire by their terms not more than 30 days after the date of issue thereof, no adjustment of the Series A Conversion Price, the Series B Conversion Price, the Series B-1 Conversion Price, the Series C Conversion Price or the Series D Conversion Price shall be made until the expiration or exercise of all such Options, whereupon such adjustment shall be made in the manner provided in clause (iii) above.

(d) Weighted Average Adjustment of Series A Conversion Price Upon Issuance of Additional Shares of Common Stock. If and whenever the Corporation shall issue or sell or is, in accordance with this Section 5, deemed to have issued or sold any Additional Shares of Common Stock for a consideration per share less than the Series A Conversion Price in effect immediately prior to the time of such issuance or sale, then forthwith upon such issuance or sale, the Series A Conversion Price shall be reduced to an amount equal to the quotient obtained by dividing:

(i) an amount equal to the sum of

(x) the number of shares of all Common Stock outstanding or deemed in accordance with this Section 5 to be issued and outstanding immediately prior to such issuance or sale (with each share of Series A Preferred being deemed for such purpose to be equal to the number of shares of Common Stock, including fractions of a share, into which such share is convertible immediately prior to such issuance or sale) multiplied by the Series A Conversion Price in effect immediately prior to the time of such issuance or sale, plus

(y) the aggregate consideration received by the Corporation for such issuance or sale, by

(ii) the total number of shares of Common Stock outstanding or deemed in accordance with this Section 5 hereof to be issued and outstanding immediately after such issuance or sale (with each share of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred being deemed for such purpose to be equal to the number of shares of Common Stock, including fractions of a share, into which such share is convertible immediately prior to such issuance or sale).

(e) Full Ratchet Adjustment of Series B Conversion Price Upon Issuance of Additional Shares of Common Stock. If and whenever the Corporation shall issue or sell or is, in accordance with this Section 5, deemed to have issued or sold any Additional Shares of Common Stock for a consideration per share less than the Series B Conversion Price in effect immediately prior to the time of such issuance or sale, then forthwith upon such issuance or sale, the Series B Conversion Price shall be reduced to an amount equal to the per share consideration received by the Corporation for such Additional Shares of Common Stock.

(f) Full Ratchet Adjustment of Series B-1 Conversion Price Upon Issuance of Additional Shares of Common Stock. If and whenever the Corporation shall issue or sell or is, in accordance with this Section 5, deemed to have issued or sold any Additional Shares of Common Stock for a consideration per share less than the Series B-1 Conversion Price in effect immediately prior to the time of such issuance or sale, then forthwith upon such issuance or sale, the Series B-1 Conversion Price shall be reduced to an amount equal to the per share consideration received by the Corporation for such Additional Shares of Common Stock.

(g) 1998 Revenue Adjustment of Series B Conversion Price. If the actual total revenues of the Corporation for the 1998 fiscal year, as reflected in the audited financial statements of the Corporation (the "1998 Revenues"), are less than \$1,032,860, then the Series B Conversion Price at the time the auditors' report on such financial statements is issued (which in no event shall be later than March 31, 1999) shall be reduced to the amount obtained by multiplying the then-effective Series B Conversion Price by a fraction, the numerator of which is the 1998 Revenues and the denominator of which is \$1,032,860; provided, however, that in no event shall such fraction be less than 0.60 or greater than 1.00.

(h) Weighted Average Adjustment of Series C Conversion Price and Series D Conversion Price Upon Issuance of Additional Shares of Common Stock. If and whenever the Corporation shall issue or sell or is, in accordance with this Section 5, deemed to have issued or sold any Additional Shares of Common Stock for a consideration per share less than the Series C Conversion Price or the Series D Conversion Price, as the case may be, in effect immediately prior to the time of such issuance or sale, then forthwith upon such issuance or sale, the Series C Conversion Price or the Series D Conversion Price, as the case may be, shall be reduced to an amount equal to the quotient obtained by dividing:

(i) an amount equal to the sum of

(x) the number of shares of all Common Stock outstanding or deemed in accordance with this Section 5 to be issued and outstanding immediately prior to such issuance or sale (with each share of Series C Preferred or Series D Preferred, as the case may be, being deemed for such purpose to be equal to the number of shares of Common Stock, including fractions of a share, into which such share is convertible immediately prior to such issuance or sale) multiplied by the Series C Conversion Price or the Series D Conversion Price, as the case may be, in effect immediately prior to the time of such issuance or sale, plus

(y) the aggregate consideration received by the Corporation for such issuance or sale, by

(ii) the total number of shares of Common Stock outstanding or deemed in accordance with this Section 5 hereof to be issued and outstanding immediately after such issuance or sale (with each share of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred being deemed for such purpose to be equal to the number of shares of Common Stock, including fractions of a share, into which such share is convertible immediately prior to such issuance or sale).

(i) Determination of Consideration. For purposes of this Section 5, the consideration received by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(i) Cash and Property. Except as provided in clause (ii) below, such consideration shall:

(A) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation excluding amounts paid or payable for accrued interest or accrued dividends;

(B) insofar as it consists of property other than cash, be computed at the fair value thereof at the time of such issue, as determined in good faith by the Board; provided, however, that no value shall be attributed to any service performed by any employee, officer or director of the Corporation; and

(C) in the event Additional Shares of Common Stock are issued together with other shares or securities or other assets of the Corporation for consideration which covers both, be the proportion of such consideration so received with respect to such Additional Shares of Common Stock, computed as provided in clauses (A) and (B) above, as determined in good faith by the Board.

(ii) Expenses. In the event the Corporation pays or incurs expenses, commissions or compensation, or allows concessions or discounts to underwriters, dealers or others performing similar services in connection with such issue, in an aggregate amount in excess of 10% of the aggregate consideration received by the Corporation for such issue, as determined in clause (i) above, consideration shall be computed as provided in clause (i) above after deducting the aggregate amount in excess of 10% of the aggregate consideration received by the Corporation for the issue.

(j) Subdivision or Combination of Common Stock. In case the Corporation shall at any time subdivide (by any stock split, stock dividend otherwise) its outstanding shares of Common Stock into a greater number of shares, the Series A Conversion Price, the Series B Conversion Price, the Series B-1 Conversion Price, the Series C Conversion Price and the Series D Conversion Price in effect immediately prior to such subdivision shall be proportionately reduced, and, conversely, in case the outstanding shares of Common Stock shall be combined into a smaller number of shares, the Series A Conversion Price, the Series B Conversion Price, the Series B-1 Conversion Price, the Series C Conversion Price and the Series D Conversion Price in effect immediately prior to such combination shall be proportionately increased.

(k) Reorganization or Reclassification. If any capital reorganization or reclassification of the capital stock of the Corporation shall be effected in such a way that holders of Common Stock shall be entitled to receive stock, securities or assets with respect to or in exchange for Common Stock, then, as a condition of such reorganization or reclassification, lawful and adequate provisions shall be made whereby each holder of shares of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred shall thereupon have the right to receive, upon the basis and upon the terms and conditions specified herein and in lieu of the shares of Common Stock immediately theretofore receivable upon the conversion of such shares of Series A

Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred, such shares of stock, securities or assets as may be issued or payable with respect to or in exchange for a number of outstanding shares of such Common Stock equal to the number of shares of such Common Stock receivable upon such conversion had such reorganization or reclassification not taken place, and in any such case appropriate provisions shall be made with respect to the rights and interests of such holder to the end that the provisions hereof (including without limitation provisions for adjustments of the applicable Conversion Price) shall thereafter be applicable, as nearly as may be, in relation to any shares of stock, securities or assets thereafter deliverable upon the exercise of such conversion rights.

(l) Notice of Adjustment. Upon any adjustment of the Series A Conversion Price, the Series B Conversion Price, the Series B-1 Conversion Price, the Series C Conversion Price or the Series D Conversion Price, the Corporation shall give written notice thereof, by first class mail, postage prepaid or by telex or facsimile, addressed to each holder of shares of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred (as applicable) at the address of such holder as shown on the books of the Corporation, which notice shall state the Series A Conversion Price, Series B Conversion Price, Series B-1 Conversion Price, Series C Conversion Price or Series D Conversion Price (as applicable) resulting from such adjustment, setting forth in reasonable detail the calculation upon which such adjustment is based.

(m) Notices. In case at any time:

(i) the Corporation shall declare any dividend upon its Common Stock payable in cash or stock or make any other distribution to the holders of its Common Stock;

(ii) there shall be any capital reorganization or reclassification of the capital stock of the Corporation, or a consolidation or merger of the Corporation with or into, or a sale of all or substantially all its assets to, another entity or entities; or

(iii) there shall be a voluntary or involuntary dissolution, liquidation or winding up of the Corporation;

then, in any one or more of such cases, the Corporation shall give, by first class mail, postage prepaid, or by telecopier to non-U.S. residents, addressed to each holder of any shares of Preferred Stock at the address of such holder as shown on the books of the Corporation, (i) at least 10 days prior written notice of the date on which the books of the Corporation shall close or a record shall be taken for such dividend or distribution or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, and (ii) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, at least 10 days prior written notice of the date when the same shall take place. Such notice in accordance with the foregoing

clause (1) shall also specify, in the case of any such dividend or distribution, the date on which the holders of Common Stock shall be entitled thereto, and such notice in accordance with the foregoing clause (2) shall also specify the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation or winding up, as the case may be.

(n) No Impairment. The Corporation will not, by amendment of its Certificate of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation but will at all times in good faith assist in the carrying out of all the provisions of Section 5 and in the taking of all such action as may be necessary or appropriate in order to protect the Conversion Rights of the holders of the Preferred Stock against impairment.

(o) Miscellaneous.

(i) All calculations under this Section 5 shall be made to the nearest cent or to the nearest one hundredth (1/100) of a share, as the case may be.

(ii) The holders of at least 60% of the outstanding Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred or Series D Preferred (as applicable) shall have the right to challenge any determination by the Board of fair value pursuant to this Section 5, in which case such determination of fair value shall be made by an independent appraiser selected jointly by the Board and the challenging parties, the cost of such appraisal to be borne equally by the Corporation and the challenging parties.

(iii) No adjustment in the Series A Conversion Price, the Series B Conversion Price, the Series B-1 Conversion Price, the Series C Conversion Price or the Series D Conversion Price need be made if such adjustment would result in a change in such Conversion Price of less than \$0.01. Any adjustment of less than \$0.01 which is not made shall be carried forward and shall be made at the time of and together with any subsequent adjustment which, on a cumulative basis, amounts to an adjustment of \$0.01 or more in such Conversion Price.

(p) Definition of Common Stock. As used in this paragraph 5, the term "Common Stock" shall mean and include the Corporation's authorized Common Stock, \$0.001 par value, as constituted on the date of filing of this Fourth Amended and Restated Certificate of Incorporation, and shall also include any capital stock of any class of the Corporation thereafter authorized which shall neither be limited to a fixed sum or percentage of par value in respect of the rights of the holders thereof to participate in dividends nor entitled to a preference in the distribution of assets upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation; provided that the shares of Common Stock receivable upon conversion of shares of Series A Preferred, Series B Preferred, Series B-1 Preferred, Series C Preferred and Series D Preferred shall include only shares designated as Common Stock of the Corporation on the date of filing of this instrument, or in case of any reorganization or reclassification of the outstanding shares thereof, the stock, securities or assets provided for in Subsection 5(j).

6. Redemption at Election of Series B Preferred, Series B-1 Preferred, Series C Preferred, and Series D Preferred.

(a) Upon the written request of a holder of then outstanding shares of Series B Preferred or Series B-1 Preferred received by the Corporation at any time from and after March 5, 2003, the Corporation will, subject to the conditions set forth in Subsection 6(b) below, within thirty (30) days of receipt of any such request (the "Series B/B-1 Redemption Date"), redeem all of the outstanding shares of Series B Preferred or Series B-1 Preferred (as applicable) held by such holder, by paying \$2.0692 per share, plus any declared but unpaid dividends thereon (subject to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation) in cash for each share of Series B Preferred or Series B-1 Preferred then redeemed (hereinafter referred to as the "Series B/B-1 Redemption Price").

(b) If the funds of the Corporation legally available for redemption of Series B Preferred and Series B-1 Preferred on the Series B/B-1 Redemption Date are insufficient to redeem the number of shares of Series B Preferred and Series B-1 Preferred required under this Section 6 to be redeemed on such date, those funds which are legally available will be used to redeem the maximum possible number of such shares of Series B Preferred and Series B-1 Preferred ratably on the basis of the number of shares of Series B Preferred and Series B-1 Preferred which would have been redeemed on such date if the funds of the Corporation legally available therefor had been sufficient to redeem all shares of Series B Preferred and Series B-1 Preferred required to be redeemed on such date. At any time thereafter when additional funds of the Corporation become legally available for the redemption of Series B Preferred and Series B-1 Preferred, such funds will be used, at the end of the next succeeding fiscal quarter, to redeem the balance of the shares which the Corporation was theretofore obligated to redeem, ratably on the basis set forth in the preceding sentence.

(c) Within five (5) days after receipt of the written request of a holder pursuant to Section 6(a), the Corporation shall provide written notice of such request to each other holder of then outstanding shares of Series B Preferred or Series B-1 Preferred by first class or certified mail, return receipt requested, at the address for such holder last shown on the records of the transfer agent therefor (or the records of the Corporation, if it serves as its own transfer agent). Upon the written request of any such other holder received by the Corporation within ten (10) days after the Corporation mails such notice, the Corporation will redeem on the Series B/B-1 Redemption Date all of the outstanding shares of Series B Preferred or Series B-1 Preferred (as applicable) held by such other holder, by paying the Series B/B-1 Redemption Price therefor.

(d) On or prior to the Series B/B-1 Redemption Date, the Corporation shall deposit the Series B/B-1 Redemption Price of all shares of Series B Preferred and Series B-1 Preferred designated for redemption in the notice of redemption and not yet redeemed with a bank or trust company having aggregate capital and surplus in excess of \$50,000,000 as a trust fund for the benefit of the respective holders of the shares designated for redemption and not yet redeemed, with irrevocable instructions and authority to the bank or trust company to pay the Series B/B-1 Redemption Price for such shares to their respective holders on or after the

Series B/B-1 Redemption Date upon receipt of notification from the Corporation that such holder has surrendered his or its share certificate to the Corporation. Such instructions shall also provide that any moneys deposited by the Corporation pursuant to this Subsection 6(d) for the redemption of shares thereafter converted into shares of the Corporation's Common Stock pursuant to Section 4 hereof no later than the close of business on the fifth full day preceding the Series B/B-1 Redemption Date shall be returned to the Corporation on the Series B/B-1 Redemption Date.

The balance of any monies deposited by the Corporation pursuant to this Subsection 6(d) remaining unclaimed at the expiration of one year following the Series B/B-1 Redemption Date shall thereafter be returned to the Corporation upon its request expressed in a resolution of its Board of Directors.

(e) Unless there shall have been a default in payment of the Series B/B-1 Redemption Price, no share of Series B Preferred or Series B-1 Preferred shall be entitled to any dividends declared after its Series B/B-1 Redemption Date, and on such Series B/B-1 Redemption Date all rights of the holder of such share as a stockholder of the Corporation by reason of the ownership of such share will cease, except the right to receive the Series B/B-1 Redemption Price of such share, without interest, upon presentation and surrender of the certificate representing such share, and such share will not from and after such Series B/B-1 Redemption Date be deemed to be outstanding.

(f) Any Series B Preferred or Series B-1 Preferred redeemed pursuant to this Section 6 will be canceled and will not under any circumstances be reissued, sold or transferred and the Corporation may from time to time take such appropriate action as may be necessary to reduce the authorized Series B Preferred or Series B-1 Preferred accordingly.

(g) Subject to the prior right of each holder of Series B Preferred or Series B-1 Preferred which has so requested to have its shares of Series B Preferred or Series B-1 Preferred (as applicable) redeemed in full in accordance with paragraphs (a) through (f) of this Section 6, upon the written request of a holder of then outstanding shares of Series C Preferred or Series D Preferred received by the Corporation at any time from and after September 9, 2004, the Corporation will, subject to the conditions set forth in Subsection 6(h) below, within thirty (30) days of receipt of any such request (the "Series C/D Redemption Date"), redeem all of the outstanding shares of Series C Preferred or Series D Preferred, as the case may be, held by such holder, by paying \$9.404 per share, plus any declared but unpaid dividends thereon (subject to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation) in cash for each share of Series C Preferred then redeemed (hereinafter referred to as the "Series C Redemption Price"), and by paying \$77.152 per share, plus any declared but unpaid dividends thereon (subject to appropriate adjustment for stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares occurring after the filing of this Fourth Amended and Restated Certificate of Incorporation) in cash for each share of Series D Preferred then redeemed (hereinafter the "Series D Redemption Price").

(h) If the funds of the Corporation legally available for redemption of Series C Preferred and Series D Preferred on the Series C/D Redemption Date are insufficient to redeem the number of shares of Series C Preferred and Series D Preferred required under this Section 6 to be redeemed on such date, those funds which are legally available, after the redemption of all shares of Series B Preferred and Series B-1 Preferred sought to be redeemed which have not yet been redeemed, will be used to redeem the maximum possible number of such shares of Series C Preferred and Series D Preferred ratably on the basis of the number of shares of Series C Preferred and Series D Preferred which would have been redeemed on such date if the funds of the Corporation legally available therefor, after the redemption of all shares of Series B Preferred and Series B-1 Preferred sought to be redeemed which have not yet been redeemed, had been sufficient to redeem all shares of Series C Preferred and Series D Preferred required to be redeemed on such date. At any time thereafter when additional funds of the Corporation become legally available, after the redemption of all shares of Series B Preferred and Series B-1 Preferred sought to be redeemed which have not yet been redeemed, for the redemption of Series C Preferred and Series D Preferred, such funds will be used, at the end of the next succeeding fiscal quarter, to redeem the balance of the shares which the Corporation was theretofore obligated to redeem, ratably on the basis set forth in the preceding sentence.

(i) Within five (5) days after receipt of the written request of a holder pursuant to Section 6(g), the Corporation shall provide written notice of such request to each other holder of then outstanding shares of Series C Preferred or Series D Preferred by first class or certified mail, return receipt requested, at the address for such holder last shown on the records of the transfer agent therefor (or the records of the Corporation, if it serves as its own transfer agent). Upon the written request of any such other holder received by the Corporation within ten (10) days after the Corporation mails such notice, the Corporation will, subject to the prior right of each holder of Series B Preferred or Series B-1 Preferred which has so requested to have its shares of Series B Preferred or Series B-1 Preferred (as applicable) redeemed in full in accordance with paragraphs (a) through (f) of this Section 6, redeem on the Series C/D Redemption Date all of the outstanding shares of Series C Preferred or Series D Preferred (as applicable) held by such other holder, by paying the Series C Redemption Price or Series D Redemption Price (as applicable) therefor.

(j) On or prior to the Series C/D Redemption Date, the Corporation shall deposit the Series C Redemption Price of all shares of Series C Preferred designated for redemption in the notice of redemption and not yet redeemed, and the Series D Redemption Price of all shares of Series D Preferred designated for redemption in the notice of redemption and not yet redeemed, with a bank or trust company having aggregate capital and surplus in excess of \$50,000,000 as a trust fund for the benefit of the respective holders of the shares designated for redemption and not yet redeemed, with irrevocable instructions and authority to the bank or trust company to pay the Series C Redemption Price or Series D Redemption Price (as applicable) for such shares to their respective holders on or after the Series C/D Redemption Date upon receipt of notification from the Corporation that such holder has surrendered his or its share certificate to the Corporation. Such instructions shall also provide that any moneys deposited by the Corporation pursuant to this Subsection 6(j) for the redemption of shares thereafter converted into shares of the Corporation's Common Stock pursuant to Section 4 hereof no later than the

close of business on the fifth full day preceding the Series C/D Redemption Date shall be returned to the Corporation on the Series C/D Redemption Date.

The balance of any monies deposited by the Corporation pursuant to this Subsection 6(j) remaining unclaimed at the expiration of one year following the Series C/D Redemption Date shall thereafter be returned to the Corporation upon its request expressed in a resolution of its Board of Directors.

(k) Unless there shall have been a default in payment of the Series C Redemption Price or the Series D Redemption Price, as the case may be, no share of Series C Preferred or Series D Preferred (as applicable) shall be entitled to any dividends declared after its Series C/D Redemption Date, and on such Series C/D Redemption Date all rights of the holder of such share as a stockholder of the Corporation by reason of the ownership of such share will cease, except the right to receive the Series C Redemption Price or the Series D Redemption Price (as applicable) of such share, without interest, upon presentation and surrender of the certificate representing such share, and such share will not from and after such Series C/D Redemption Date be deemed to be outstanding.

(l) Any Series C Preferred or Series D Preferred redeemed pursuant to this Section 6 will be canceled and will not under any circumstances be reissued, sold or transferred and the Corporation may from time to time take such appropriate action as may be necessary to reduce the authorized Series C Preferred or Series D Preferred accordingly.

7. Protective Provisions.

(a) Series A Preferred. At any time when shares of Series A Preferred are outstanding, except where the vote or written consent of the holders of a greater number of shares of the Corporation is required by law or by the Corporation's Certificate of Incorporation, and in addition to any other vote required by law or the Corporation's Certificate of Incorporation, the Corporation will not without the approval of the holders of at least a majority of the then outstanding shares of Series A Preferred, voting as a class, either in writing or by ballot at a duly called meeting increase the authorized number of shares of Series A Preferred or alter the powers, preferences or rights of the holders of shares of Series A Preferred so as to affect them adversely. The holders of at least a majority of the Series A Preferred may waive their rights under this paragraph, in which event holders of the then outstanding Series A Preferred shall vote together with the holders of the Common Stock and, subject to Subsection 7(b) below, the Series B Preferred, as a single class, with respect to any stockholder actions required for the foregoing matters.

(b) Series B Preferred. So long as any shares of Series B Preferred are outstanding, the Corporation shall not, without first obtaining the approval of the holders of at least a majority of the then-outstanding shares of Series B Preferred, take any action that:

(i) increases the authorized number of shares of Series B Preferred or amends or changes the rights, preferences, powers, privileges or restrictions of the Series B Preferred;

(ii) authorizes, creates or issues shares of any class or series of stock having a preference superior to or on a parity with the Series B Preferred;

(iii) reclassifies stock into shares having a preference over or on a parity with the Series B Preferred;

(iv) amends the Corporation's Certificate of Incorporation in a manner that adversely affects the rights of the Series B Preferred;

(v) results in a merger or consolidation of the Corporation with one or more other corporations or other entities in which the stockholders of the Corporation immediately prior to such merger or consolidation had stock representing less than a majority of the voting power of the outstanding shares of the Corporation or resulting entity immediately after such merger or consolidation;

(vi) results in the sale or other transaction in a single transaction or a series of related transactions of all or substantially all of the assets of the Corporation, or otherwise results in the reorganization of the Corporation;

(vii) results in the dissolution, liquidation or winding up of the Corporation;

(viii) declares or pays a dividend on the Common Stock (other than a dividend payable solely in shares of Common Stock);

(ix) results in the incurrence of indebtedness in excess of \$50,000;

(x) materially alters or changes the strategic direction or business operations of the Corporation in a manner that is not contemplated by the Corporation's most recent board-approved business plan; or

(xi) amends ARTICLE IX ("Indemnification") of the Corporation's By-Laws.

(c) Series B-1 Preferred. So long as any shares of Series B-1 Preferred are outstanding, the Corporation shall not, without first obtaining the approval of the holders of at least a majority of the then-outstanding shares of Series B-1 Preferred, take any action that:

(i) increases the authorized number of shares of Series B-1 Preferred or amends or changes the rights, preferences, powers, privileges or restrictions of the Series B-1 Preferred;

(ii) authorizes, creates or issues shares of any class or series of stock having a preference superior to or on a parity with the Series B-1 Preferred which is not similarly superior to or on parity with the Series B Preferred;

(iii) reclassifies stock into shares having a preference over or on a parity with the Series B-1 Preferred which do not similarly have a preference over or on a parity with the Series B Preferred;

(iv) alters the rights, preferences, powers or privileges of the Series B Preferred in any way which benefits the Series B Preferred (other than the rights of the Series B Preferred set forth in Section 5(g) hereof) without similarly altering the rights, preferences, powers or privileges of the Series B-1 Preferred; or

(v) amends the Corporation's Certificate of Incorporation in a manner that adversely affects the rights of the Series B-1 Preferred.

(d) Series C Preferred. So long as any shares of Series C Preferred are outstanding, the Corporation shall not, without first obtaining the approval of the holders of at least a majority of the then-outstanding shares of Series C Preferred, take any action that:

(i) increases the authorized number of shares of Series C Preferred or amends or changes the rights, preferences, powers, privileges or restrictions of the Series C Preferred ;

(ii) authorizes, creates or issues shares of any class or series of stock having a preference superior to or on a parity with the Series C Preferred;

(iii) reclassifies stock into shares having a preference over or on a parity with the Series C Preferred;

(iv) amends the Corporation's Certificate of Incorporation in a manner that adversely affects the rights of the Series C Preferred;

(v) results in a merger or consolidation of the Corporation with one or more other corporations or other entities in which the stockholders of the Corporation immediately prior to such merger or consolidation had stock representing less than a majority of the voting power of the outstanding shares of the Corporation or resulting entity immediately after such merger or consolidation;

(vi) results in the sale or other transaction in a single transaction or a series of related transactions of all or substantially all of the assets of the Corporation, or otherwise results in the reorganization of the Corporation;

(vii) results in the dissolution, liquidation or winding up of the Corporation;

(viii) declares or pays a dividend on the Common Stock (other than a dividend payable solely in shares of Common Stock);

(ix) results in the incurrence of indebtedness in excess of \$50,000;

(x) materially alters or changes the strategic direction or business operations of the Corporation in a manner that is not contemplated by the Corporation's most recent board-approved business plan; or

(xi) amends the indemnification provisions of the Corporation's By-Laws.

(e) Series D Preferred. So long as any shares of Series D Preferred are outstanding, the Corporation shall not, without first obtaining the approval of the holders of at least a majority of the then-outstanding shares of Series D Preferred, take any action that:

(i) increases the authorized number of shares of Series D Preferred or amends or changes the rights, preferences, powers, privileges or restrictions of the Series D Preferred;

(ii) authorizes, creates or issues shares of any class or series of stock having a preference superior to or on a parity with the Series D Preferred;

(iii) reclassifies stock into shares having a preference over or on a parity with the Series D Preferred;

(iv) amends the Corporation's Certificate of Incorporation in a manner that adversely affects the rights of the Series D Preferred;

(v) results in a merger or consolidation of the Corporation with one or more other corporations or other entities in which the stockholders of the Corporation immediately prior to such merger or consolidation had stock representing less than a majority of the voting power of the outstanding shares of the Corporation or resulting entity immediately after such merger or consolidation;

(vi) results in the sale or other transaction in a single transaction or a series of related transactions of all or substantially all of the assets of the Corporation, or otherwise results in the reorganization of the Corporation;

(vii) results in the dissolution, liquidation or winding up of the Corporation;

(viii) declares or pays a dividend on the Common Stock (other than a dividend payable solely in shares of Common Stock);

(ix) materially alters or changes the strategic direction or business operations of the Corporation in a manner that is not contemplated by the Corporation's most recent board-approved business plan; or

(x) amends the indemnification provisions of the Corporation's By-Laws.

ARTICLE V

For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation and regulation of the powers of the Corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided:

1. The number of directors which shall constitute the whole Board of Directors shall be seven. The phrase "whole Board" and the phrase "total number of directors" shall be deemed to have the same meaning, to wit, the total number of directors which the Corporation would have if there were no vacancies. No election of directors need be by written ballot unless the By-Laws of the Corporation so provide.

2. After the original or other By-Laws of the Corporation have been adopted, amended, or repealed, as the case may be, in accordance with the provisions of Section 109 of the General Corporation Law of the State of Delaware, and, after the Corporation has received any payment for any of its stock, the power to adopt, amend, or repeal the By-Laws of the Corporation may be exercised by vote of a majority of the directors of the Corporation present at a duly called and held meeting of the Board of Directors at which a quorum is present, but such right of the directors shall not divest or limit the right of the stockholders to alter, amend or repeal the By-Laws.

3. No director of the Corporation shall have any personal liability to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, provided, however, that the foregoing shall not eliminate or limit the liability of a director of the Corporation (i) for any breach of such director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law of the State of Delaware, or (iv) for any transactions from which the director derived an improper personal benefit.

ARTICLE VI

The corporation shall, to the fullest extent permitted by Section 145 of the General Corporation Law of the State of Delaware, as the same may be amended and supplemented, indemnify any and all persons whom it shall have the power to indemnify under said section from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

ARTICLE VII

From time to time any of the provisions of this Amended and Restated Certificate of Incorporation may be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the manner and at the

time prescribed by said laws, and all rights at any time conferred upon the stockholders of the Corporation by this Amended and Restated Certificate of Incorporation are granted subject to the provisions of this Article VII.

* * * *

IN WITNESS WHEREOF, the undersigned has executed this Certificate on February 1, 2000.

By: /s/Timothy B. Bancroft

Timothy B. Bancroft
Assistant Secretary

BY-LAWS

OF

INTERNET TECHNOLOGIES CHINA INCORPORATED

ARTICLE I

Offices

SECTION 1. Registered Office. The registered office of Internet

Technologies China Incorporated (the "Corporation") in the State of Delaware, shall be 1013 Centre Road, Wilmington, Delaware 19805, in the County of New Castle. The name of the registered agent at such office shall be The Prentice Hall Corporation System, Inc.

SECTION 2. Other Offices. The Corporation may also have offices at such

other places either within or without the State of Delaware as the Board of Directors (the "Board") may from time to time determine.

ARTICLE 11

Meetings of Stockholders

SECTION 1. Annual Meetings. The annual meeting of the stockholders of the

Corporation for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held at such hour and place as the Board may determine on the second Tuesday in May of each year or on such other date as the Board may determine. If for any reason the annual meeting shall not be held on the date fixed herein, a special meeting in lieu of the annual meeting may be held, with all the force and effect of an annual meeting, on such date and at such place and hour as shall be designated by the Board in the notice thereof. At the annual meeting any business may be transacted whether or not the notice of such meeting shall have contained a reference thereto, except where such a reference is required by law, the Certificate of Incorporation or these By-Laws.

SECTION 2. Special Meetings. A special meeting of the stockholders for

any purpose or purposes may be called at any time by the Board or by the President, and such meeting shall be held on such date and at such place and hour as shall be designated in the notice thereof.

SECTION 3. Notice of Meetings. Except as otherwise expressly required by

these By-laws or by law, notice of each meeting of the stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder of record entitled to notice of, or to vote at, such meeting by delivering a notice thereof to such stockholder personally or by depositing such notice in the United States mail, directed to such stockholder at such stockholder's address as it appears on

the stock records of the Corporation. Every such notice shall state the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Notice of any adjourned meeting of the stockholders shall not be required to be given if the time and place thereof are announced at the meeting at which the adjournment is taken and a new record date for the adjourned meeting is not thereafter fixed.

SECTION 4. Quorum and Manner of Acting. Except as otherwise expressly

required by law, if stockholders holding of record a majority of the shares of stock of the Corporation issued, outstanding and entitled to be voted at the particular meeting shall be present in person or by proxy, a quorum for the transaction of business at any meeting of the stockholders shall exist. In the absence of a quorum at any such meeting or any adjournment or adjournments thereof, a majority in voting interest of those present in person or by proxy and entitled to vote thereat may adjourn such meeting from time to time until stockholders holding the amount of stock requisite for a quorum shall be present in person or by proxy. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 5. Voting. Except as otherwise provided in the Certificate of

Incorporation, each stockholder shall, at each meeting of the stockholders, be entitled to one vote in person or by proxy for each share of stock of the Corporation which has voting power on the matter in question held by such stockholder and registered in such stockholder's name on the stock record of the Corporation:

(a) on the date fixed pursuant to the provisions of Section 6 of Article VII of these By-laws as the record date for the determination of stockholders who shall be entitled to receive notice of and to vote at such meeting; or

(b) if no record date shall have been so fixed, at the close of business on the day next given or, if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which the meeting shall be held.

At all meetings of the stockholders all matters, except as otherwise provided in the Certificate of Incorporation, in these By-laws or by law, shall be decided by the vote of a majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

SECTION 6. Consent in Lieu of Meeting. Any action required to be taken or

any other action which may be taken at any annual or special meeting of stockholders, may be taken without a meeting, without prior notice and without a vote if a consent in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted, provided that prompt notice of the taking of the corporate action without a

meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing,

SECTION 7. Inspectors. Either the Board or, in the absence of a

designation of inspectors by the Board, the chairman of the meeting may, in the discretion of the Board or the chairman, appoint one or more inspectors, who need not be stockholders, who shall receive and take charge of ballots and proxies and decide all questions relating to the qualification of those asserting the right to vote and the validity of ballots and proxies. In the event of the failure or refusal to serve of any inspector designated by the Board, the chairman of the meeting shall appoint an inspector to act in place of each such inspector designated by the Board.

ARTICLE III

Board of Directors

SECTION 1. General Powers. The property, business, affairs and policies

of the Corporation shall be managed by or under the direction of the Board.

SECTION 2. Number and Term of Office. The number of directors which shall

constitute the initial Board shall be one (1) and thereafter the number shall be fixed from time to time by resolution of the Board of Directors. Each of the directors of the Corporation shall hold office until the annual meeting after such director's election and until such director's successor shall be elected and shall qualify or until such director's earlier death or resignation or removal in the manner hereinafter provided.

SECTION 3. Meetings.

(A) Annual Meeting. The annual meeting of the Board, for the

purpose of organization, the election of officers and the transaction of other business, shall be held as promptly as practicable after each annual meeting of stockholders or the special meeting in lieu thereof.

(B) Regular Meetings. Regular meetings of the Board or any

committee thereof shall be held at such time and place, within or without the State of Delaware, as the Board or such committee shall from time to time determine.

(C) Special Meetings. Special meetings of the Board may be called

by order of the President or by a majority of the directors then in office.

(D) Notice of Meetings. No notice of regular meetings of the Board

or of any committee thereof or of any adjourned meeting thereof need be given. The Secretary shall give prior notice to each director of the time and place of each special meeting of the Board or adjournment thereof. Such notice shall be given to each director in person or by telephone, fax or ordinary mail, not less than two days before the meeting if given in person or by telephone or fax and, if given by mail, post marked at least four

(4) days prior to the special meeting if given by mail, and sent to such director at the director's residence or usual business address. Each such notice shall state the time and place of the meeting and purpose thereof. In lieu of the notice to be given as set forth above, a waiver thereof in writing, signed by the director or directors entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto for purposes of this Section 3(D). No notice to or waiver by any director with respect to any special meeting shall be required if such director shall be present at said meeting.

(E) Quorum and Manner of Acting

(a) At all meetings of the Board of Directors, each Director present shall have one vote, irrespective of the number of shares of stock, if any, which he may hold.

(b) Except as otherwise expressly required by these By-laws or by law, a majority of the directors then in office and a majority of the members of any committee shall be present in person at any meeting thereof in order to constitute a quorum for the transaction of business at such meeting, and the vote of a majority of the directors present at any such meeting at which a quorum is present shall be necessary for the passage of any resolution or for an act to be the act of the Board or such committee. In the absence of a quorum, a majority of the directors present thereat may adjourn such meeting either finally or from time to time to another time and place until a quorum shall be present thereat. In the latter case notice of the adjourned time and place shall be given as aforesaid to all Directors.

(F) Consent in Lieu of Meeting. Any action required or permitted to

be taken at any meeting of the Board or any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in a writing or writings and such writing or writings are filed with the minutes of the proceedings of the Board or committee. Such consents shall be treated for all purposes as a vote at a meeting.

(G) Action by Communications Equipment. The directors may

participate in a meeting of the Board or any committee thereof by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

SECTION 4. Compensation. Each director, in consideration of serving as

such, may receive from the Corporation such amount per annum and such fees and expenses incurred for attendance at meetings of the Board or of any committee, or both, as the Board may from time to time determine. Nothing contained in this Section shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 5. Restoration, Removal and Vacancies. Any director may resign at

any time by giving written notice, of such resignation to the President or the Secretary.

Any such resignation shall take effect at the time specified therein or, if not specified therein, upon receipt. Unless otherwise specified in the resignation, its acceptance shall not be necessary to make it effective. Except as provided for in the Certificate of Incorporation, any or all of the directors may be removed at any time, with or without cause, by vote of a majority of shares then entitled to vote at an election of directors.

If the office of any director becomes vacant at any time by reason of death, resignation, retirement, disqualification, removal from office or otherwise, or if any new directorship is created by any increase in the authorized number of directors, a majority of the directors then in office, though less than a quorum, or the sole remaining director, may choose a successor or fill the newly created directorship and the director so chosen shall hold office, subject to the provisions of these By-laws, until the next annual election of directors and until his successor shall be duly elected and shall qualify. In the event that a vacancy arising as aforesaid shall not have been filled by the Board, such vacancy may be filled by the stockholders at any meeting thereof after such office becomes vacant. If one or more directors shall resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so prospectively resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as herein provided in the filling of other vacancies.

SECTION 6. Committees. The directors may, by vote of a majority of the

directors then in office, appoint from their number one or more committees and delegate to such committees some or all of their powers to the extent permitted by law, the Certificate of Incorporation or these By-Laws. Except as the board of Directors may otherwise determine, any such committee may, by majority vote of the entire committee, make rules for the conduct of its business. The directors shall have the power at any time to fill vacancies in any such committee, to change its membership or to discharge the committee.

ARTICLE IV

Officers

SECTION 1. Election and Appointment and Term of Office. The officers of

the Corporation shall be a President, such number, if any, of Vice Presidents (including any Executive or Senior Vice Presidents) as the Board may from time to time determine, a Secretary and a Treasurer. Each such officer shall be elected by the Board at its annual meeting and hold office for such term as may be prescribed by the Board. Two or more offices may be held by the same person. The President may, but need not, be chosen from among the Directors.

The Board may elect or appoint (and may authorize the President to appoint) such other officers (including one or more Assistant Secretaries and Assistant Treasurers) as it deems necessary who shall have such authority and shall perform such duties as the Board or the President may from time to time prescribe.

If additional officers are elected or appointed during the year, each shall hold office until the next annual meeting of the Board at which officers are regularly elected or appointed and until such officer's successor is elected or appointed and qualified or until such officer's earlier death or resignation or removal in the manner hereinafter provided.

SECTION 2. Duties and Functions.

(A) President. The President shall be the chief executive officer of the

Corporation and shall have general direction and supervision over the business and affairs of the Corporation, subject to the directions and limitations imposed by the Board and these By-laws, and shall see that all orders and resolutions of the Board are carried into effect. The President shall, if present, preside at all meetings of stockholders and of the Board and shall also perform such other duties and have such other powers as are prescribed by these By-laws or as may be from time to time prescribed by the Board, or these By-laws.

(B) Vice Presidents. Each Vice President shall have such powers and

duties as shall be prescribed by the Board.

(C) Secretary. The Secretary shall attend and keep the records of all

meetings of the Stockholders, the Board and all other committees, if any, in one or more books kept for that purpose. The Secretary shall give or cause to be given due notice of all meetings accordance with these By-laws and as required by law. The Secretary shall notify the several officers of the Corporation of all action taken by the Board concerning matters relating to their duties and shall transmit to the appropriate officers copies of all contracts and resolutions approved by the Board. The Secretary shall be custodian of the seal of the Corporation and of all contracts, deeds, documents and other corporate papers, records (except financial and accounting records) and indicia of title to properties owned by the Corporation as shall not be committed to the custody of another officer by the Board or by the President. The Secretary shall affix or cause to be affixed the seal of the Corporation to instruments requiring the same when the same have been signed on behalf of the Corporation by a duly authorized officer. The Secretary shall perform all duties and have all powers incident to the office of Secretary and shall perform such other duties as shall be assigned by the Board or the President. The Secretary may be assisted by one or more Assistant Secretaries, who shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary.

(D) Treasurer. The Treasurer shall have charge and custody of the

corporate funds and other valuable effects, including securities. The Treasurer shall keep true and full accounts of all assets, liabilities, receipts and disbursements and other transactions of the Corporation and shall cause regular audits of the books and records of

the Corporation to be made. The Treasurer shall perform all duties and have all powers incident to the office of Treasurer and shall perform such other duties as shall be assigned by the Board or the President. The Treasurer may be assisted by one or more Assistant Treasurers, who shall, in the absence or disability of the Treasurer, perform the duties or exercise the powers of the Treasurer.

SECTION 4. Resignation, Removal and Vacancies. Any officer may resign at

any time by giving written notice of such resignation to the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if not specified therein, when accepted by action of the Board.

Any officer, agent or employee may be removed, with or without cause, at any time by the Board or by the officer who made such appointment.

A vacancy in any office may be filled for the unexpired portion of the term in the same manner as provided in these By-laws for election or appointment to such office.

ARTICLE V

Waiver of Notices; Place of Meetings

SECTION 1. Waiver of Notices. Whenever notice is required to be given by

the Certificate of Incorporation, by these By-laws or by law, a waiver thereof in writing, signed by the person entitled to such notice, or by attorney thereunto authorized, shall be deemed equivalent to notice, whether given before or after the time specified therein. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except where the person attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

SECTION 2. Place of Meetings. Any meeting of the Stockholders, the Board

or any committee of the Board may be held within or outside the State of Delaware.

ARTICLE VI

Execution and Delivery of Documents:

Deposits; Proxies; Books and Records

SECTION 1. Execution and Delivery of Documents: Delegation. The Board

shall designate the officers, employees and agents of the Corporation who shall have power to execute and deliver deeds, contracts, mortgages, bonds, debentures, checks, drafts and other orders for the payment of money and other documents for and in the name of the Corporation and may authorize such officers, employees and agents to delegate such power (including authority to redelegate) by written instrument to other officers, employees or agents of the Corporation.

SECTION 2. Deposits. All funds of the Corporation not otherwise employed

shall be deposited from time to time to the credit of the Corporation or otherwise as the Board or the President or any other officer, employee or agent of the Corporation to whom power in that respect shall have been delegated by the Board or these By-laws shall select.

SECTION 3. Proxies in Respect of Stock or Other Securities of Other

Corporations. The President or any officer of the Corporation designated by the

Board shall have the authority from time to time to appoint and instruct an agent or agents of the Corporation to exercise in the name and on behalf of the Corporation the powers and rights which the Corporation may have as the holder of stock or other securities in any other corporation, to vote or consent in respect of such stock or securities and to execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal or otherwise, such written proxies, powers of attorney or other instruments as the President or such officer may deem necessary or proper in order that the Corporation may exercise such powers and rights.

SECTION 4. Books and Records. The books and records of the Corporation may

be kept at such places within or without the State of Delaware as the Board may from time to time determine.

ARTICLE VII

Certificates; Stock Record; Transfer and

Registration; New Certificates; Record Date; etc.

SECTION 1. Certificates for Stock. Every owner of stock of the Corporation

shall be entitled to have a certificate certifying the number of shares owned by such stockholder in the Corporation and designating the class of stock to which such shares belong, which shall otherwise be in such form as the Board shall prescribe. Each such certificate shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation. Any of or all such signatures may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may nevertheless be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled and a new certificate or certificates shall not be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 4 of this Article.

SECTION 2. Stock Record. A stock record in one or more counterparts shall

be kept of the name of the person, firm or corporation owning the stock represented by each such certificate for stock of the Corporation issued, the number of shares represented by

each such certificate, the date thereof and, in the case of cancellation, the date of cancellation.

SECTION 3. Transfer and Registration of Stock. Registration of transfers

of shares of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by such holder's attorney thereunto authorized by power of attorney duly executed and filed with the Secretary, and on the surrender of the certificate or certificates for such shares properly endorsed or accompanied by a stock power duly executed, with any necessary transfer stamps affixed and with such proof of authenticity of signatures and such proof of authority to make the transfer as may be required by the Corporation or its transfer agent.

SECTION 4. New Certificates.

(A) Lost, Stolen or Destroyed Certificates. The Board may direct a

new share certificate or certificates to be issued by the Corporation for any certificate or certificates alleged to have been lost, stolen, mutilated or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen, mutilated or destroyed. When authorizing such issue of a new certificate or certificates, the Board may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, mutilated or destroyed certificate or certificates, or such owner's legal representative, to give the Corporation a bond in such sum and in such form as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, mutilated or destroyed.

SECTION 5. Regulations. The Board may make such rules and regulations as

it may deem expedient, not inconsistent with these By-laws, concerning the issue, transfer and registration of certificates for stock of the Corporation.

SECTION 6. Fixing Date for Determination of Stockholders of Record. In

order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. A determination of stockholders entitled to notice of or to vote at a meeting of the stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting

ARTICLE VIII

Seal

The Board shall provide a corporate seal which shall bear the full name of the Corporation and the year and state of its incorporation.

ARTICLE IX

Indemnification

SECTION 1. Actions, Etc. Other Than By or in the Right of the Corporation.

The Corporation shall, to the full extent legally permissible, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including a grand jury proceeding, and all appeals (but excluding any such action, suit or proceeding by or in the right of the Corporation), by reason of the fact that such person is or was a director, executive officer (as hereinafter defined) or advisory council member of the Corporation, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct in question was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of

itself, create a presumption that such person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, that such person had reasonable cause to believe that the conduct in question was unlawful. As used in this Article IX, an "executive officer" of the Corporation is the president, treasurer, a vice president given the title of executive vice president, or any officer designated as such pursuant to vote of the Board of Directors.

SECTION 2. Actions, Etc., By or in the Right of the Corporation. The

Corporation shall, to the full extent legally permissible, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit, including appeals, by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person is or was a director or executive officer of the Corporation as defined in Section I of this Article, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person

acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 3. Determination of Right of Indemnification. Any indemnification

of a director or officer (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that such indemnification is proper in the circumstances because the director or executive officer has met the applicable standard of conduct as set forth in Sections 1 and 2 hereof. Such a determination shall be reasonably and promptly made (i) by the Board of Directors by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) (if such a quorum is not obtainable, or, even if obtainable if a quorum of disinterested directors so directs) by independent legal counsel in a written opinion, or (iii) by the stockholders.

SECTION 4. Indemnification Against Expenses of Successful Party.

Notwithstanding any other provision of this Article, to the extent that a director or officer of the Corporation has been successful in whole or in part on the merits or otherwise, including the dismissal of an action without prejudice, in defense of any action, suit or proceeding or in defense of any claim, issue or matter therein, such person shall be indemnified against all expenses incurred in connection therewith.

SECTION 5. Advances of Expenses. Expenses incurred by a director or

officer in any action, suit or proceeding may be paid by the Corporation in advance of the final disposition of thereof, if such person shall undertake to repay such amount in the event that it is ultimately determined, as provided herein, that such person is not entitled to indemnification. Notwithstanding the foregoing, no advance shall be made by the Corporation if a determination is reasonably and promptly made (i) by the Board of Directors by a majority vote of a quorum of disinterested directors, or (ii) (if such a quorum is not obtainable or, even if obtainable, if a quorum of disinterested directors so directs) by independent legal counsel in a written opinion, that, based upon the facts known to the Board of Directors or such counsel at the time such determination is made, such person has not met the relevant standards set forth for indemnification in Section 1 or 2, as the case may be.

SECTION 6. Right to Indemnification Upon Application: Procedure Upon

Application. Any indemnification or advance under Sections 1, 2, 4 or 5 of this

Article shall be made promptly, and in any event within ninety days, upon the written request of the person seeking to be indemnified, unless a determination is reasonably and promptly made by the Board of Directors that such person acted in a manner set forth in such Sections so as to justify the Corporation's not indemnifying such person or making such

an advance. In the event no quorum of disinterested directors is obtainable, the Board of Directors shall promptly appoint independent legal counsel to decide whether the person acted in the manner set forth in such Sections so as to justify the Corporation's not indemnifying such person or making such an advance. The right to indemnification or advances as granted by this Article shall be enforceable by such person in any court of competent jurisdiction, if the Board of Directors or independent legal counsel denies the claim therefor, in whole or in part, or if no disposition of such claim is made within ninety days.

SECTION 7. Other Right and Remedies; Continuation of Rights. The

indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any By-law, agreement, vote of stockholders or disinterested directors, the General Corporation Law of the State of Delaware or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. All rights to indemnification or advancement under this Article shall be deemed to be in the nature of contractual rights bargained for and enforceable by each director and executive officer as defined in Section 1 of this Article who serves in such capacity at any time while this Article and other relevant provisions of the General Corporation Law of the State of Delaware and other applicable laws, if any, are in effect. All rights to indemnification under this Article or advancement of expenses shall continue as to a person who has ceased to be a director or executive officer, and shall inure to the benefit of the heirs, executors and administrators of such a person. No repeal or modification of this Article shall adversely affect any such rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts. The Corporation shall also indemnify any person for attorneys' fees, costs, and expenses in connection with the successful enforcement of such person's rights under this Article.

SECTION 8. Other Indemnities. The Board of Directors may, by general vote

or by vote pertaining to a specific officer, employee or agent, advisory council member or class thereof, authorize indemnification of the Corporation's employees and agents, in addition to those executive officers and to whatever extent it may determine, which may be in the same manner and to the same extent provided above.

SECTION 9. Insurance. Upon resolution passed by the Board of Directors,

the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, advisory council member or agent of the Corporation, or is or was serving at the request of the Corporation, as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article.

SECTION 10. Constituent Corporations. For the purposes of this Article,

references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporations (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors and officers so that any person who is or was a director or officer of such a constituent corporation or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

SECTION 11. Savings Clause. If this Article or any portion hereof shall

be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, executive officer, advisory council member, and those employees and agents of the Corporation granted indemnification pursuant to Section 3 hereof as to expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any a action, suit or proceeding, whether civil, criminal, administrative or investigative including grand jury proceeding, and all appeals, and any action by the Corporation, to the full extent permitted by any applicable portion of this Article that shall not have been invalidated or by any other applicable law.

SECTION 12. Other Enterprises, Fines, and Serving at Corporation's

Request. For purposes of this Article, references to "other enterprises" shall

include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to any employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of any employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article.

ARTICLE X

Dividends

Subject to the applicable provision of the Certificate of Incorporation, if any, dividends upon the outstanding shares of the Corporation may be declared by the Board of Directors at any regular or special meeting pursuant to law and may be paid in cash, in property, or in shares of the Corporation.

ARTICLE XI

Fiscal Year

The fiscal year of the Corporation shall be determined by resolution of the Board of Directors.

ARTICLE XII

Amendments

These By-laws may be amended, altered or repealed either by the affirmative vote of the holders of a majority of the stock issued and outstanding and entitled to vote in respect thereof and represented in person or by proxy at any annual or special meeting of the stockholders, or by the Board of Directors at any regular or special meeting of the Board of Directors.

FIFTH AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
SOHU.COM INC.

Sohu.com Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), hereby certifies as follows:

A. The name of the Corporation is Sohu.com Inc. The date of the filing of its original Certificate of Incorporation (the "Original Certificate of Incorporation") with the Secretary of State of the State of Delaware was August 2, 1996, under the name of Internet Technologies China Incorporated. The Original Certificate of Incorporation was amended and restated on March 10, 1998, subsequently amended and restated on August 7, 1998, amended on September 28, 1999, amended and restated on October 15, 1999, and subsequently amended and restated on February 1, 2000 (the "Fourth Amended and Restated Certificate of Incorporation").

B. This Fifth Amended and Restated Certificate of Incorporation (the "Certificate"), which amends, restates and integrates the provisions of the Fourth Amended and Restated Certificate of Incorporation, as amended to date, was duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Sections 141(f), 242 and 245 of the General Corporation Law of the State of Delaware, as amended from time to time (the "DGCL"), and was duly adopted by the written consent of the stockholders of the Corporation in accordance with the applicable provisions of Sections 228, 242 and 245 of the DGCL.

C. The text of the Fourth Amended and Restated Certificate of Incorporation, as amended to date, is hereby amended and restated in its entirety to provide as herein set forth in full.

ARTICLE I

The name of this corporation (the "Corporation") is Sohu.com Inc.

ARTICLE II

The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of the Corporation's registered agent at such address is The Corporation Trust Company.

ARTICLE III

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the DGCL.

ARTICLE IV

A. Number of Shares and Classes of Stock. The Corporation is authorized

to issue two classes of stock to be designated, respectively, "Common Stock" and "Preferred Stock." The total number of shares of stock which the Corporation shall have authority to issue is Thirty Million (30,000,000) shares, consisting of Twenty Nine Million (29,000,000) shares of Common Stock, \$0.001 par value per share, and One Million (1,000,000) shares of Preferred Stock, \$0.001 par value per share.

B. Preferred Stock; The Power to Designate. The Board of Directors of

the Corporation is hereby expressly vested with the power to issue one or more series of the Preferred Stock of the Corporation from time to time and by resolution to designate the powers, designations, preferences and relative, participating, optional or other special rights, and the qualifications, limitations or restrictions of any such series to the extent permitted under the DGCL.

Subject to the rights of the holders of any series of Preferred Stock, the number of authorized shares of any class or series of Preferred Stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the outstanding shares entitled to vote, irrespective of the provisions of 242(b)(2) of the DGCL or any corresponding provision hereafter enacted.

ARTICLE V

For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation and regulation of the powers of the Corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided:

1. The number of directors of the Corporation shall be determined in accordance with the By-Laws. Commencing with the first annual meeting of the stockholders after the effective date hereof, the directors of the Corporation shall be divided into two classes, as nearly equal as reasonably possible, as determined by the Board of Directors, with the initial term of office of the first class of such Directors ("Class I") to expire at the second annual meeting of the stockholders after the effective date hereof and the initial term of office of the second class of such directors ("Class II") to expire at the third annual meeting of the stockholders after the effective date hereof, with each class of directors to hold office until their successors have been elected and qualified. At each annual meeting of stockholders, directors elected to succeed the directors whose terms expire at such annual meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders in the second year following the year of their election and until their successors have been duly elected and qualified. Elections of directors need not be by written ballot except and to the extent provided in the By-Laws of the Corporation.

2. The board of directors of the Corporation is expressly authorized to adopt, amend or repeal the By-Laws of the Corporation. The By-Laws of the Corporation may also be altered or repealed and new By-Laws may be adopted at any annual or special meeting of stockholders, by the affirmative vote of the holders of not less than a majority of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, considered for purposes hereof as a single class.

3. Any action required or permitted to be taken by the stockholders of the Corporation must be taken at a duly called annual or special meeting of such holders and may not be taken by any consent in writing by such holders. Except as otherwise provided for herein or required by law, special meetings of stockholders of the Corporation for any purpose or purposes may be called only by the Board or by the President, and any power of stockholders to call a special meeting is specifically denied.

4. No director of the Corporation shall have any personal liability to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director; provided, however, that the foregoing shall not -----
eliminate or limit the liability of a director of the Corporation (i) for any breach of such director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the DGCL, or (iv) for any transactions from which the director derived an improper personal benefit. If the DGCL is amended after the effective date of this Certificate to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the DGCL, as so amended.

Any proposed alteration, amendment or repeal of any provision of Article V shall require the affirmative vote of the holders of not less than 80% of the voting power of all outstanding shares of capital stock of the Corporation entitled to vote generally in the election of directors, considered for the purposes hereof as a single class; provided, however, that any such -----
alteration, amendment or repeal by the stockholders of the Corporation (or by operation of law) shall not adversely affect any right or protection of a director of the Corporation with respect to any acts or omissions of such directors occurring prior to such amendment or repeal.

ARTICLE VI

The corporation shall, to the fullest extent permitted by Section 145 of the DGCL, as the same may be amended and supplemented, indemnify directors of the Corporation from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any By-Law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his capacity as a director and as to action in another capacity during his tenure as a director, and shall continue as to a person who has ceased to be a director, and shall inure to the benefit of the heirs, executors and administrators of such a person.

Any amendment, modification or repeal of Article VI shall not adversely affect any right or protection in favor of any director existing at the time of, or increase the liability of any director of the Corporation with respect to any acts or omissions of such person occurring prior to such amendment, modification or repeal.

ARTICLE VII

From time to time any of the provisions of this Amended and Restated Certificate of Incorporation may be amended, altered or repealed, and other provisions authorized by the laws of the State of Delaware at the time in force may be added or inserted in the manner and at the time prescribed by said laws, and all rights at any time conferred upon the stockholders of the Corporation by this Amended and Restated Certificate of Incorporation are granted subject to the provisions of this Article VII.

* * * *

IN WITNESS WHEREOF, the undersigned has executed this Certificate on _____, 2000.

By: _____
Timothy B. Bancroft
Assistant Secretary

AMENDED AND RESTATED

BY-LAWS

OF

SOHU.COM INC.

ARTICLE I

Offices

SECTION 1. Registered Office. The registered office of Sohu.com Inc. (the Corporation) in the State of Delaware, shall be 1209 Orange Street, Wilmington, Delaware 19805, in the County of New Castle. The name of the registered agent at such office shall be The Corporation Trust Company.

SECTION 2. Other Offices. The Corporation may also have offices at such other places either within or without the State of Delaware as the Board of Directors (the "Board") may from time to time determine.

ARTICLE 11

Meetings of Stockholders

SECTION 1. Annual Meetings. The annual meeting of the stockholders of the Corporation for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held at such hour and place as the Board may determine on the second Tuesday in May of each year or on such other date as the Board may determine. If for any reason the annual meeting shall not be held on the date fixed herein, a special meeting in lieu of the annual meeting may be held, with all the force and effect of an annual meeting, on such date and at such place and hour as shall be designated by the Board in the notice thereof. At the annual meeting any business may be transacted whether or not the notice of such meeting shall have contained a reference thereto, except where such a reference is required by law, the Certificate of Incorporation or these By-laws.

SECTION 2. Special Meetings. A special meeting of the stockholders for any purpose or purposes may be called at any time by the Board or by the President, and such meeting shall be held on such date and at such place and hour as shall be designated in the notice thereof. Any power of stockholders to call a special meeting is specifically denied.

SECTION 3. Notice of Meetings. Except as otherwise expressly required by these By-laws or by law, notice of each meeting of the stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each

stockholder of record entitled to notice of, or to vote at, such meeting by delivering a notice thereof to such stockholder personally or by depositing such notice in the United States mail, directed to such stockholder at such stockholder's address as it appears on the stock records of the Corporation. Every such notice shall state the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called. Notice of any adjourned meeting of the stockholders shall not be required to be given if the time and place thereof are announced at the meeting at which the adjournment is taken and a new record date for the adjourned meeting is not thereafter fixed.

SECTION 4. Quorum and Manner of Acting. Except as otherwise expressly

required by law, if stockholders holding of record a majority of the shares of stock of the Corporation issued, outstanding and entitled to be voted at the particular meeting shall be present in person or by proxy, a quorum for the transaction of business at any meeting of the stockholders shall exist. In the absence of a quorum at any such meeting or any adjournment or adjournments thereof, a majority in voting interest of those present in person or by proxy and entitled to vote thereat may adjourn such meeting from time to time until stockholders holding the amount of stock requisite for a quorum shall be present in person or by proxy. At any such adjourned meeting at which a quorum is present any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 5. Voting. Except as otherwise provided in the Certificate of

Incorporation, each stockholder shall, at each meeting of the stockholders, be entitled to one vote in person or by proxy for each share of stock of the Corporation which has voting power on the matter in question held by such stockholder and registered in such stockholder's name on the stock record of the Corporation:

(a) on the date fixed pursuant to the provisions of Section 6 of Article VII of these By-laws as the record date for the determination of stockholders who shall be entitled to receive notice of and to vote at such meeting; or

(b) if no record date shall have been so fixed, at the close of business on the day next given or, if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which the meeting shall be held.

At all meetings of the stockholders all matters, except as otherwise provided in the Certificate of Incorporation, in these By-laws or by law, shall be decided by the vote of a majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat, a quorum being present.

SECTION 6. Written Consent of Stockholders in Lieu of Meeting Not

Permitted. Any action required to be taken or any other action which may be

taken must be taken at a duly called annual or special meeting of stockholders, and may not be taken by a consent in writing by such holders.

SECTION 7. Advance Notice of Stockholder Proposals. At any annual or

special meeting of stockholders, proposals by stockholders and persons nominated for election as directors by stockholders shall be considered only if advance notice thereof has been timely given as provided herein and such proposals or nominations are otherwise proper for consideration under applicable law and the Certificate of Incorporation and By-laws of the Corporation. Notice of any proposal to be presented by any stockholder or of the name of any person to be nominated by any stockholder for election as a director of the Corporation at any meeting of stockholders shall be delivered to the Secretary of the Corporation at its principal executive office not less than 60 nor more than 90 days prior to the date of the meeting, provided, however, that if the date of

the meeting is first publicly announced or disclosed (in a public filing or otherwise) less than 70 days prior to the date of the meeting, such advance notice shall be given not more than ten days after such date is first so announced or disclosed. Public notice shall be deemed to have been given more than 70 days in advance of the annual meeting if the Corporation shall have previously disclosed, in these By-laws or otherwise, that the annual meeting in each year is to be held on a determinable date, unless and until the Board determines to hold the meeting on a different date.

Any stockholder who gives notice of any such proposal shall deliver therewith the text of the proposal to be presented and a brief written statement of the reasons why such stockholder favors the proposal and setting forth such stockholder's name and address, the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder and any material interest of such stockholder in the proposal (other than as a stockholder). Any stockholder desiring to nominate any person for election as a director of the Corporation shall deliver with such notice a statement in writing setting forth the name of the person to be nominated, the number and class of all shares of each class of stock of the Corporation beneficially owned by such person, the information regarding such person required by paragraphs (a), (e) and (f) of Item 401 of Regulation S-K adopted by the Securities and Exchange Commission (or the corresponding provisions of any regulation subsequently adopted by the Securities and Exchange Commission applicable to the Corporation), such person's signed consent to serve as a director of the Corporation if elected, such stockholder's name and address and the number and class of all shares of each class of stock of the Corporation beneficially owned by such stockholder.

The person presiding at the meeting, in addition to making any other determinations that may be appropriate to the conduct of the meeting, shall determine whether such notice has been given and shall direct that proposals and nominees not be considered if such notice has not been given.

SECTION 8. Inspectors. Either the Board or, in the absence of a

designation of inspectors by the Board, the chairman of the meeting may, in the discretion of the Board or the chairman, appoint one or more inspectors, who need not be stockholders, who shall receive and take charge of ballots and proxies and decide all questions relating to the qualification of those asserting the right to vote and the validity of ballots and proxies. In the event of the failure or refusal to serve of any inspector designated by the Board, the

chairman of the meeting shall appoint an inspector to act in place of each such inspector designated by the Board.

ARTICLE III

Board of Directors

SECTION 1. General Powers. The property, business, affairs and policies

of the Corporation shall be managed by or under the direction of the Board.

SECTION 2. Number and Term of Office. The number of directors which shall

constitute the entire Board shall be seven (7) initially and thereafter the number shall be fixed from time to time by resolution of the Board.

SECTION 3. Meetings.

(A) Annual Meeting. The annual meeting of the Board, for the purpose

of organization, the election of officers and the transaction of other business, shall be held as promptly as practicable after each annual meeting of stockholders or the special meeting in lieu thereof.

(B) Regular Meetings. Regular meetings of the Board or any committee

thereof shall be held at such time and place, within or without the State of Delaware, as the Board or such committee shall from time to time determine.

(C) Special Meetings. Special meetings of the Board may be called by

order of the President or by a majority of the directors then in office.

(D) Notice of Meetings. No notice of regular meetings of the Board

or of any committee thereof or of any adjourned meeting thereof need be given. The Secretary shall give prior notice to each director of the time and place of each special meeting of the Board or adjournment thereof. Such notice shall be given to each director in person or by telephone, fax or ordinary mail, not less than two days before the meeting if given in person or by telephone or fax and, if given by mail, post marked at least four (4) days prior to the special meeting if given by mail, and sent to such director at the director's residence or usual business address. Each such notice shall state the time and place of the meeting and purpose thereof. In lieu of the notice to be given as set forth above, a waiver thereof in writing, signed by the director or directors entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto for purposes of this Section 3(D). No notice to or waiver by any director with respect to any special meeting shall be required if such director shall be present at said meeting.

(E) Quorum and Manner of Acting.

(a) At all meetings of the Board, each director present shall
have one vote, irrespective of the number of shares of stock, if any, which he may hold.

(b) Except as otherwise expressly required by these By-laws or by law, a majority of the directors then in office and a majority of the members of any committee shall be present in person at any meeting thereof in order to constitute a quorum for the transaction of business at such meeting, and the vote of a majority of the directors present at any such meeting at which a quorum is present shall be necessary for the passage of any resolution or for an act to be the act of the Board or such committee. In the absence of a quorum, a majority of the directors present thereat may adjourn such meeting either finally or from time to time to another time and place until a quorum shall be present thereat. In the latter case notice of the adjourned time and place shall be given as aforesaid to all directors.

(F) Consent in Lieu of Meeting. Any action required or permitted to

be taken at any meeting of the Board or any committee thereof may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in a writing or writings and such writing or writings are filed with the minutes of the proceedings of the Board or committee. Such consents shall be treated for all purposes as a vote at a meeting.

(G) Action by Communications Equipment. The directors may participate

in a meeting of the Board or any committee thereof by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and such participation shall constitute presence in person at such meeting.

SECTION 4. Compensation. Each director, in consideration of serving as

such, may receive from the Corporation such amount per annum and such fees and expenses incurred for attendance at meetings of the Board or of any committee, or both, as the Board may from time to time determine. Nothing contained in this Section shall be construed to preclude any director from serving the Corporation in any other capacity and receiving compensation therefor.

SECTION 5. Restoration, Removal and Vacancies. Any director may resign at

any time by giving written notice, of such resignation to the President or the Secretary.

Any such resignation shall take effect at the time specified therein or, if not specified therein, upon receipt. Unless otherwise specified in the resignation, its acceptance shall not be necessary to make it effective. Except as provided for in the Certificate of Incorporation, any or all of the directors may be removed at any time at a duly called and duly held meeting of shareholders by vote of a majority of shares then entitled to vote at an election of directors.

If the office of any director becomes vacant at any time by reason of death, resignation, retirement, disqualification, removal from office or otherwise, or if any new directorship is created by any increase in the authorized number of directors, a majority of the directors then in office, though less than a quorum, or the sole remaining director,

may choose a successor or fill the newly created directorship and the director so chosen shall hold office, subject to the provisions of these By-laws, until the next annual election of directors and until his successor shall be duly elected and shall qualify. In the event that a vacancy arising as aforesaid shall not have been filled by the Board, such vacancy may be filled by the stockholders at any meeting thereof after such office becomes vacant. If one or more directors shall resign from the Board, effective at a future date, a majority of the directors then in office, including those who have so prospectively resigned, shall have the power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as herein provided in the filling of other vacancies.

In the event of any increase or decrease in the authorized number of directors: (a) each director then serving as such shall nonetheless continue as a director of the class of which he is a member until the expiration of his current term, or his earlier death, retirement, resignation, or removal; and (b) the newly created or eliminated directorships resulting from such increase or decrease shall be apportioned by the Board among the two classes of directors so as to maintain such classes as nearly equal in number as reasonably possible.

SECTION 6. Committees. The directors may, by vote of a majority of the

directors then in office, appoint from their number one or more committees and delegate to such committees some or all of their powers to the extent permitted by law, the Certificate of Incorporation or these By-laws. Except as the Board may otherwise determine, any such committee may, by majority vote of the entire committee, make rules for the conduct of its business. The directors shall have the power at any time to fill vacancies in any such committee, to change its membership or to discharge the committee.

ARTICLE IV

Officers -----

SECTION 1. Election and Appointment and Term of Office. The officers of

the Corporation shall be a President, such number, if any, of Vice Presidents (including any Executive or Senior Vice Presidents) as the Board may from time to time determine, a Secretary and a Treasurer. Each such officer shall be elected by the Board at its annual meeting and hold office for such term as may be prescribed by the Board. Two or more offices may be held by the same person. The President may, but need not, be chosen from among the directors.

The Board may elect or appoint (and may authorize the President to appoint) such other officers (including one or more Assistant Secretaries and Assistant Treasurers) as it deems necessary who shall have such authority and shall perform such duties as the Board or the President may from time to time prescribe.

If additional officers are elected or appointed during the year, each shall hold

office until the next annual meeting of the Board at which officers are regularly elected or appointed and until such officer's successor is elected or appointed and qualified or until such officer's earlier death or resignation or removal in the manner hereinafter provided.

SECTION 2. Duties and Functions.

(A) President. The President shall be the chief executive officer of

the Corporation and shall have general direction and supervision over the business and affairs of the Corporation, subject to the directions and limitations imposed by the Board and these By-laws, and shall see that all orders and resolutions of the Board are carried into effect. The President shall, if present, preside at all meetings of stockholders and of the Board and shall also perform such other duties and have such other powers as are prescribed by these By-laws or as may be from time to time prescribed by the Board, or these By-laws.

(B) Vice Presidents. Each Vice President shall have such powers and

duties as shall be prescribed by the Board.

(C) Secretary. The Secretary shall attend and keep the records of

all meetings of the stockholders, the Board and all other committees, if any, in one or more books kept for that purpose. The Secretary shall give or cause to be given due notice of all meetings accordance with these By-laws and as required by law. The Secretary shall notify the several officers of the Corporation of all action taken by the Board concerning matters relating to their duties and shall transmit to the appropriate officers copies of all contracts and resolutions approved by the Board. The Secretary shall be custodian of the seal of the Corporation and of all contracts, deeds, documents and other corporate papers, records (except financial and accounting records) and indicia of title to properties owned by the Corporation as shall not be committed to the custody of another officer by the Board or by the President. The Secretary shall affix or cause to be affixed the seal of the Corporation to instruments requiring the same when the same have been signed on behalf of the Corporation by a duly authorized officer. The Secretary shall perform all duties and have all powers incident to the office of Secretary and shall perform such other duties as shall be assigned by the Board or the President. The Secretary may be assisted by one or more Assistant Secretaries, who shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary.

(D) Treasurer. The Treasurer shall have charge and custody of the

corporate funds and other valuable effects, including securities. The Treasurer shall keep true and full accounts of all assets, liabilities, receipts and disbursements and other transactions of the Corporation and shall cause regular audits of the books and records of the Corporation to be made. The Treasurer shall perform all duties and have all powers incident to the office of Treasurer and shall perform such other duties as shall be assigned by the Board or the President. The Treasurer may be assisted by one or more Assistant Treasurers, who shall, in the absence or disability of the Treasurer, perform the duties or exercise the powers of the Treasurer.

SECTION 4. Resignation, Removal and Vacancies. Any officer may resign at

any time by giving written notice of such resignation to the President or the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if not specified therein, when accepted by action of the Board.

Any officer, agent or employee may be removed, with or without cause, at any time by the Board or by the officer who made such appointment.

A vacancy in any office may be filled for the unexpired portion of the term in the same manner as provided in these By-laws for election or appointment to such office.

ARTICLE V

Waiver of Notices; Place of Meetings

SECTION 1. Waiver of Notices. Whenever notice is required to be given by

the Certificate of Incorporation, by these By-laws or by law, a waiver thereof in writing, signed by the person entitled to such notice, or by attorney thereunto authorized, shall be deemed equivalent to notice, whether given before or after the time specified therein. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except where the person attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting is not lawfully called or convened.

SECTION 2. Place of Meetings. Any meeting of the stockholders, the Board

or any committee of the Board may be held within or outside the State of Delaware.

ARTICLE VI

Execution and Delivery of Documents:

Deposits; Proxies; Books and Records

SECTION 1. Execution and Delivery of Documents; Delegation. The Board

shall designate the officers, employees and agents of the Corporation who shall have power to execute and deliver deeds, contracts, mortgages, bonds, debentures, checks, drafts and other orders for the payment of money and other documents for and in the name of the Corporation and may authorize such officers, employees and agents to delegate such power (including authority to redelegate) by written instrument to other officers, employees or agents of the Corporation.

SECTION 2. Deposits. All funds of the Corporation not otherwise employed

shall be deposited from time to time to the credit of the Corporation or otherwise as the Board or the President or any other officer, employee or agent of the Corporation to whom power in that respect shall have been delegated by the Board or these By-laws shall select.

SECTION 3. Proxies in Respect of Stock or Other Securities of Other

Corporations. The President or any officer of the Corporation designated by the

Board shall have the authority from time to time to appoint and instruct an agent or agents of the Corporation to exercise in the name and on behalf of the Corporation the powers and rights which the Corporation may have as the holder of stock or other securities in any other corporation, to vote or consent in respect of such stock or securities and to execute or cause to be executed in the name and on behalf of the Corporation and under its corporate seal or otherwise, such written proxies, powers of attorney or other instruments as the President or such officer may deem necessary or proper in order that the Corporation may exercise such powers and rights.

SECTION 4. Books and Records. The books and records of the Corporation

may be kept at such places within or without the State of Delaware as the Board may from time to time determine.

ARTICLE VII

Certificates; Stock Record; Transfer and
Registration; New Certificates; Record Date; etc.

SECTION 1. Certificates for Stock. Every owner of stock of the

Corporation shall be entitled to have a certificate certifying the number of shares owned by such stockholder in the Corporation and designating the class of stock to which such shares belong, which shall otherwise be in such form as the Board shall prescribe. Each such certificate shall be signed by the President or a Vice President and by the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary of the Corporation. Any of or all such signatures may be facsimiles. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may nevertheless be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. Every certificate surrendered to the Corporation for exchange or transfer shall be canceled and a new certificate or certificates shall not be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 4 of this Article.

SECTION 2. Stock Record. A stock record in one or more counterparts

shall be kept of the name of the person, firm or corporation owning the stock represented by each such certificate for stock of the Corporation issued, the number of shares represented by each such certificate, the date thereof and, in the case of cancellation, the date of cancellation.

SECTION 3. Transfer and Registration of Stock. Registration of

transfers of shares of the Corporation shall be made only on the books of the Corporation by the registered holder thereof, or by such holder's attorney thereunto authorized by power of attorney duly executed and filed with the Secretary, and on the surrender of the certificate

or certificates for such shares properly endorsed or accompanied by a stock power duly executed, with any necessary transfer stamps affixed and with such proof of authenticity of signatures and such proof of authority to make the transfer as may be required by the Corporation or its transfer agent.

SECTION 4. New Certificates.

(A) Lost, Stolen or Destroyed Certificates. The Board may direct a

new share certificate or certificates to be issued by the Corporation for any certificate or certificates alleged to have been lost, stolen, mutilated or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen, mutilated or destroyed. When authorizing such issue of a new certificate or certificates, the Board may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen, mutilated or destroyed certificate or certificates, or such owner's legal representative, to give the Corporation a bond in such sum and in such form as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen, mutilated or destroyed.

SECTION 5. Regulations. The Board may make such rules and regulations as

it may deem expedient, not inconsistent with these By-laws, concerning the issue, transfer and registration of certificates for stock of the Corporation.

SECTION 6. Fixing Date for Determination of Stockholders of Record. In

order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than 60 nor less than 10 days before the date of such meeting, nor more than 60 days prior to any other action. A determination of stockholders entitled to notice of or to vote at a meeting of the stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting

ARTICLE VIII

Seal

The Board shall provide a corporate seal which shall bear the full name of the Corporation and the year and state of its incorporation.

ARTICLE IX

Indemnification

SECTION 1. Actions, Etc. Other Than By or in the Right of the Corporation.

The Corporation shall, to the full extent legally permissible, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, including a grand jury proceeding, and all appeals (but excluding any such action, suit or proceeding by or in the right of the Corporation), by reason of the fact that such person is or was a director or executive officer (as hereinafter defined), or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another Corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the conduct in question was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent,

shall not, of itself, create a presumption that such person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, that such person had reasonable cause to believe that the conduct in question was unlawful. As used in this Article IX, an "executive officer" of the Corporation shall be any officer designated as such pursuant to a vote of the Board of Directors.

SECTION 2. Actions, Etc., By or in the Right of the Corporation. The

Corporation shall, to the full extent legally permissible, indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit, including appeals, by or in the right of the Corporation to procure a judgment in its favor, by reason of the fact that such person is or was a director or executive officer of the Corporation as defined in Section I of this Article, or is or was serving at the request of the Corporation as a director, officer, partner, trustee, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if such person acted in good faith and in a manner such person reasonably believed to be in or not opposed to the best interests of the corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 3. Determination of Right of Indemnification. Any indemnification

of a director or officer (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that such indemnification is proper in the circumstances because the director or executive officer has met the

applicable standard of conduct as set forth in Sections 1 and 2 hereof. Such a determination shall be reasonably and promptly made (i) by the Board by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) (if such a quorum is not obtainable, or, even if obtainable if a quorum of disinterested directors so directs) by independent legal counsel in a written opinion, or (iii) by the stockholders.

SECTION 4. Indemnification Against Expenses of Successful Party.

Notwithstanding any other provision of this Article, to the extent that a director or officer of the Corporation has been successful in whole or in part on the merits or otherwise, including the dismissal of an action without prejudice, in defense of any action, suit or proceeding or in defense of any claim, issue or matter therein, such person shall be indemnified against all expenses incurred in connection therewith.

SECTION 5. Advances of Expenses. Expenses incurred by a director or

executive officer in any action, suit or proceeding may be paid by the Corporation in advance of the final disposition thereof, if such person shall undertake to repay such amount in the event that it is ultimately determined, as provided herein, that such person is not entitled to indemnification. Notwithstanding the foregoing, no advance shall be made by the Corporation if a determination is reasonably and promptly made (i) by the Board by a majority vote of a quorum of disinterested directors, or (ii) (if such a quorum is not obtainable or, even if obtainable, if a quorum of disinterested directors so directs) by independent legal counsel in a written opinion, that, based upon the facts known to the Board or such counsel at the time such determination is made, such person has not met the relevant standards set forth for indemnification in Section 1 or 2 hereof, as the case may be.

SECTION 6. Right to Indemnification Upon Application; Procedure Upon

Application. Any indemnification or advance under Sections 1, 2, 4 or 5 of this

Article shall be made promptly, and in any event within ninety days, upon the written request of the person seeking to be indemnified, unless a determination is reasonably and promptly made by the Board that such person acted in a manner set forth in such Sections so as to justify the Corporation's not indemnifying such person or making such an advance. In the event no quorum of disinterested directors is obtainable, the Board shall promptly appoint independent legal counsel to decide whether the person acted in the manner set forth in such Sections so as to justify the Corporation's not indemnifying such person or making such an advance. The right to indemnification or advances as granted by this Article shall be enforceable by such person in any court of competent jurisdiction, if the Board or independent legal counsel denies the claim therefor, in whole or in part, or if no disposition of such claim is made within ninety days.

SECTION 7. Other Right and Remedies; Continuation of Rights. The

indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any By-law, agreement, vote of stockholders or disinterested directors, the General Corporation Law of the State of

Delaware or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office. All rights to indemnification or advancement under this Article shall be deemed to be in the nature of contractual rights bargained for and enforceable by each director and executive officer as defined in Section 1 of this Article who serves in such capacity at any time while this Article and other relevant provisions of the General Corporation Law of the State of Delaware and other applicable laws, if any, are in effect. All rights to indemnification under this Article or advancement of expenses shall continue as to a person who has ceased to be a director or executive officer, and shall inure to the benefit of the heirs, executors and administrators of such a person. No repeal or modification of this Article shall adversely affect any such rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts. The Corporation shall also indemnify any person for attorneys' fees, costs, and expenses in connection with the successful enforcement of such person's rights under this Article.

SECTION 8. Other Indemnities. The Board may, by general vote or by vote

pertaining to a specific officer, employee or agent, advisory council member or class thereof, authorize indemnification of the Corporation's employees and agents, in addition to those executive officers and to whatever extent it may determine, which may be in the same manner and to the same extent provided above.

SECTION 9. Insurance. Upon resolution passed by the Board, the

Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee, advisory council member or agent of the Corporation, or is or was serving at the request of the Corporation, as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article.

SECTION 10. Constituent Corporations. For the purposes of this Article,

references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporations (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors and officers so that any person who is or was a director or officer of such a constituent corporation or is or was serving at the request of such constituent corporation as a director or officer of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as such person would have with respect to such constituent corporation if its separate existence had continued.

SECTION 11. Savings Clause. If this Article or any portion hereof shall

be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each director, executive officer and those employees and

agents of the Corporation granted indemnification pursuant to Section 3 hereof as to expenses (including attorneys' fees), judgments, fines and amounts paid in settlement with respect to any a action, suit or proceeding, whether civil, criminal, administrative or investigative including grand jury proceeding, and all appeals, and any action by the Corporation, to the full extent permitted by any applicable portion of this Article that shall not have been invalidated or by any other applicable law.

SECTION 12. Other Enterprises, Fines, and Serving at Corporation's

Request. For purposes of this Article, references to "other enterprises" shall

include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee, or agent with respect to any employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the interest of the participants and beneficiaries of any employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article.

ARTICLE X

Dividends

Subject to the applicable provision of the Certificate of Incorporation, if any, dividends upon the outstanding shares of the Corporation may be declared by the Board at any regular or special meeting pursuant to law and may be paid in cash, in property, or in shares of the Corporation.

ARTICLE XI

Fiscal Year

The fiscal year of the Corporation shall be determined by resolution of the Board.

ARTICLE XII

Amendments

These By-laws may be amended, altered or repealed either by the affirmative vote of the holders of a majority of the stock issued and outstanding and entitled to vote in respect thereof and represented in person or by proxy at any annual or special meeting of the stockholders, or by the Board at any regular or special meeting of the Board.

SOHU.COM INC.
2000 STOCK INCENTIVE PLAN

1. Purpose. This 2000 Stock Incentive Plan (the "Plan") is intended to

provide incentives: (a) to the officers and other employees of Sohu.com Inc., a Delaware corporation (the "Company"), and any present or future parent or subsidiaries of the Company (collectively, "Related Corporations") by providing them with opportunities to purchase stock in the Company pursuant to options granted hereunder which qualify as "incentive stock options" under Section 422(b) of the Internal Revenue Code of 1986, as amended (the "Code") ("ISO" or "ISOs"), (b) to directors, officers, employees, consultants and advisors of the Company and Related Corporations by providing them with (i) opportunities to purchase stock in the Company pursuant to options granted hereunder which do not qualify as ISOs ("Non-Qualified Option" or "Non-Qualified Options") or (ii) by providing them with opportunities to make direct purchases of common stock of the Company ("Restricted Stock Purchases"). Both ISOs and Non-Qualified Options are referred to hereafter individually as an "Option" and collectively as "Options." Options and Restricted Stock Purchases are referred to hereafter individually as a "Stock Right" and collectively as "Stock Rights." As used herein, the terms "parent" and "subsidiary" mean "parent corporation" and "subsidiary corporation," respectively, as those terms are defined in Section 424 of the Code.

2. Administration of the Plan.

A. Board or Committee Administration. The Plan shall be administered by

the Board of Directors of the Company (the "Board"). The Board may appoint a Compensation Committee (as the case may be, the "Committee") of two (2) or more of its members to administer the Plan and to grant Stock Rights hereunder, provided such Committee is delegated such powers in accordance with applicable state law. (All references in this Plan to the "Committee" shall mean the Board if no such Compensation Committee has been so appointed). If the Company registers any class of any equity security pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Plan shall be administered in accordance with the applicable rules set forth in Rule 16b-3 or any successor provisions of the Exchange Act or the rules under the Exchange Act or any such successor provision ("Rule 16b-3"). From and after the date the Company becomes subject to Section 162(m) of the Code with respect to compensation earned under the Plan, each member of the Committee shall also be an "outside director" within the meaning of Section 162(m) of the Code and the regulations promulgated thereunder.

B. Authority of Board or Committee. Subject to the terms of the Plan,

the Committee shall have the authority to: (i) determine the employees of the Company and Related Corporations (from among the class of employees eligible under paragraph 3 to receive ISOs) to whom ISOs may be granted, and to determine (from among the class of individuals and entities eligible under paragraph 3 to receive Non-Qualified Options and

to make purchases of Restricted Stock) to whom Non-Qualified Options or rights to make Restricted Stock Purchases may be granted; (ii) determine the time or times at which Options may be granted or Restricted Stock Purchases made; (iii) determine the exercise price of shares subject to each Option, which price shall not be less than the minimum price specified in paragraph 6, and the purchase price of shares subject to each Restricted Stock Purchase, which price shall be not less than 85% of the fair market value of shares of common stock on the date of the grant of the right to make a Restricted Stock Purchase; (iv) determine whether each Option granted shall be an ISO or a Non-Qualified Option; (v) determine (subject to paragraph 7) the time or times when each Option shall become exercisable and the duration of the exercise period; (vi) determine whether restrictions such as repurchase options are to be imposed on shares subject to Options and Restricted Stock Purchases and the nature of any such restrictions; (vii) impose such other terms and conditions with respect to Stock Rights not inconsistent with the terms of this Plan as it deems necessary or desirable; and (viii) interpret the Plan and prescribe and rescind rules and regulations relating to it.

If the Committee decides to issue a Non-Qualified Option, the Committee shall take whatever actions it deems necessary, under the Code and the regulations promulgated thereunder, to ensure that such Option is not treated as an ISO. The interpretation and construction by the Committee of any provisions of the Plan or of any Stock Right granted under it shall be final unless otherwise determined by the Board. The Committee may from time to time adopt such rules and regulations for carrying out the Plan as it may deem best. No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Stock Right granted under it.

C. Committee Actions. The Committee may select one of its members as its

chairman and shall hold meetings at such time and places as it may determine. Acts by a majority of the Committee, acting at a meeting (whether held in person or by teleconference), or acts reduced to or approved in writing by all of the members of the Committee, shall be the valid acts of the Committee. From time to time the Board may increase the size of the Committee and appoint additional members thereof, remove members (with or without cause) and appoint new members in substitution therefor, fill vacancies however caused, or remove all members of the Committee and thereafter directly administer the Plan, subject to compliance with paragraph 2A.

D. Grant of Stock Rights to Board Members. Stock Rights may be granted

to members of the Board, subject to compliance with Rule 16b-3 when required by paragraph 2A. All grants of Stock Rights to members of the Board shall be made in all respects in accordance with the provisions of this Plan applicable to other eligible persons.

3. Eligible Employees and Others. ISOs may be granted to any employee

of the Company or any Related Corporation. Those officers and directors of the Company who are not employees may not be granted ISOs under the Plan. Non-Qualified Options and authorizations to make Restricted Stock Purchases may be granted to any employee,

officer or director (whether or not also an employee) or consultant or advisor of the Company or any Related Corporation. The Committee may take into consideration a recipient's individual circumstances in determining whether to grant a Stock Right. Granting a Stock Right to any individual or entity shall neither entitle that individual or entity to, nor disqualify him from, participation in any other grant of Stock Rights.

4. Common Stock. The stock subject to Stock Rights shall be authorized

but unissued shares of Common Stock of the Company, \$.001 par value (the "Common Stock"), or shares of Common Stock reacquired by the Company in any manner. The aggregate number of shares which may be issued pursuant to the Plan is 900,000 minus that number of shares which are the subject of option grants made, or were purchased pursuant to the exercise of options that were granted, to employees, officers directors, or consultants of the Company or Related Corporations prior to the date of the adoption of this plan by the Company's Board of Directors, subject to adjustment as provided in paragraph 13. Any such shares may be issued pursuant to the exercise of ISOs or Non-Qualified Options or pursuant to Restricted Stock Purchases, so long as the aggregate number of shares so issued does not exceed such number, as adjusted. Until such time as the Company becomes subject to Section 162(m) of the Code with respect to compensation earned under this Plan, if any Stock Right granted under the Plan shall expire or terminate for any reason without having been exercised in full or shall cease for any reason to be exercisable in whole or in part or if any shares of Common Stock issued pursuant to a Stock Right have been repurchased by the Company in accordance with the terms of the agreement or instrument pursuant to which the Stock Right is granted, then the unpurchased shares subject to such Stock Right and any shares issued pursuant to a Stock Right that have been so repurchased by the Company (or shares in substitution thereof) shall again be available for grants of Stock Right under the Plan.

5. Granting of Stock Rights. Stock Rights may be granted under the Plan

at any time after January 24, 2000 and prior to January 24, 2010. The date of grant of a Stock Right under the Plan will be the date specified by the Committee at the time it grants the Stock Right; provided, however, that such date shall not be prior to the date on which the Committee acts to approve the grant. The Committee shall have the right, with the consent of the optionee, to convert an ISO granted under the Plan to a Non-Qualified Option pursuant to paragraph 17.

6. Minimum Option Price; ISO Limitations.

A. Price for ISOs. The exercise price per share specified in the

agreement relating to each ISO granted under the Plan shall not be less than the fair market value per share of Common Stock on the date of such grant. In the case of an ISO to be granted to an employee owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Related Corporation, the price per share specified in the agreement relating to such ISO shall not be less than one hundred ten percent (110%) of the fair market value per share of Common Stock on the date of grant.

B. \$100,000 Annual Limitation on ISOs. Each eligible employee may be

granted ISOs only to the extent that, in the aggregate under this Plan and all other incentive stock option plans of the Company and any Related Corporation, such ISOs do not become exercisable for the first time by such employee during any calendar year in a manner which would entitle the employee to purchase more than \$100,000 in fair market value (determined at the time the ISOs were granted) of Common Stock in that year. Any Options granted to an employee in excess of such amount will be granted as Non-Qualified Options.

C. Determination of Fair Market Value. If, at the time an Option is

granted under the Plan, the Company's Common Stock is publicly traded, "fair market value" shall be determined as of the last business day for which the prices or quotes discussed in this sentence are available prior to the date such Option is granted and shall mean (i) the average (on that date) of the high and low prices of the Common Stock on the principal national securities exchange on which the Common Stock is traded, if the Common Stock is then traded on a national securities exchange, or on the Nasdaq National Market or the Nasdaq Small Cap Market, if the Common Stock is not then traded on a national securities exchange; or (ii) the average of the low bid and high ask prices as quoted on that date by an established quotation service for over-the-counter securities, if the Common Stock is not then traded on a national securities exchange or the Nasdaq National Market or the Nasdaq Small Cap Market. If the Common Stock is not publicly traded at the time an Option is granted under the Plan, "fair market value" shall be deemed to be the fair value of the Common Stock as determined by the Committee after taking into consideration all factors in good faith it deems appropriate, including, without limitation, recent sale and offer prices of the Common Stock in private transactions negotiated at arm's length, if any.

7. Option Duration. Subject to earlier termination as provided in

paragraphs 9, 10, and 13B, each Option shall expire on the date specified by the Committee and set forth in the original stock option agreement granting such Option, provided that ISOs shall in any event expire not more than ten years from the date of grant and ISOs granted to an employee owning stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company or any Related Corporation, such ISOs shall expire not more than five years from the date of grant. Non-Qualified Options shall expire on the date specified in the agreement granting such Non-Qualified Options, subject to extension as determined by the Committee. ISOs, or any part thereof, that have been converted into Non-Qualified Options may be extended as provided in paragraph 17.

8. Exercise of Option. Subject to the provisions of paragraphs 9

through 13, each Option granted under the Plan shall be exercisable as follows:

A. Vesting. Unless otherwise specified by the Committee or the Board of

Directors and subject to paragraphs 9 and 10 with respect to ISO's, Options granted to employees shall vest on a schedule at least as rapid as the following: (a) as to 25% of the shares subject to the Option, on the first anniversary of the date of grant of the Option;

and (b) as to the remaining 75% of the shares subject to the Option, in 12 equal quarterly installments beginning one calendar quarter after the date of such anniversary. The Committee may also specify such other conditions precedent as it deems appropriate to the exercise of an Option.

B. Full Vesting of Installments. Once an installment becomes

exercisable it shall remain exercisable until expiration or termination of the Option, unless otherwise specified by the Committee.

C. Partial Exercise. Each Option or installment may be exercised at any

time or from time to time, in whole or in part, for up to the total number of shares with respect to which it is then exercisable, provided that the Committee may specify a certain minimum number or percentage of the shares issuable upon exercise of any Option that must be purchased upon any exercise.

D. Acceleration of Vesting. The Committee shall have the right to

accelerate the date of exercise of any installment of any Option, despite the fact that such acceleration may: (i) cause the application of Sections 280G and 4999 of the Code if an Acquisition, as defined below in paragraph 13B, occurs, or (ii) disqualify all or part of the Option as an ISO.

9. Termination of Employment. If an ISO optionee ceases to be employed

by the Company and all Related Corporations other than by reason of death or disability as defined in paragraph 10, no further installments of his ISOs shall become exercisable following the date of such cessation of employment, and his ISOs shall terminate after the passage of ninety (90) days from the date of termination of his employment, but in no event later than on their specified expiration dates, except to the extent that such ISOs (or unexercised installments thereof) have been converted into Non-Qualified Options pursuant to paragraph 17. Nothing in the Plan shall be deemed to give any grantee of any Stock Right the right to be retained in employment or other service by the Company or any Related Corporation for any period of time.

The Board or Committee may establish such provisions in particular Stock Right grant agreements as it may deem appropriate with respect to the treatment of Stock Rights other than ISOs upon the termination of the employment of the holder of the Stock Right.

10. Death; Disability.

A. Death. If an ISO optionee ceases to be employed by the Company and

all Related Corporations by reason of his death, any ISO of his may be exercised, to the extent of the number of shares with respect to which he could have exercised it on the date of his death, by his estate, personal representative or beneficiary who has acquired the ISO by will or by the laws of descent and distribution, at any time prior to the earlier of the specified expiration date of the ISO or one hundred and eighty (180) days from the date of such optionee's death.

B. Disability. If an ISO optionee ceases to be employed by the Company

and all Related Corporations by reason of his disability, he or, in the event of his death, his estate, personal representative or beneficiary who has acquired the ISO by will or by the laws of descent and distribution, shall have the right to exercise any ISO held by him on the date of termination of employment, to the extent of the number of shares with respect to which he could have exercised it on that date, at any time prior to the earlier of the specified expiration date of the ISO or one (1) year from the date of the termination of the optionee's employment. For the purposes of the Plan, the term "disability" shall mean "permanent and total disability" as defined in Section 22(e)(3) of the Code or successor statute.

11. Assignability. No ISO, and unless specified in the agreement or

instrument pursuant to which the Option is granted, no Non-Qualified Option shall be assignable or transferable by the optionee except by will or by the laws of descent and distribution, and during the lifetime of the grantee each Stock Right shall be exercisable only by him or her. No Stock Right, and no right to exercise any portion thereof, shall be subject to execution, attachment, or similar process, assignment, or any other alienation or hypothecation. Upon any attempt so to transfer, assign, pledge, hypothecate, or otherwise dispose of any Stock Right, or of any right or privilege conferred thereby, contrary to the provisions thereof or hereof or upon the levy of any attachment or similar process upon any Stock Right, right or privilege, such Stock Right and such rights and privileges shall immediately become null and void.

12. Terms and Conditions of Stock Rights. Stock Rights shall be

evidenced by instruments (which need not be identical) in such forms as the Committee may from time to time approve. Such instruments shall conform to the terms and conditions set forth in paragraphs 6 through 11 hereof to the extent applicable and may contain such other provisions as the Committee deems advisable which are not inconsistent with the Plan. Without limiting the foregoing, such provisions may include transfer restrictions, rights of refusal, vesting provisions, repurchase rights and drag-along rights with respect to shares of Common Stock issuable upon exercise of Stock Rights, and such other restrictions applicable to shares of Common Stock issuable upon exercise of Stock Rights as the Committee may deem appropriate. In granting any Non-Qualified Option, the Committee may specify that such Non-Qualified Option shall be subject to the restrictions set forth herein with respect to ISOs, or to such other termination, cancellation or other provisions as the Committee may determine. The Committee may from time to time confer authority and responsibility on one or more of its own members and/or one or more officers of the Company to execute and deliver such instruments. The proper officers of the Company are authorized and directed to take any and all action necessary or advisable from time to time to carry out the terms of such instruments.

13. Adjustments. Upon the occurrence of any of the following events, an

optionee's rights with respect to Options granted to him hereunder shall be adjusted as hereinafter provided, unless otherwise specifically provided in the written agreement between the optionee and the Company relating to such Option:

A. Stock Dividends and Stock Splits. If the shares of Common Stock

shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of Options shall be appropriately increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend.

B. Consolidations, Mergers or Sales of Assets or Stock. If the Company

is to be consolidated with or acquired by another person or entity in a merger, sale of all or substantially all of the Company's assets or stock or otherwise (an "Acquisition"), the

Committee or the board of directors of any entity assuming the obligations of the Company hereunder (the "Successor Board") shall, with respect to outstanding Options or shares acquired upon exercise of any Option, take one or more of the following actions: (i) make appropriate provision for the continuation of such options by substituting on an equitable basis for the shares then subject to such Options the consideration payable with respect to the outstanding shares of Common Stock in connection with the Acquisition; (ii) accelerate the date of exercise of such Options or of any installment of any such Options; (iii) upon written notice to the optionees, provide that all Options must be exercised, to the extent then exercisable, within a specified number of days of the date of such notice, at the end of which period the Options, including those which are not then exercisable, shall terminate; (iv) terminate all Options in exchange for a cash payment equal to the excess of the fair market value of the shares subject to such Options (to the extent then exercisable) over the exercise price thereof; or (v) in the event of a stock sale, require that the optionee sell to the purchaser to whom such stock sale is to be made, all shares previously issued to such optionee upon exercise of any Option, at a price equal to the portion of the net consideration from such sale which is attributable to such shares. Nothing contained herein will be deemed to require the Company to take, or refrain from taking, any one or more of the foregoing actions.

C. Recapitalization or Reorganization. In the event of a

reorganization of the Company (other than a transaction described in subparagraph B above) pursuant to which securities of the Company or of another corporation are issued with respect to the outstanding shares of Common Stock, an optionee upon exercising an Option shall be entitled to receive for the purchase price paid upon such exercise the securities he would have received if he had exercised his Option prior to such recapitalization or reorganization and had been the owner of the Common Stock receivable upon such exercise at such time.

D. Modification of ISOs. Notwithstanding the foregoing, any

adjustments made pursuant to the foregoing subparagraphs A, B or C with respect to ISOs shall be made only after the Committee, after consulting with counsel for the Company, determines whether such adjustments would constitute a "modification" of such ISOs (as that term is defined in Section 424 of the Code or any successor thereto) or would cause any adverse tax consequences for the holders of such ISOs. If the Committee determines that such adjustments made with respect to ISOs would constitute a modification of such ISOs, it may refrain from making such adjustments.

E. Issuances of Securities and Non-Stock Dividends. Except as expressly

provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares subject to Options. No adjustments shall be made for dividends paid in cash or in property other than securities of the Company (and, in the case of securities of the Company, such adjustments shall be made pursuant to the foregoing subparagraph A).

F. Fractional Shares. No fractional shares shall be issued under the

Plan, and the optionee shall receive from the Company cash in lieu of such fractional shares.

G. Adjustments. Upon the happening of any of the foregoing events

described in subparagraphs A, B or C above, the class and aggregate number of shares set forth in paragraph 4 hereof that are subject to Stock Rights which previously have been or subsequently may be granted under the Plan shall also be appropriately adjusted to reflect the events described in such subparagraphs. The Committee or the Successor Board, as applicable, shall determine the specific adjustments to be made under this paragraph 13 and its determination shall be conclusive.

If any person or entity owning Common Stock obtained by exercise of a Stock Right made hereunder receives shares or securities or cash in connection with a corporate transaction described in subparagraphs A, B or C above as a result of owning such Common Stock, except as otherwise provided in subparagraph B, such shares or securities or cash shall be subject to all of the conditions and restrictions applicable to the Common Stock with respect to which such shares or securities or cash were issued, unless otherwise determined by the Committee or the Board of Directors of the Surviving Entity.

H. Pooling-of-Interests Accounting. If the Company proposes to engage

in an Acquisition intended to be accounted for as a pooling-of-interests, and in the event that the provisions of this Plan or of any agreement hereunder, or any actions of the Board taken in connection with such Acquisition, are determined by the Company's or the Surviving Entity's independent public accountants to cause such Acquisition to fail to be accounted for as a pooling-of-interests, then such provisions or actions may be amended or rescinded at the election of the Committee, without the consent of any grantee, to be consistent with pooling-of-interests accounting treatment for such Acquisition.

14. Means of Exercising Stock Rights. A Stock Right (or any part or

installment thereof) shall be exercised by the holder thereof giving written notice to the Company at its principal office address. Such notice shall identify the Stock Right being exercised and specify the number of shares as to which such Stock Right is being exercised, accompanied by full payment of the purchase price therefor either (a) in United States dollars in cash or by check, or (b) at the discretion of the Committee, delivery of an irrevocable and unconditional undertaking, satisfactory in form and substance to the Company, by a creditworthy broker to deliver promptly to the Company sufficient funds to pay the exercise price, or delivery to the Company of a copy of irrevocable and unconditional instructions, satisfactory in form and substance to the Company, to a creditworthy broker to deliver promptly to the Company cash or a check sufficient to pay the exercise price, or (c) at the discretion of the Committee, through delivery of shares of Common Stock having a fair market value equal as of the date of the exercise to the cash exercise price of the Stock Right, or (d) at the discretion of the Committee, by delivery of the grantee's personal recourse note bearing interest payable not less than annually at no less than 100% of the applicable Federal rate, as defined in Section 1274(d) of the Code, or (e) at the discretion of the Committee, by any combination of (a), (b) (c) and (d) above.

The holder of a Stock Right shall not have the rights of a shareholder with respect to the shares covered by his Stock Right until the date of issuance of a stock certificate to him for the shares subject to the Stock Right. Except as expressly provided above in paragraph 13 with respect to changes in capitalization and stock dividends, no adjustment shall be made for dividends or similar rights for which the record date is before the date such stock certificate is issued.

15. Term and Amendment of Plan. This Plan was originally adopted by the

Board on January 24, 2000 and will be presented to the stockholders of the Company for approval on or prior to January 24, 2001. If the approval of stockholders is not obtained by such date, ISOs granted under the Plan prior to that date will be converted automatically to Non-Qualified Options, without any action on the part of the Board, the Committee, or the holder of the Option. The Plan shall expire on that date which is ten years from the date of its adoption by the Board (except as to Options outstanding on the expiration date). Options may be granted under the Plan prior to the date of stockholder approval of the Plan.

The Board may terminate or amend the Plan in any respect at any time, except that, without the approval of the stockholders obtained within 12 months before or after the Board adopts a resolution authorizing any of the following actions: (a) the total number of shares that may be issued under the Plan may not be increased (except by adjustment pursuant to paragraph 13); (b) the provisions of paragraph 3 regarding eligibility for grants of ISOs may not be modified; (c) the provisions of paragraph 6(B) regarding the exercise price at which shares may be offered pursuant to ISOs may not be modified (except by adjustment pursuant to paragraph 13); and (d) the expiration date of the Plan may not be extended.

16. Section 162(m) Notwithstanding anything herein to the contrary, no

Stock Right shall become exercisable, vested or realizable if such Stock Right is granted to an employee that is a "covered employee" as defined in Section 162(m) of the Code and the Committee has determined that such Stock Right should be structured so that it is not "applicable employee remuneration" under such Section 162(m) unless and until the terms of this Plan, including any amendment hereto, have been approved by the Company's stockholders in the manner and to the extent required under such Section 162(m).

17. Amendment of Stock Rights. The Board or Committee may amend, modify

or terminate any outstanding Stock Rights including, but not limited to, substituting therefor another Stock Right of the same or a different type, changing the date of exercise or realization, and converting an ISO to a Non-Qualified Option; provided that, except as otherwise provided in paragraphs 9, 10, and 15, the grantee's consent to such action shall be required unless the Board or Committee determines that the action, taking into account any related action, would not materially and adversely affect the grantee.

18. Application Of Funds. The proceeds received by the Company from the exercise of Options granted and Restricted Stock Purchases authorized under the Plan shall be used for general corporate purposes.

19. Governmental Regulation. The Company's obligation to sell and deliver shares of the Common Stock under this Plan is subject to the approval of any governmental authority required in connection with the authorization, issuance or sale of such shares.

20. Withholding of Additional Income Taxes. Upon the exercise of a Non-Qualified Option, the making of a Restricted Stock Purchase for less than its fair market value, the making of a Disqualifying Disposition (as defined in paragraph 21) or the vesting of forfeitable stock purchased pursuant to a Restricted Stock Purchase, the Company, in accordance with Section 3402(a) of the Code, may require the holder of the Stock Right to pay additional withholding taxes in respect of the amount that is considered compensation includible in such person's gross income. The Committee in its discretion may condition (i) the exercise of an Option, (ii) the making of a Restricted Stock Purchase Award, or (iii) the vesting of forfeitable stock purchased pursuant to a Restricted Stock Purchase, on the grantee's payment of such additional withholding taxes.

21. Notice to Company of Disqualifying Disposition. Each employee who receives an ISO must agree to notify the Company in writing immediately after the employee makes a Disqualifying Disposition of any Common Stock acquired pursuant to the exercise of an ISO. A "Disqualifying Disposition" is any disposition (including any sale) of such Common Stock before the later of:

A. two years after the date the employee was granted the ISO, and

B. one year after the date the employee acquired Common Stock by exercising the ISO. If the employee has died before such stock is sold, these holding period requirements do not apply and no Disqualifying Disposition can occur thereafter.

22. Governing Law; Construction. The validity and construction of the Plan and the instruments evidencing Options shall be governed by the laws of the state of Delaware. In construing this Plan, the singular shall include the plural and the masculine gender shall include the feminine and neuter, unless the context otherwise requires.

[FORM OF OPTION GRANT FOR EMPLOYEES]

SOHU.COM INC.

Memorandum of Agreement Evidencing Granting of Non-Qualified Stock Option

Stock Option Agreement dated as of December 5, 1999 between Sohu.com Inc., a Delaware corporation (the "Company"), and [_____] (the "Grantee").

- 1) The Company hereby grants to the Grantee, as of the date set forth above, in consideration of the Grantee's continued employment with the Company or a direct or indirect subsidiary of the Company, an option (the "Option") to purchase an aggregate of [_____] shares of the Common Stock of the Company, US\$.001 par value per share, at an exercise price of US\$[_____] per share, subject to the vesting, exercise provisions and other terms and conditions set forth below.
- 2) The shares subject to the Option shall vest (a) as to 25% of the shares subject to the Option, on the first anniversary of the date of grant of the Option; and (b) as to the remaining 75% of the shares subject to the Option, in 12 equal quarterly installments beginning one calendar quarter after the date of such anniversary.
- 3) If the Grantee ceases for any reason to be an employee of the Company, or any direct or indirect subsidiary of the Company, any part of the Option not then vested will be cancelled and will be of no further force or effect. If the Grantee ceases for any reason, other than death or Disability (as defined below), to be an employee of the Company, or any direct or indirect subsidiary of the Company, any part of the Option then vested and not exercised within ninety (90) days after the date of the termination of his employment will be cancelled and will be of no further force or effect, provided that such 90-day period may be extended by the Company's Board of Directors in its sole discretion.
- 4) If the Grantee dies while in the employ of the Company, or any direct or indirect subsidiary of the Company, the Option may be exercised, to the extent of the number of shares with respect to which the Grantee could have exercised it on the date of his death, by his estate, personal representative or beneficiary, at any time within 180 days after the date of death. If the Grantee ceases to be employed by the Company, or a direct or indirect subsidiary of the Company, by reason of his Disability, the Option may be exercised, to the extent of the number of shares with respect to which he could have exercised it on the date of the termination of his employment, at any time within one (1) year after such termination. At the expiration of such 180-day or one year period, whichever is the earlier, the Option shall terminate and the only rights hereunder shall be those as to which the Option was properly exercised before such termination. "Disability" shall mean "permanent and total disability" as defined in Section 22(e)(3) of the Internal Revenue Code of 1986, as amended, or any successor statute.
- 5) If the Company determines in good faith that the Grantee has violated any obligation of confidentiality, non-competition or non-solicitation of employees, customers or suppliers owed to the Company, then, in the sole discretion of the Company's Board of Directors,

(1) any part of the Option not yet exercised will be cancelled and will be of no further force or effect, effective upon written notice from the Company to the Grantee and (2) any shares of the capital stock of the Company held by the Grantee which were purchased by the Grantee through exercise of the Option or any part of the Option will be repurchased by the Company at a price equal to the exercise price paid by the Grantee, effective upon written notice from the Company to the Grantee accompanied by the Company's tender of the price for such repurchase, and will cease to be held by the Grantee. The Company may, in the sole discretion of the Company's Board of Directors, exercise either, both or neither of the foregoing remedies, and such remedies shall be in addition to all other remedies available to the Company for violations of any such obligation.

- 6) The Option is exercisable, in whole or in part, with respect to any then vested shares only from and after the first to occur of the following events: (a) the closing of an underwritten public offering of shares of Common Stock of the Company; or (b) any liquidation, dissolution or winding up of the Company or any consolidation or merger of the Company with or into any other corporation or corporations in which the stockholders of the Company immediately prior to such transaction own 50% or less of the voting power of the surviving entity immediately following such transaction, or a sale, conveyance or disposition of all or substantially all of the assets of the Company, or the effectuation by the Company of a transaction or series of related transactions in which more than 50% of the voting power of the Corporation is disposed of.
- 7) The Option (or any part or installment thereof) may be exercised by the Grantee's delivering to the Company a duly executed Notice of Exercise of Option as described below, together with provision for payment of the full purchase price in accordance with this Agreement for the shares as to which the Option is being exercised, and upon compliance with any other conditions set forth in this Agreement. Such written notice must be signed by the Grantee, state the number of shares with respect to which the Option is being exercised and contain any representations required by this Agreement. Payment of the purchase price for the shares as to which the Option is being exercised may be made (i) in United States dollars in cash or by check, or (ii) at the discretion of the Company's Board of Directors, by any other means, including a promissory note of the Grantee, which the Board of Directors determines to be acceptable.
- 8) The Option granted herein is subject to the following additional terms and provisions:
- a) The Option is not transferable by the Grantee otherwise than by will or laws of descent and distribution to the Grantee's spouse and lineal descendants, and is exercisable, during the Grantee's lifetime, only by him or her.
- b) The Option may be exercised in whole or in part from time to time, provided that the Option may not be exercised as to less than one hundred (100) shares at any one time, unless it is being exercised in full and the balance of shares subject to the Option is less than one hundred.

- c) The shares of Common Stock underlying the Option and the exercise price therefor and the minimum number of shares that may be purchased at any one time will be appropriately adjusted from time to time for stock splits, reverse stock splits, stock dividends and reclassifications of shares.
- d) If the Company is to be consolidated with or acquired by another entity in a merger, or in the event of a sale of all or substantially all of the Company's assets (an "Acquisition"), the Company may take such action with respect to the Option as the Company's Board of Directors may deem to be equitable and in the best interests of the Company and its stockholders under the circumstances, including, without limitation, (i) making appropriate provision for the continuation of the Option by substituting on an equitable basis for the shares then subject to the Option either the consideration payable with respect to the outstanding shares of Common Stock in connection with the Acquisition or securities of any successor or acquiring entity or (ii) giving the Grantee reasonable advance notice of the pendency of the Acquisition and canceling the Option effective upon the Acquisition if it is not exercised prior to the Acquisition. Nothing contained herein will be deemed to require the Company to take, or refrain from taking, any one or more of the foregoing actions.
- e) The Grantee will not have any rights as a stockholder with respect to any shares of Common Stock covered by the Option except after due exercise of the Option and tender of the full purchase price for the shares being purchased pursuant to such exercise and registration of the shares in the Company's share register in the name of the Grantee.
- f) Unless the offering and sale of the shares to be issued upon the exercise of the Option has been registered under the Securities Act and any applicable State "Blue Sky" laws, the Company will be under no obligation to issue the shares covered by such exercise unless
 - i) the person who exercises the Option represents and warrants to the Company at the time of such exercise that such person is acquiring such shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any such shares and
 - ii) the Company has received an opinion of its counsel that the shares may be issued upon such exercise in compliance with the Securities Act and any applicable State Blue Sky laws without registration thereunder.
- g) Each certificate representing shares of Common Stock issued upon exercise of the Option (except to the extent that the restrictions described in any such legend are no longer applicable) will be bear legends in substantially the following form (in addition to any legend required under applicable state securities laws):

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS

AMENDED, OR ANY STATE SECURITIES LAWS. THEY MAY NOT BE SOLD, OFFERED FOR SALE, PLEDGED, HYPOTHECATED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO A LOCK-UP RESTRICTION OF UP TO 180 DAYS FOLLOWING THE INITIAL UNDERWRITTEN PUBLIC OFFERING OF THE COMPANY'S SECURITIES.

- h) In connection with the initial underwritten public offering of the Company's Common Stock, the Grantee will not, without the prior written consent of the Company, sell, make any short sale of, loan, grant any option for the purchase of, or otherwise dispose of or transfer his or her economic risk with respect to any shares of Common Stock for a period of 180 days after the date of the final prospectus used in connection with such offering. The Grantee will execute and deliver such documents as the Company may request confirming the foregoing.
- 9) At any time when the Grantee wishes to exercise the Option, in whole or in part, the Grantee will submit to the Company, a duly executed Notice of Exercise of Option in the form attached hereto as Exhibit A. Copies of such -----
notice are available from the Secretary or an Assistant Secretary of the Company.
- 10) All notices made pursuant to this Agreement shall be in writing and shall be conclusively deemed to have been duly given (a) when hand delivered to the other party (b) when received, if sent by an overnight delivery service, postage prepaid, addressed, if to the Grantee, as set forth below, and if to the Company, to the Company's principal offices.

IN WITNESS WHEREOF, the Company has caused this Agreement to be executed in its name by its President or a Vice President or its Secretary or an Assistant Secretary and the Grantee has hereunto set his or her hand as of the date first above written.

SOHU.COM INC.

By: _____

Name:

Title:

(signature)

[_____]]
(printed name)

(address)

EXHIBIT A

Sohu.com Inc.
7 Jianguomen Nei Avenue
Bright China Chang An Building
Tower 2 Room 519
Beijing, China 100005
Ladies and Gentlemen:

I hereby elect to exercise the stock option granted to me on _____
____, 20____, by Sohu.com Inc., a Delaware corporation ("Sohu"), with respect to
_____ shares (the "Shares") of common stock, par value \$.001 per share
("Common Stock"), at the option price of \$_____ per share for a total
purchase price of \$_____.

I understand that the stock option that I am electing to exercise is not
qualified as an "incentive stock option" under Section 422 of the United States
Internal Revenue Code of 1986.

I wish to make payment of the exercise price for the Shares as indicated
below (check one or more boxes):

- _____ Cash, my check in the amount of \$_____ is enclosed
herewith.
- _____ Already owned Common Stock; _____ such Common Stock
with a total value of \$_____ enclosed herewith, duly
endorsed for transfer to the Company. I understand that
this method of payment may be rejected by Sohu's Board
of Directors or a duly authorized Compensation
Committee of the Board of Directors in its sole
discretion.

Signature: _____
Print Name: _____
Address: _____

Dated: _____

[Translation]

[LOGO OF ITC]

ITC ELECTRONIC TECHNOLOGY (BEIJING) CO., LTD.

EMPLOYMENT CONTRACT

Party A : ITC Electronic Technology (Beijing) Co., Ltd.

Party B : _____

Certificatation

I, Victor Koo, Senior Vice President, Corporate Business Development of Sohu.com Inc., a corporation organized under the laws of the State of Delaware, hereby certify that the attached English translation of the employment contract is, in my opinion, a fair and accurate translation of the original employment contract written in the Chinese language.

/s/ Victor Koo

Victor Koo
Senior Vice President
Corporate Business Development

THIS EMPLOYMENT CONTRACT (hereinafter as the "Contract") is made in Beijing, People's Republic of China ("China") on this [] day of [] 1999.

by and between

Party A: ITC Electronic Technology (Beijing) Co., Ltd

Legal Status : Wholly Foreign-owned Enterprise
Legal Representative : Charles Zhang
Address : Suite 519, Tower 2, Bright China Chang An Building, No. 7 Jianguomen Nei Avenue, Beijing, China

and

Party B:

Name :
Education :
Gender :
Date of Birth :
Resident ID No :
Home Address :
Neighbourhood Office :

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

In accordance with the Labour Law of the People's Republic of China, the Regulations on the Labour Administration of Foreign Investment Enterprises, [] and other relevant Chinese laws and regulations and, based on the principles of equality, free will and mutual consent, the Parties hereby agree to enter into this Contract and to adhere to the articles listed hereof.

CHAPTER 1: TERM OF CONTRACT, EFFECTIVE DATE AND

PROBATIONARY PERIOD

1.1 Term

This Contract is a fixed-term employment contract. The duration of this Contract shall be for a fixed term of [] year(s), commencing [] and ending [], unless terminated earlier or renewed pursuant to Chapter 10.

1.2 Effective Date

The effective date of this Contract shall be the date of signing hereof.

1.3 Probationary Period

Party B shall, commencing from the effective date of this Contract, serve a probationary period of [] months.

CHAPTER 2: RESPONSIBILITIES AND PERFORMANCE

2.1 Responsibilities

- (a) Party A shall assign Party B to the position of [].
- (b) Depending on its operational needs, Party A may assign Party B to undertake other responsibilities.

2.2 Performance

Party B shall, according to Party A's legally permissible request, fulfil the set amount of work on a timely basis and meet the quality standard formulated by Party A.

CHAPTER 3: OCCUPATIONAL HEALTH AND SAFETY

3.1 Party A's Obligations

Party A shall assume the following obligations:

- (a) to provide Party B with a safe and hygienic working environment in accordance with the standards stipulated by the State;
 - (b) to provide Party B with training in business practice and occupational health and safety; and
 - (c) be responsible for formulating the system operation procedures, occupational safety and hygienic system and its standards.
-

3.2 Party B's Rights

Party B shall be entitled to enjoy the following rights:

- (a) to work in an environment meeting State standards for occupational health and safety;
- (b) to refuse to engage in any work which in violation of Chinese law poses a danger to the health and safety of Party B; and
- (c) to reject any of Party A's instructions which are in violation of its rules and regulations.

CHAPTER 4: EMPLOYMENT RULES

4.1 Working Rules

During the term of this Contract, Party B must comply with the policies and systems as well as any other production and working rules implemented by Party A (please see for details the Policies and Procedures Guidelines "Sohu and You" attached hereto as Appendix I), the principal rules of which include:

- (a) arriving and departing from work on time according to Party A's working hours;
- (b) maintaining strict compliance with operational procedures and ensuring safety production;
- (c) maintaining the confidentiality of Party A's trade secrets;
- (d) protecting and properly using equipment, not wasting office resources and utilities, and not intentionally damaging or misappropriate Party A's property;
- (e) following management instructions and not engage in games, create noises or cause interruptions to production and working order during working hours; and
- (f) not unilaterally handling matters which are outside the scope of his/her authority and immediately requesting instructions regarding the same from his/her immediate supervisor.

4.2 Punishment

If Party B violates any of Party A's employment rules, Party A may, pursuant to the Policies and Procedures Guidelines ("Sohu and You"), impose an administrative penalty and/or a fine as well as terminate this Contract.

CHAPTER 5: WORKING HOURS, AND WORKING

OVERTIME SHIFTS AND HOURS

5.1 Working Hours

- (a) Party A adopts a system of standard working hours and will arrange for Party B to work eight (8) hours per day (excluding the time for Party B to come to work and return home, the time for meal and rest) and not exceed forty (40) hours per week.
- (b) Party B shall work five (5) days per week (40 hours) with two (2) rest days.
- (c) Party A may adopt other work and rest methods which are not subject to the stipulations set out in Article 5.1(b) in accordance with the production requirements and upon the approval of the labour administrative department.

5.2 Working Overtime Shifts and Hours

Party A does not in principle encourage Party B to work overtime. However, in special cases where working overtime shifts and hours is necessary, Party A may only do so after consultation with Party B, in which event Party A will make separate arrangements regarding the rest days or effect wages for overtime shifts and hours in accordance with relevant State stipulations.

CHAPTER 6: WAGES

6.1 General Principle

Party B's wages shall be set in accordance with the principle of "to each according to his work" and shall be based on equal pay for equal work.

6.2 Wages

Party A shall pay Party B a monthly wage of RMB [] during Party B's probationary period. After Party B's successful completion of the probationary period, Party A shall pay Party B a monthly wage of RMB [].

6.3 Holiday Pay

During rest days, official holidays, marriage / bereavement leave and leave for participating in civic activities in accordance with the law, Party A shall pay wages to Party B pursuant to the standards stipulated by law and the Policies and Procedures Guidelines.

6.4 Method and Time of Payment

- (a) Party A shall pay Party B's total wages with lawful currency on the last day of each month and shall provide Party B with a wage slip. If the
-

said day falls on a rest day or an official holiday, Party A shall pay Party B's total wages on the preceding working day.

- (b) Party B shall open an account with the [Beijing] branch of a commercial bank specified by Party A. Party A shall deposit into such bank account Party B's wage in lawful currency. Party A shall withhold individual income tax payment as well as contributions to relevant social insurance funds on behalf of Party B.

CHAPTER 7: SOCIAL SECURITY AND BENEFITS

Pursuant to the service contract signed by and between Party A and the human resources service entity, Party A shall appoint the said entity to administer Party B's social security benefits. The said entity's responsibilities shall include the payment of contributions on behalf of Party A to each of the pension fund, unemployment fund, serious accidental injury fund, housing fund and medical insurance fund. The details concerning the specific social security and other benefits administered by the said entity are attached as Appendix II.

CHAPTER 8: HOLIDAYS AND LEAVE

8.1 Legal Holidays

- (a) Party B shall be entitled to the specific number of holidays (ten (10) days) permitted under Chinese law, including the following:

Legal Holidays -----	No. of Day(s) -----
New Year's Day (January 1st)	1
Spring Festival (Lunar calendar January 1st, 2nd and 3rd)	3
International Labour Day (May 1st, 2nd and 3rd)	3
National Day (October 1st, 2nd and 3rd)	3

- (b) For all holidays celebrated nationally that fall on either a Saturday or a Sunday, such holiday shall be recognized on the following work day. However, for holidays falling on a Saturday or Sunday that are only celebrated by a portion of the population, such holiday shall not be taken on the following work day.
- (c) Women employees are entitled to a half-day holiday on Women's Day (March 8th).

8.2 Annual Leave

- (a) If Party B has worked for any organization on a continuous basis for more than one (1) year, Party B shall be entitled to enjoy paid annual
-

leave, which shall in no event exceed two (2) weeks.

(b) If Party B wishes to take paid annual leave, he/she should apply fifteen (15) days in advance in writing to Party A. Party A shall determine and make appropriate arrangements for such leave based on Party A's production and operation requirements.

8.3 Other Leave

Party B shall be entitled to other leave for marriage, bereavement, family visits, personal illness and medical treatment as outlined in the Policies and Procedures Guidelines ("Sohu and You").

CHAPTER 9: CONFIDENTIALITY

9.1 Definition

Trade secrets shall refer to any operational information which is not known to the general public and is owned by Party A in any form, for which Party A has taken proper steps to restrict dissemination to the public, and which brings economic benefits to Party A, including all the information and matters in relation to Party A's businesses, such as the information about investing and financing, salary, bonus, incentives, know-how, software development, marketing strategies, clients lists, commercial partners and co-operation details related to them, management methods, financial and market information, future commercial blueprint and Party A's intellectual property information.

9.2 Confidentiality Obligations

Party B shall abide by the confidentiality guidelines adopted by Party A and shall not disclose to any third party Party A's trade secrets in any form, directly or indirectly, during the term of this Contract and for a period of three (3) years after the termination of this Contract. Party B is prohibited from using without authorisation Party A's trade secrets or allowing the use of the same by any third party. If Party B breaches the confidentiality obligations herein and causes harm to Party A, Party A may terminate this Contract immediately in accordance with Article 12.2(b) hereof. In addition, Party B shall be liable to Party A for compensation pursuant to Article 12.2(b) hereof.

9.3 Confirmation

If Party B is uncertain about the nature and degree of confidentiality concerning any trade secrets, Party B should ask for confirmation from his/her immediate supervisor.

9.4 Return of Party A's Property

Irrespective of the circumstances of termination of this Contract, Party B shall

immediately return all company files, records, equipment and any other property obtained from Party A during the course of his/her employment (including, but not limited to Party A's trade secrets). If Party B fails to return any of the said files or such property, Party A is entitled to make an appropriate deduction from any amount payable to Party B and may adopt any other appropriate method to obtain the return of such property.

CHAPTER 10 : AMENDMENT, RENEWAL AND TERMINATION

10.1 Amendment

- (a) This Contract may only be amended in the following circumstances:
 - (i) Upon their mutual agreement, the Parties may amend certain provisions hereof as required; or
 - (ii) If there is any change to the law, regulations or rules pursuant to which this Contract and its appendices were entered into.
- (b) If either Party wishes to amend this Contract, thirty (30) days' prior written notice must be given to the other Party.
- (c) This Contract may only be amended by the mutual written agreement of the Parties.

10.2 Renewal

Upon expiry, this Contract shall be automatically renewed. Either Party may request, in writing, for renewal of this Contract at least thirty (30) days prior to its expiration. Upon the mutual consent of the Parties after consultation, this Contract can be renewed.

10.3 Termination

This Contract can be terminated upon mutual agreement of both Parties after consultation.

10.4 Immediate Termination

Party A may immediately terminate this Contract if Party B has engaged in any of the following activities:

- (a) where it has been proved during the probationary period that he/she is unable to meet the requirements of his/her position;
 - (b) by committing a serious violation of labor rules or Party A's policies and systems;
 - (c) by committing serious dereliction of his/her duties or practising graft or
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favoritism which results in serious losses to Party A; or

- (d) by being found criminally liable under Chinese law.

10.5 Termination with Prior Notice

Party A may terminate this Contract upon thirty (30) days' prior written notice to Party B under any of the following circumstances:

- (a) where Party B, after undergoing a period of medical treatment and recuperation from an illness or a non-work-related injury, remains unable to return to the original position, and is also unfit for reassignment;
- (b) where Party B is unable to fulfil the duties of his position and, despite undergoing training or a transfer of his position, remains unable to fulfil his/her duties;
- (c) where there has been a substantial change in the objective circumstances upon which this Contract was based, thereby rendering performance of this Contract impossible and, after consultation, the Parties have failed to agree on amendments hereto reflecting such changes.

10.6 Restrictions on Party A's Right to Terminate

Notwithstanding Article 10.5 above, Party A may not terminate this Contract under any of the following circumstances:

- (a) where Party B, after having suffered an occupational disease or a work-related injury, has been confirmed to have lost the partial or total ability to work;
- (b) where Party B is suffering from illness or injury during his/her stipulated medical treatment period;
- (c) where Party B is a female employee and is pregnant, is in labour, or is within the stipulated nursing period, and has not violated any labour rules; or
- (d) other circumstances specified by Chinese laws and administrative regulations.

10.7 Termination by Party B

- (a) Party B may terminate this Contract upon thirty (30) days' prior written notice to Party A. However, Party B may not terminate this Contract even if he/she has provided Party A with thirty (30) days' written notice if Party B has caused financial losses to Party A and the issue has not been resolved, or if Party B is under investigation for misconduct.
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- (b) Party B may terminate this Contract at any time in writing under any of the following circumstances:
 - (i) during the probationary period;
 - (ii) if Party A forces Party B to work by means of force, threat or illegal restriction of personal freedom; or
 - (iii) if Party A fails to pay wages or to provide a safe working environment as stipulated hereunder.

10.8 Termination

This Contract shall automatically terminate under any of the following circumstances:

- (a) upon expiration (unless renewed by the Parties in accordance with Article 10.2 above);
- (b) when Party B reaches legal retirement age under Chinese law;
- (c) upon the death of Party B;
- (d) if Party A is dissolved, ceases operations, is declared bankrupt or its business licence is revoked; or
- (e) upon the occurrence of any one of the events of termination as agreed by the Parties.

CHAPTER 11 : TERMINATION COMPENSATION

11.1 Principle

Party A shall, in accordance with the stipulations of Chinese law, effect Party B with relevant compensation in the event of violating or terminating this Contract.

11.2 Calculation of Compensation

- (a) For the purposes of calculating the amount of compensation under this Chapter, when the term "wages" is used, it refers to the average monthly wage paid to Party B during his/her previous twelve (12) months of employment under normal working conditions prior to termination.
 - (b) Party A shall pay Party B compensation based on Party B's period of employment with Party A, in the amount of one (1) month's wage for each year of employment and the maximum amount payable not to exceed a total of twelve (12) months' wages. If Party B has worked for
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less than one (1) year, Party A shall pay any such compensation to Party B based on the standard for one (1) year.

11.3 Payment Term

Party A shall pay to Party B any compensation in a lump-sum payment within one (1) month of completion of Party B's termination procedures. Any monies owing to Party A by Party B may deducted from such payment.

11.4 Exceptions

- (a) Under any of the following circumstances occurs, Party B shall not be entitled to receive any compensation from Party A:
 - (i) upon the expiry of this Contract;
 - (ii) upon the occurrence of one of the agreed conditions for termination of this Contract; or
 - (iii) Party A terminates this Contract in accordance with Article 10.4 above.
- (b) Where Party B terminates this Contract during the probationary period, no compensation will be paid to Party B. However, Party A must pay wages to Party B based on his/her actual number of work days.

CHAPTER 12 : RESPONSIBILITIES FOR BREACH

12.1 General Provisions

If Party A causes any damage to Party B by breach of this Contract, Party A shall pay compensation to Party B according to the Measures of Compensation for the Breach of Employment Contracts Under the Labour Law (hereinafter referred to as "Compensation Measures").

12.2 Party B's Breach of Contract

- (a) If Party B violates Chinese law or the stipulations of this Contract and causes Party A to suffer economic losses, Party A has the right to impose administrative penalty and (or) a fine on Party B. In addition, Party A is entitled to have Party B assume the compensation responsibilities through legal methods.
- (b) If Party B breaches the confidentiality provisions of Chapter 9 of this Contract in relation to trade secrets and thus causes losses to Party A, it must pay compensation to Party A according to the Compensation Measures and Article 20 of the Anti-unfair Competition Law.
- (c) If Party B terminates this Contract in violation of Chinese law and/or the

terms hereof and causes losses to Party A, it shall be liable to pay Party A for the following:

- (i) recruitment expenses paid by Party A for Party B;
- (ii) direct losses relating to production, operational and/ or work functions.

CHAPTER 13 : LABOUR DISPUTES

13.1 Friendly Consultations

If a dispute arises in the implementation of this Contract, the Parties shall attempt in the first instance to resolve such dispute through friendly consultations:

13.2 Mediation and Arbitration

- (a) If the dispute cannot be resolved in the manner outlined in Article 13.1, either Party may, in accordance with Chinese law, apply to Party A's mediation committee for mediation;
- (b) If mediation fails or if either Party requests for arbitration, the dispute may be submitted for arbitration within sixty (60) days of the occurrence of the labour dispute to the labour dispute arbitration committee with jurisdiction; or either Party may directly apply for arbitration to the labour dispute arbitration committee with jurisdiction.

13.3 Litigation

If either Party disagree with the arbitrage decision, such Party may initiate a lawsuit in the people's court with jurisdiction.

CHAPTER 14 : GOVERNING LAW

The validity, interpretation and implementation of and settlement of disputes under this Contract shall be governed by the laws of China.

CHAPTER 15 : MISCELLANEOUS PROVISIONS

15.1 Entire Agreement

This Contract and its Appendices constitute the entire agreement between the Parties and supersede all prior discussions, negotiations and agreements. If there is any inconsistency between the provisions of this Contract and any of the Appendices, the provisions of this Contract shall prevail to the extent of the inconsistency.

15.2 Severability

The invalidity of any article of this Contract shall not affect the validity of any other article hereof.

15.3 Waiver

Waiver on the part of either Party to any right under this Contract shall not operate or be interpreted as a waiver of similar rights or other rights under this Contract thereafter.

15.4 Days

Any references to a day herein shall mean a calendar day except the working days referred in Article 6.4(a) hereof.

15.5 Authentication

After signing, any alteration to an article of this Contract shall be invalid. The parties shall, within thirty (30) days of the execution of the Contract, carry out authentication with local labour administrative department.

15.6 Language

This Contract is executed in three (3) originals in the Chinese language, each having equal validity. Each Party and the contract authentication authority shall hold one (1) original. Party A may not retain possession of Party B's original version of this Contract.

15.7 Supplementary Matters

Any extensions of this Contract, amendment agreements or other matters agreed by the Parties must be in writing and signed by the Parties, and attached hereto. Each page of any such document must be initialled by the Parties or the same shall be without legal effect.

15.8 Matters Not Covered

Any matters not addressed herein shall be carried out in accordance with Chinese law.

Party A

Legal Representative (seal)

or

Authorized Agent (seal)

Name:

Title: _____

Date of Execution: date/month/year

Party B (Signature or Seal)

Authentication Authority: _____
(Seal)

Name of Authentication Official: _____
(Seal)

Date of Authentication: _____

SERIES B PREFERRED STOCK PURCHASE AGREEMENT

This Series B Preferred Stock Purchase Agreement (the "Agreement") is entered into as of _____, 1998 (the "Effective Date"), by and between Internet Technologies China Incorporated, a Delaware corporation (the "Company"), and the persons and entities set forth on Exhibit A hereto (each, an "Investor" and, collectively, the "Investors"). Charles Zhang is a party to this Agreement for the sole purpose of making the representations and warranties set forth in Section 4B hereof.

In consideration of the mutual promises, covenants and conditions hereinafter set forth, the parties hereto agree as follows:

1. DEFINITIONS.

1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following respective meanings:

"Common Stock" shall mean the Company's Common Stock, \$.01 par value.

"Proceeds" shall mean whatever is received when assets, whether tangible or intangible, are sold, changed, collected or otherwise disposed of, both cash and non-cash, including the Proceeds of insurance payable by reason of loss or damage to Proceeds.

"Proprietary Assets" shall mean all patents, patent applications, trademarks, service marks, trade names, copyrights, moral rights, maskworks, trade secrets, confidential and proprietary information, compositions of matter, formulas, designs, proprietary rights, know-how, processes, domain names and URLs.

1.2 Index of Other Defined Terms. In addition to the terms defined above, the following terms shall have the respective meanings given thereto in the sections indicated below:

Defined Term	Section
"Act"	4.5(b)
"Agreement"	Preamble
"Business Plan"	4.25
"Bylaws"	4.12
"CERCLA"	4.22
"Certificate"	2.1
"Code"	4.20
"Company"	Preamble
"Confidential Information"	9.13
"Conversion Shares"	4.2(c)
"Disclosing Party"	9.13

"Effective Date"	Preamble

"Financial Statements"	4.16

"First Closing"	3.1

"Hazardous Materials"	4.22

"Investor"	Preamble

"Non-Disclosing Party"	9.13

"Disclosure Schedule"	4

"SEC"	4.14

"Second Closing"	3.2

"Shares"	2.3

"Tranche I Shares"	2.2

"Tranche II Shares"	2.3

2. AGREEMENT TO PURCHASE AND SELL STOCK

2.1. Authorization. As of the First Closing (as defined below), the

Company will have authorized the issuance, pursuant to the terms and conditions of this Agreement, of up to 390,000 shares of the Company's Series B Convertible Preferred Stock, \$0.01 par value, ("Series B Preferred Stock") having the rights, preferences, privileges and restrictions set forth in the Amended and Restated Certificate of Incorporation of the Company attached to this Agreement as Exhibit B (the "Certificate").

2.2. Agreement to Purchase and Sell at the First Closing. Subject to

the terms and conditions hereof, on the date of the First Closing, the Company will issue and sell to the Investors, and the Investors agree to purchase from the Company, an aggregate of 125,653 shares of Series B Convertible Preferred Stock (the "Tranche I Shares") at a price of \$5.173 per share for an aggregate purchase price of \$650,002.98. The number of Tranche I Shares to be purchased by each Investor is set forth next to such Investor's name in Exhibit A. The purchase price for the Tranche I Shares shall be paid by wire transfer of funds to a designated account of the Company, provided that wire transfer instructions are delivered to each Investor at least one (1) business day prior to the First Closing.

2.3 Agreement to Purchase and Sell at the Second Closing. Subject to

the terms and conditions hereof (including without limitation, the satisfaction of the conditions of Section 7), on the date of the Second Closing (as defined below), the Company will issue and sell to the Investors, and the Investors agree to purchase from the Company, between 125,653 and 260,309 shares of Series B Preferred Stock (the "Tranche II Shares") at a price of \$5.173 per share for an aggregate purchase price between \$650,002.97 and \$1,346,578.46. The number of Tranche II Shares to be purchased by each Investor is set forth next to such Investor's name on Exhibit A. At the Second Closing, each of and Kummell Investments Limited ("Kummell") shall purchase at least 19,331 Tranche II Shares and, together, Harrison Enterprises, Inc. ("Harrison") and Kummell shall have the right, at their option and as they may mutually agree, to purchase an aggregate total of 154,650 Tranche II Shares. At the Second Closing, PTV-China, Inc. ("PTV China") shall purchase at least 9,666 Tranche II Shares and shall have the right, at its option, to purchase an aggregate total of 28,334 Tranche II Shares. The purchase price for the Tranche II

Shares shall be paid by wire transfer of funds to a designated account of the Company, provided that wire transfer instructions are delivered to each Investor at least one (1) business day prior to the Second Closing. The Tranche I Shares and the Tranche II Shares are sometimes referred to herein collectively as the "Shares."

2.4 Currency. All monetary amounts set forth herein shall be in

United States dollars.

3. CLOSING; DELIVERY.

3.1. The First Closing. The purchase and sale of the Tranche I

Shares hereunder shall be held at the offices of Gibson, Dunn & Crutcher LLP, 1530 Page Mill Road, Palo Alto, California 94304, on _____, 1998, or at such other time and place as the Company and the purchasers of a majority of the Shares may mutually agree upon (the "First Closing").

3.2 The Second Closing. The purchase and sale of the Tranche II

Shares hereunder, if consummated, shall be held at the offices of Gibson, Dunn & Crutcher LLP, 1530 Page Mill Road, Palo Alto, California 94304, on June 30, 1998, or at such other time and place as Company and the holders of a majority of the Shares may mutually agree upon (the "Second Closing").

3.3. Delivery. At the First Closing, and also at the Second Closing

if consummated, the Company will deliver to each Investor a certificate representing the Shares to be purchased by each Investor hereunder against payment of the full purchase price therefor by wire transfer.

4. COMPANY REPRESENTATIONS AND WARRANTIES. The Company hereby represents and

warrants to the Investors that, except as set forth in the Disclosure Schedule ("Disclosure Schedule") attached to this Agreement as Exhibit C (which

Disclosure Schedule shall be deemed to be representations and warranties to the Investors), the statements in the following paragraphs of this Section 4 are all true and correct:

4.1. Organization, Good Standing and Qualification. The Company is

a corporation duly organized, validly existing and in good standing under, and by virtue of, the laws of the State of Delaware and has all requisite corporate power and authority to own its properties and assets and to carry on its business as now conducted and as presently proposed to be conducted. The Company is qualified to do business as a foreign corporation in each jurisdiction where failure to be so qualified would have a material adverse effect on its financial condition, business, prospects or operations.

4.2. Capitalization. Immediately before the First Closing, the

authorized capital stock of the Company will consist of the following:

(a) Common Stock. A total of 5,000,000 authorized shares of

Common Stock (\$0.01 par value) of which 712,719 shares are issued and outstanding.

(b) Preferred Stock. A total of 625,000 authorized shares of

Preferred Stock (\$0.01 par value), of which 225,000 are designated as Series A Convertible Preferred Stock ("Series A Preferred Stock"), all of which are be outstanding, and 400,000 are designated as Series B Convertible Preferred Stock, none of which are issued or outstanding.

(c) Options, Warrants, Reserved Shares. The Company has reserved

400,000 shares of its Common Stock for possible issuance upon the conversion of the shares of Series B Preferred Stock to be issued hereunder (the "Conversion

Shares"). Except for (i) the conversion privileges of the Series B Preferred

Stock to be issued hereunder, (ii) the rights to acquire the Tranche II Shares as set forth herein, (iii) the 120,000 shares of Common Stock reserved for issuance or to be reserved for issuance under the Company's stock option plan under which options to purchase 23,125 shares of Common Stock are outstanding, and (iv) warrants to purchase up to 33,531 shares33,531shares of Common Stock of the Company, issued in connection with the Company's bridge financing in December 1997, provided that such warrants shall be exercisable for only an aggregate of 5,781 shares of Common Stock if such bridge financing is repaid before June 30, 1998, there are no options, warrants, conversion privileges or other rights, or agreements with respect to the issuance thereof, presently outstanding to purchase any of the capital stock of the Company. Apart from the exceptions noted in this Section 4.2, no shares (including the Shares and Conversion Shares) of the Company's outstanding capital stock, or stock issuable upon exercise or exchange of any outstanding options or other stock issuable by the Company, are subject to any rights of first refusal or other rights to purchase such stock (whether in favor of the Company or any other person), pursuant to any agreement or commitment of the Company.

(d) Outstanding Security Holders. Section 4.2(d) of the

Disclosure Schedule sets forth a complete list of all outstanding shareholders, option holders and other security holders of the Company as of the Effective Date.

4.3. Subsidiaries. The Company owns all of the issued and

outstanding stock of ITC Electronic Technology Beijing Co. Ltd., a company organized under the laws of the People's Republic of China ("ITC China"). ITC China is a wholly foreign owned enterprise (WFOE) authorized by the government of China and has the government permits, approvals authorizations and licenses necessary to engage in the business currently conducted and currently proposed to be conducted by ITC China. No other person or entity other than the Company has any right to acquire any equity or other ownership interest of ITC China. Except for the Company's ownership of ITC China, the Company does not presently own or control, directly or indirectly, any interest in any other corporation, partnership, limited liability company, trust, joint venture, association, or other entity.

4.4. Due Authorization. All corporate action on the part of the

Company and ITC China, their officers, directors and shareholders necessary for the authorization, execution and delivery of, and the performance of all obligations of the Company under, this Agreement, and the authorization, issuance, reservation for issuance and delivery of all of the Shares being sold under this Agreement has been taken or will be taken before the First Closing. This Agreement is a valid and binding obligation of the Company enforceable in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium,

reorganization and similar laws affecting creditors' rights generally and to general equitable principles. The Shares are not subject to any preemptive rights or rights of first refusal.

4.5. Valid Issuance of Stock.

(a) The Shares, when issued, sold and delivered in accordance with the terms of this Agreement, will be duly and validly issued, fully paid and nonassessable. The Conversion Shares have been duly and validly reserved for issuance and, upon issuance in accordance with the terms of the Certificate, will be duly and validly issued, fully paid and nonassessable.

(b) The outstanding shares of the capital stock of the Company and ITC China are duly and validly issued, fully paid and nonassessable, and such shares of such capital stock, and all outstanding stock, options and other securities of the Company and ITC China have been issued in full compliance with the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "Act"), and the registration and qualification

requirements of all applicable state securities laws, or in compliance with applicable exemptions therefrom, and all other provisions of applicable federal and state securities laws, including, without limitation, anti-fraud provisions.

4.6. Liabilities. Other than promissory notes in the amount of

\$100,000 issued in connection with the Company's bridge financing in December 1997, plus interest accrued at 10% since such date, neither the Company nor ITC China has any indebtedness for borrowed money that the Company or ITC China has directly or indirectly created, incurred, assumed, or guaranteed, or with respect to which the Company or ITC China has otherwise become directly or indirectly liable.

4.7. Title to Properties and Assets. Each of the Company and ITC

China has good and marketable title to its properties and assets held in each case subject to no mortgage, pledge, lien, encumbrance, security interest or charge of any kind. With respect to the property and assets it leases, each of the Company and ITC China is in compliance with such leases and, to the best of the Company's knowledge, each of the Company and ITC China holds valid leasehold interests in such assets free of any liens, encumbrances, security interests or claims of any party other than the lessors of such property and assets.

4.8. Status of Proprietary Assets.

(a) Ownership. Each of the Company and ITC China has full title

and ownership of, or has license to, all Proprietary Assets necessary to enable it to carry on its business as now conducted and as presently proposed to be conducted without any conflict with or infringement of the rights of others. No third party has any ownership right, title, interest, claim in or lien on any of the Company's or ITC China's Proprietary Assets and the Company and ITC China have taken, and in the future will use their best efforts to take, all steps reasonably necessary to preserve their respective legal rights in, and the secrecy of, all its Proprietary Assets, except those for which disclosure is required for legitimate business or legal reasons.

(b) Licenses; Other Agreements. Neither the Company nor ITC

China has granted, and there are not outstanding, any options, licenses or agreements of any kind relating to any Proprietary Asset of the Company or ITC China, nor is the Company or ITC China bound by or a party to any option, license or agreement of any kind with respect to any of their respective Proprietary Assets. Neither the Company nor ITC China is obligated to pay any royalties or other payments to third parties with respect to the marketing, sale, distribution, manufacture, license or use of any Proprietary Asset or any other property or rights.

(c) No Infringement. Neither the Company nor ITC China has

violated or infringed, and is not currently violating or infringing any Proprietary Asset of any other person or entity. Neither the Company nor ITC China has received any communications alleging that the Company or ITC China (or any of their respective employees or consultants) has violated or infringed or, by conducting its business as proposed, would violate or infringe, any Proprietary Asset of any other person or entity.

(d) No Breach by Employee. After due inquiry, neither the

Company nor ITC China is aware that any employee or consultant of the Company or ITC China is obligated under any agreement (including licenses, covenants or commitments of any nature) or subject to any judgment, decree or order of any court or administrative agency, or any other restriction that would interfere with the use of his or her best efforts to carry out his or her duties for the Company or ITC China or to promote the interests of the Company or ITC China or that would conflict with the Company's or ITC China's business as proposed to be conducted. The carrying on of each of the Company's and ITC China's business by the employees and contractors of the Company and ITC China and the conduct of the Company's and ITC China's business as presently proposed, will not, to the best of the Company's knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees or contractors of the Company or ITC China are now obligated. Neither the Company nor ITC China believes it is or will be necessary to utilize any inventions of any employees of the Company or ITC China (or persons the Company or ITC China currently intends to hire) made prior to their employment by the Company or ITC China. To the best of the Company's knowledge, at no time during the conception of or reduction of any of the Company's or ITC China's Proprietary Assets to practice was any developer, inventor or other contributor to such patents operating under any grants from any governmental entity or agency or private source, performing research sponsored by any governmental entity or agency or private source or subject to any employment agreement or invention assignment or nondisclosure agreement or other obligation with any third party that could adversely affect the Company's or ITC China's rights in such Proprietary Assets.

4.9. Material Contracts and Obligations. All agreements, contracts,

leases, licenses, instruments, commitments (oral or written), indebtedness, liabilities and other obligations to which the Company or ITC China is a party or by which they are bound that (i) are material to the conduct and operations of the businesses and properties of the Company or ITC China; (ii) involve any of the officers, consultants, directors, employees or shareholders of the Company or ITC China; or (iii) obligate the Company or ITC China to share, license or develop any product or technology are listed in Section 4.9 of the Disclosure Schedule and have been made available for inspection by the Investors and their respective counsel. For purposes of this

Section 4.9, "material" shall mean any agreement, contract, indebtedness, liability or other obligation either: (i) having an aggregate value, cost or amount in excess of \$10,000, or (ii) not terminable upon thirty days notice.

4.10. Litigation. There is no action, suit, proceeding, claim, -----
arbitration or investigation ("Action") pending (or, to the best of the -----
Company's knowledge, currently threatened) against the Company or ITC China, their activities, properties or assets or, to the best of the Company's knowledge, against any officer, director or employee of the Company or ITC China in connection with such officer's, director's or employee's relationship with, or actions taken on behalf of the Company or ITC China. To the best of the Company's knowledge, there is no factual or legal basis for any such Action that might result, individually or in the aggregate, in any material adverse change in the business, properties, assets, financial condition, affairs or prospects of the Company or ITC China. By way of example but not by way of limitation, there are no Actions pending or, to the best of the Company's knowledge, threatened (or any basis therefor known to the Company or ITC China) relating to the prior employment of any of the Company's or ITC China's employees or consultants, their use in connection with the Company's or ITC China's business of any information, technology or techniques allegedly proprietary to any of their former employers, clients or other parties, or their obligations under any agreements with prior employers, clients or other parties. Neither the Company nor ITC China is a party to or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality and there is no Action by the Company or ITC China currently pending or which the Company or ITC China intends to initiate.

4.11. Governmental Consents. All consents, approvals, orders, -----
authorizations or registrations, qualifications, designations, declarations or filings with any federal, state or local governmental authority on the part of each of the Company and ITC China required in connection with the consummation of the transactions contemplated herein shall have been obtained prior to and be effective as of the First Closing. Based in part on the representations of the Investors set forth in Section 5 below, the offer, sale and issuance of the Shares in conformity with the terms of this Agreement are exempt from the registration and prospectus delivery requirements of the Act.

4.12. Compliance with Other Instruments. Neither the Company nor -----
ITC China is in, nor will the conduct of their businesses as proposed to be conducted result in, any violation, breach or default of any term of the Company's Certificate or ITC China's charter or the Company's or ITC China's bylaws (collectively, the "Bylaws") or in any material respect of any term or provision of any mortgage, indenture, contract, agreement or instrument to which the Company or ITC China is a party or by which it may be bound, or of any provision of any foreign or domestic state or federal judgment, decree, order, statute, rule or regulation applicable to or binding upon the Company or ITC China. The execution, delivery and performance of and compliance with this Agreement and the consummation of the transactions contemplated hereby will not result in any such violation or default, or be in conflict with or constitute, with or without the passage of time or the giving of notice or both, either a default under the Company's Certificate or Bylaws or ITC China's charter or Bylaws, or any agreement or contract of the Company or ITC China, or, to the best of the Company's knowledge, a violation of any statutes,

laws, regulations or orders, or an event which results in the creation of any lien, charge or encumbrance upon any asset of the Company or ITC China.

4.13. Disclosure. No representation or warranty by the Company in

this Agreement or in any statement or certificate signed by any officer of the Company or ITC China furnished or to be furnished to the Investors pursuant to this Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they are made, not misleading.

4.14. Registration Rights. Except as provided in the Investor

Rights Agreement, neither the Company nor ITC China has granted or agreed to grant any person or entity any rights (including piggyback registration rights) to have any securities of the Company or ITC China registered with the United States Securities and Exchange Commission ("SEC") or any other governmental

authority.

4.15. Insurance. Each of the Company and ITC China have obtained,

or will obtain (within 15 days of the First Closing) and will maintain, fire and casualty insurance policies with extended coverage, sufficient in amount (subject to reasonable deductibles) to allow it to replace any of its properties that might be damaged or destroyed.

4.16. Financial Statements. Section 4.16(a) of the Disclosure

Schedule sets forth an unaudited income statement of the Company for the period ended December 31, 1997 (the "Financial Statements"). The Financial

Statements include the consolidated financial results of the Company and ITC China. Such Financial Statements (a) are in accordance with the books and records of the Company, and (b) are true, correct and complete and present fairly the results of operations for the period therein specified. Other than promissory notes in the amount of \$100,000 issued in connection with the Company's bridge financing in December 1997, plus interest accrued at 10% since such date, neither the Company nor ITC China has any material indebtedness or other material liability. From and after the date hereof (beginning with the monthly financial statements for March 1998 which shall be delivered on or prior to April 30, 1998), all financial statements prepared by the Company shall be prepared in accordance with United States generally accepted accounting principles (GAAP), and all audits of the Company's financial statements shall be conducted by one of the United States based "Big Six" accounting firms. Section 4.16(b) of the Disclosure Schedule sets forth the Company current business plan and the Company's projections as to the Company's possible financial performance for each quarter of the fiscal year ending December 31, 1998. Such projections were prepared by the Company in good faith and based on assumptions which the Company believes to be reasonable in view of information currently available to the Company; provided that the Company makes no representation or warranty that such projections will be met.

4.17. Certain Actions. Since December 31, 1997, neither the Company

nor ITC China has: (a) declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its capital stock; (b) incurred any indebtedness for money borrowed or incurred any other liabilities individually in excess of \$10,000 or in excess of \$25,000 in the aggregate; (c) made any loans or advances to any person, other than ordinary

advances for travel expenses; (d) sold, exchanged or otherwise disposed of any material assets or rights other than the sale of inventory in the ordinary course of its business; or (e) entered into any transactions with any of its officers, directors or employees or any entity controlled by any of such individuals.

4.18. Activities Since Income Statement Date. Since December 31,

1997, there has not been:

- (a) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the assets, properties, financial condition, operating results, prospects or business of the Company or ITC China (as presently conducted and as presently proposed to be conducted);
- (b) any waiver by the Company or ITC China of a valuable right or of a material debt owed to it;
- (c) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by the Company or ITC China, except such a satisfaction, discharge or payment made in the ordinary course of business that is not material to the assets, properties, financial condition, operating results or business of the Company or ITC China;
- (d) any material change or amendment to a material contract or arrangement by which the Company or ITC China or any of their assets or properties is bound or subject, except for changes or amendments which are expressly provided for or disclosed in this Agreement;
- (e) any material change in any compensation arrangement or agreement with any present or prospective employee, contractor or director not approved by the Company's or ITC China's Board of Directors; or
- (f) to the Company's knowledge, any other event or condition of any character which would materially and adversely affect the assets, properties, financial condition, operating results or business of the Company or ITC China.

4.19. Tax Matters. The Company has made sufficient provision for,

and has adequate resources to pay, all accrued and unpaid federal, state, provincial, foreign, county and local taxes of each of the Company and ITC China, whether or not assessed or disputed as of the date hereof. There have been no examinations or audits of any tax returns or reports by any applicable federal, state or local governmental agency. Except as set forth in the Disclosure Schedule, each of the Company and ITC China have duly filed all federal, state, county and local tax returns required to have been filed by it and paid all taxes shown to be due on such returns. To the extent that any tax returns have not been filed as reflected on the Disclosure Schedule, such failure to file has not had and will not have any material adverse effect on the Company or

ITC China. There are in effect no waivers of applicable statutes of limitations with respect to taxes for any year.

4.20. Tax Elections. Neither the Company nor ITC China has elected pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), to be treated as an "S" corporation or a collapsible corporation pursuant to Section 341(f) or Section 1362(a) of the Code, nor has the Company or ITC China made any other elections pursuant to the Code (other than elections which relate solely to matters of accounting, depreciation or amortization) which would have a material affect on the Company or ITC China, their financial conditions, their businesses as presently conducted or presently proposed to be conducted or any of their properties or material assets.

4.21. Invention Assignment and Confidentiality Agreement. The Company has used its best efforts to caused each employee, officer, consultant and contractor of each of the Company and ITC China to enter into and execute an Invention Assignment and Confidentiality Agreement in the form attached to this Agreement as Exhibit D, an employment or consulting agreement containing substantially similar terms, or the Employee, Non-Competition, Confidential Information and Work Product Agreement described on page 9 of the attachment to Section 4.9 (Material Contracts) of the Disclosure Schedule. The persons listed on page 9 of such attachment have signed the agreement described on page 9 of the attachment.

4.22. Environmental Matters. During the period that each of the Company and ITC China has owned or leased its properties and facilities, (a) there have been no disposals, releases or threatened releases of Hazardous Materials (as defined below) on, from or under such properties or facilities, (b) neither the Company nor ITC China, nor to the Company's knowledge any third party, has used, generated, manufactured or stored on, under or about such properties or facilities or transported to or from such properties or facilities any Hazardous Materials. Neither the Company nor ITC China has knowledge of any presence, disposals, releases or threatened releases of Hazardous Materials on, from or under any of such properties or facilities, which may have occurred prior to the Company or ITC China having taken possession of any of such properties or facilities. For purposes of this Agreement, the terms "disposal", "release", and "threatened release" shall have the definitions

assigned thereto by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601 et seq., as amended ("CERCLA").

For the purposes of this Section, "Hazardous Materials" shall mean any

hazardous or toxic substance, material or waste which is regulated under, or defined as a "hazardous substance", "pollutant", "contaminant", "toxic chemical", "hazardous material", "toxic substance", or "hazardous chemical" under (1) CERCLA; (2) the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. Section 11001 et seq.; (3) the Hazardous Materials

Transportation Act, 49 U.S.C. Section 1801, et seq.; (4) the Toxic Substances

Control Act, 15 U.S.C. Section 2601 et seq.; (5) the Occupational Safety and

Health Act of 1970, 29 U.S.C. Section 651 et seq.; (6) regulations promulgated

under any of the above statutes; or (7) any applicable state or local statute, ordinance, rule, or regulation that has a scope or purpose similar to those statutes identified above.

4.23. Interested Party Transactions. To the best knowledge of the Company, no officer or director of the Company or ITC China or any "affiliate" or "associate" (as those terms

are defined in Rule 405 promulgated under the 1933 Act) of any such person has had, either directly or indirectly, a material interest in: (i) any person or entity which purchases from or sells, licenses or furnishes to the Company or ITC China any goods, property, technology, intellectual or other property rights or services; or (ii) any contract or agreement to which the Company or ITC China is a party or by which it may be bound or affected.

4.24. Stock Restriction Agreements. Each person who, pursuant of

any benefit, bonus or incentive plan of the Company or ITC China, holds any currently outstanding shares of Common Stock or other securities of either the Company or ITC China or any option, warrant or right to acquire such shares or other securities, has entered into or is otherwise bound by, an agreement granting the Company or ITC China (i) the right to repurchase the shares for the original purchase price, or to cancel the option, warrant or right, in the event the holder's employment or services with the Company or ITC China terminate for any reason, subject to release of such repurchase or cancellation right on terms and conditions specified by the Board of Directors of the Company, and (ii) a right of first refusal with respect to all such shares. Each of the Company and ITC China has furnished to each Investor true and complete copies of the forms of all such stock restriction agreements.

4.25 Business Plan. The business plan prepared by the Company and

delivered to each Investor on or before the date hereof (the "Business Plan") was prepared in good faith and is not materially misleading.

4B. REPRESENTATIONS AND WARRANTIES OF CHARLES ZHANG. Charles Zhang

represents and warrants to the Investors as follows:

4B.1 Conflicting Agreements. He is not, as a result of the nature of

the business conducted or proposed to be conducted by the Company or for any other reason, in violation of (i) any fiduciary or confidential relationship, (ii) any term of any contract or covenant (either with the Company or with another entity) relating to employment, patents, proprietary information disclosure, non-competition or non-solicitation, or (iii) any other contract or agreement, or any judgment, decree or order of any court or administrative agency relating to or affecting the right of Mr. Zhang to be employed by the Company. No such relationship, term, judgment, decree, or order conflicts with Mr. Zhang obligations to use his best efforts to promote the interests of the Company nor does the execution and delivery of this Agreement and the transactions contemplated hereby, nor the carrying on of the Company's business as an officer or key employee of the Company, conflict with any such relationship, term, judgment, decree or order.

4B.2 Litigation. There is no action, suit or proceeding, or

governmental inquiry or investigation, pending or, to the best of Mr. Zhang's knowledge, threatened against Mr. Zhang and, to the best of his knowledge, there is no basis for any such action, suit, proceeding, or governmental inquiry or investigation.

4B.3 Stockholder Agreements. Except as contemplated by or disclosed

in this Agreement, Mr. Zhang is not a party to and has no knowledge of any agreements, written or oral, relating to the acquisition, disposition, registration under the Securities Act, or voting of the capital stock of the Company.

5. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS. Each Investor

represents and warrants to the Company as follows:

5.1. Authorization. This Agreement when executed and delivered by

the Investor will constitute a valid and legally binding obligation of the Investor, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles.

5.2. Investigation; Economic Risk. The Investor acknowledges that

it is an "accredited investor" within the meaning that term as defined in Rule 501(a) of Regulation D of the Securities Act. The Investor's address set forth on the Exhibit A represents its state of domicile, upon which the Company may

rely for the purpose of complying with applicable state "Blue Sky" laws. The Investor acknowledges that it has had an opportunity to discuss the business, affairs and current prospects of the Company with its officers. The Investor further acknowledges having had access to information about the Company that it has requested. The Investor acknowledges that it is able to fend for itself in the transactions contemplated by this Agreement and has the ability to bear the economic risks of its investment pursuant to this Agreement.

5.3. Purchase for Own Account. The Shares and the Conversion Shares

will be acquired for its own account, not as a nominee or agent, and not with a view to or in connection with the sale or distribution of any part thereof.

5.4. Exempt from Registration; Restricted Securities. The Investor

understands that the Shares and the Conversion Shares will not be registered under the Act, on the ground that the sale provided for in this Agreement is exempt from registration under of the Act, and that the reliance of the Company on such exemption is predicated in part on the Investor's representations set forth in this Agreement. The Investor understands that the Shares and the Conversion Shares being purchased hereunder are restricted securities within the meaning of Rule 144 under the Act; that the Shares and the Conversion Shares are not registered and must be held indefinitely unless they are subsequently registered or an exemption from such registration is available.

5.5. Restrictive Legends. It is understood that each certificate

representing (a) the Shares, (b) the Conversion Shares, and (c) any other securities issued in respect of the any of the foregoing upon any stock split, stock dividend, recapitalization, merger or similar event shall be stamped or otherwise imprinted with a legend substantially in the following form:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY

REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

5.6 Removal of Restrictive Legend. The legend set forth above shall

be removed by the Company from any certificate evidencing Shares or Conversion Shares upon delivery to the Company of an opinion by counsel, reasonably satisfactory to the Company, that a registration statement under the Act is at that time in effect with respect to the legended security or that such security can be freely transferred in a public sale without such a registration statement being in effect and that such transfer will not jeopardize the exemption or exemptions from registration pursuant to which the Company issued the Shares or Conversion Shares.

6. COVENANTS OF THE COMPANY. The Company covenants to each Investor as

follows:

6.1 Use of Proceeds. The Company will use the Proceeds from the

sale of the Shares for business expansion, capital expenditures, general working capital and the repayment of promissory notes of the Company, including accrued interest thereon, in the aggregate principal amount of \$100,000.

6.2 Implementation of Business Plan. The Company shall use its best

efforts to take all necessary actions to implement and carry out the Business Plan, including, without limitation, hiring employees, renting office space, employing legal and technical consultants and undertaking other customary business activities.

6.3 Other Investors. The Company shall not engage any strategic

investors for the purpose of obtaining additional financing without the prior written consent of the holders of a majority of the Shares.

6.4 Vesting. In addition, any Common Stock or other securities of

the Company issued after the First Closing to employees, directors and consultants of the Company pursuant to any benefit, bonus or incentive plan of the Company shall be subject to customary vesting provisions over a period of four (4) years (other than Common Stock issued pursuant to the exercise of options held by Edward Roberts and Andrew Mason as of the date hereof), and a minimum of 50% of the shares issued to Charles Zhang shall be subject to four (4) years of customary vesting and repurchase provisions at the original issue price.

6.4 Expenses of Directors. The Company shall promptly reimburse in

full each director of the Company who is not an employee of the Company for all of his reasonable out-of-pocket expenses incurred in attending each meeting of the Board of Directors of the Company or any committee hereof.

7. CONDITIONS TO THE INVESTORS' OBLIGATIONS AT THE CLOSINGS. The

obligations of each Investor to purchase the Tranche I Shares at the First Closing and the Tranche II Shares at the Second Closing are subject to the fulfillment, to the satisfaction each

Investor, on or before the First Closing and Second Closing, respectively, of the following conditions:

7.1. Representations and Warranties Correct. The representations and

warranties made by the Company in Section 4 hereof shall be true and correct (i) when made, (ii) as of the date of the First Closing, and (iii) as of the date of the Second Closing, if consummated; such representations and warranties shall have the same force and effect as if made on and as of such dates, subject to changes contemplated by this Agreement; and the Company shall have performed all obligations and conditions herein required to be performed or observed by it (i) on or before the First Closing, with respect to the issuance and sale of the Tranche I Shares, and (ii) on or before the Second Closing, if consummated, with respect to the issuance and sale of the Tranche II Shares.

7.2. Performance of Obligations. The Company shall have performed

and complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it (i) on or before the First Closing, with respect to the issuance and sale of the Tranche I Shares, and (ii) on or before the Second Closing, with respect to the issuance and sale of the Tranche II Shares; and the Company shall have obtained all approvals, consents and qualifications necessary to complete the purchases and sales described herein.

7.3. Proceedings and Documents. All corporate and other proceedings

in connection with the transactions contemplated hereby and all documents and instruments incident to such transactions shall be satisfactory in substance and form to the Investor, and the Investor shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

7.4. Consents and Waivers. The Company shall have obtained any and

all consents and waivers necessary or appropriate for consummation of the transactions contemplated by this Agreement.

7.5. Compliance Certificate. At the First Closing, the Company shall

deliver to each Investor a certificate, dated as of the First Closing, signed by the Company's President certifying that the conditions specified in Paragraphs 7.1 and 7.2 have been fulfilled. In addition, at the Second Closing, if consummated, the Company shall deliver to each Investor another certificate, dated as of the Second Closing, signed by the Company's President certifying that the conditions specified in Sections 7.1 and 7.2 have been fulfilled.

7.6. Securities Laws. The offer and sale of the Shares to the

Investors pursuant to this Agreement shall be exempt from the registration requirements of the Act and the registration and/or qualification requirements of all applicable state securities laws.

7.7. Amendment to Certificate. The Certificate shall have been duly

adopted by the Company by all necessary corporate action of its Board of Directors and shareholders and shall have been duly filed with and accepted by the Secretary of State of the State of Delaware.

7.8. Opinion of Company's Counsel. At both the First Closing and

the Second Closing, each Investor shall have received from counsel to the Company an opinion addressed to the Investor, dated the date of the respective Closing, in form and substance reasonably acceptable to the Investor.

7.9. Board of Directors. The Company's Certificate of Incorporation

and bylaws shall provide for a Board of 45 Directors. The number of Directors shall not be changed except by amendment. The Company's Board of Directors on the date of both First Closing and Second Closing shall consist of Charles Zhang, Edward B. Roberts and two representatives selected by the holders of the Series B Preferred Stock. The fifth seat on the Board of Directors shall be either vacant or filled by vote of the Common Stock, Series A Preferred Stock and Series B Preferred Stock, voting together as a single class.

7.10 Achievement of Revenue Plan; Audited Financial Statements;

Information Rights. With respect to the obligation of the Investors to purchase

the Tranche II Shares at the Second Closing, the Company shall (i) have achieved revenues of at least \$117,090 with respect to the period from January 1, 1998, through May 31, 1998, (ii) have provided audited financial statements for both the Company and ITC China for the year ending December 31, 1997, no later than May 31, 1998, and (iii) be in compliance with Sections 1.1 and 1.3 of that certain Investor Rights Agreement, dated as of the date hereof, by and between the Company and the Investors.

8. CONDITIONS TO COMPANY'S OBLIGATIONS AT THE CLOSINGS. The obligations

of the Company under this Agreement are subject to the fulfillment, on or before both the First Closing and the Second Closing, of the following conditions:

8.1. Representations and Warranties. The representations and

warranties of the Investors contained in Section 5 hereof shall be true as of both the First and Second Closing.

8.2. Payment of Purchase Price. Each Investor shall have delivered

to the Company the purchase price in accordance with the provisions of Section 3.

8.3. Certificate Effective. The Certificate shall have been duly

adopted by the Company by all necessary corporate action of its Board of Directors and shareholders, and shall have been duly filed with and accepted by the Secretary of State of the State of Delaware.

8.4. Securities Exemptions. The offer and sale of the Shares to

the Investors pursuant to this Agreement shall be exempt from the registration requirements of the Act, and the registration and/or qualification requirements of all applicable state securities laws.

9. MISCELLANEOUS.

9.1. Governing Law. This Agreement shall be governed in all respects

by the laws of the State of Delaware without regard to provisions regarding choice of laws.

9.2. Survival. The representations, warranties, covenants and

agreements made herein shall survive any investigation made by any party hereto and the closing of all the transactions contemplated hereby.

9.3. Successors and Assigns. Except as otherwise expressly provided

herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto whose rights or obligations hereunder are affected by such amendments. This Agreement and the rights and obligations therein may not be assigned by any Investor without the written consent of the Company except to a parent corporation, a subsidiary or affiliate. This Agreement and the rights and obligations therein may not be assigned by the Company without the written consent of the holders of a majority of the Shares purchased by Intel Corporation pursuant hereto and the holders of a majority of the Shares purchased by Harrison and Kummell pursuant hereto.

9.4. Entire Agreement. This Agreement and the exhibits hereto which

are hereby expressly incorporated herein by this reference constitute the entire understanding and agreement between the parties with regard to the subjects hereof and thereof; provided, however, that nothing in this Agreement shall be

deemed to terminate or supersede the provisions of any confidentiality and nondisclosure agreements executed by the parties hereto prior to the date hereof, which agreements shall continue in full force and effect until terminated in accordance with their respective terms.

9.5. Notices. Except as may be otherwise provided herein, all

notices, requests, waivers and other communications made pursuant to this Agreement shall be in writing and shall be conclusively deemed to have been duly given (a) when hand delivered to the other party; (b) when received when sent by facsimile at the address and number set forth below; (c) three business days after deposit in the U.S. mail with first class or certified mail receipt requested postage prepaid and addressed to the other party as set forth below; or (d) the next business day after deposit with a national overnight delivery service, postage prepaid, addressed to the parties as set forth in Exhibit A with next-business-day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider. Each person making a communication hereunder by facsimile shall promptly confirm by telephone to the person to whom such communication was addressed each communication made by it by facsimile pursuant hereto but the absence of such confirmation shall not affect the validity of any such communication. A party may change or supplement the addresses given in Exhibit A, or designate additional addresses, for purposes of this Section 9.5 by giving the other party written notice of the new address in the manner set forth above.

9.6. Amendments and Waivers. Any term of this Agreement may be

amended only with the written consent of the Company and the holders of a majority of shares of Series B Preferred Stock, or rights to acquire Shares.

9.7. Delays or Omissions. No delay or omission to exercise any

right, power or remedy accruing to the Company or to any Investor, upon any breach or default of any party hereto under this Agreement, shall impair any such right, power or remedy of the Company, or the Investor nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach or default thereafter occurring; nor shall any waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of the Company or any Investor of any breach of default under this Agreement or any waiver on the part of the Company or any Investor

of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, or by law or otherwise afforded to the Company or any Investor shall be cumulative and not alternative.

9.8. Legal Fees. In the event of any action at law, suit in equity

or arbitration proceeding in relation to this Agreement or any Shares or other securities of the Company issued or to be issued, the prevailing party, shall be paid by the other party a reasonable sum for attorney's fees and expenses for such prevailing party.

9.9. Finder's Fees. Each party (a) represents and warrants to the

other party hereto that, except as set forth in Section 9.9 of the Disclosure Schedule, it has retained no finder or broker in connection with the transactions contemplated by this Agreement, and (b) hereby agrees to indemnify and to hold harmless the other party hereto from and against any liability for any commission or compensation in the nature of a finder's fee of any broker or other person or firm (and the costs and expenses of defending against such liability or asserted liability) for which the indemnifying party or any of its employees or representatives are responsible.

9.10. Titles and Subtitles. The titles of the paragraphs and

subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

9.11. Counterparts. This Agreement may be executed in any number of

counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

9.12. Severability. Should any provision of this Agreement be

determined to be illegal or unenforceable, such determination shall not affect the remaining provisions of this Agreement.

9.13 Protection of Confidential Information. Confidential or

proprietary information disclosed by either party under this Agreement, as well as the terms of this Agreement and each Investor's investment in the Company, shall be considered confidential information (the "Confidential Information") and shall not be disclosed by the Company or any other party to this Agreement to any third party, subject to Section 9.14 below. Each party shall immediately notify the other parties of any information that comes to its attention which might indicate that there has been a loss of confidentiality with respect to the Confidential Information. In the event that the Company or any other party becomes legally compelled (by statute or regulation or by oral questions, interrogatories, request for information or documents, subpoena, criminal or civil investigative demand or similar process, including without limitation, in connection with any public or private offering of the Company's capital stock) to disclose any of the Confidential Information, such party (the "Disclosing Party") shall provide the other party (the "Non-Disclosing Party") with prompt written notice of that fact so that the appropriate party may seek (with the cooperation and reasonable efforts of the other parties) a protective order, confidential treatment or other appropriate remedy. In such event, the Disclosing Party shall furnish only that portion of the Confidential Information which is legally required and shall

exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Confidential Information to the extent reasonably requested by the Non-Disclosing Party. The provisions of this Section 9.13 shall be in addition to, and not in substitution for, the provisions of any separate nondisclosure agreement executed by the parties hereto with respect to the transaction contemplated hereby.

9.14 Disclosure of Terms; Press Releases. Notwithstanding the

provisions of Section 9.13 above, from and after the First Closing, the Company may disclose the existence of this Agreement and the terms hereof, as well as each Investor's investment in the Company solely to the Company's investors, investment bankers, lenders, accountants, legal counsel, business partners, and bona fide prospective investors, employees, lenders and business partners, in each case only where such persons or entities are under appropriate nondisclosure obligations. In addition, the Company may disclose the fact that the Investor is an investor in the Company to third parties without the requirement of nondisclosure obligations. Within sixty (60) days of the First Closing, the Company may issue a press release disclosing that the Investor has invested in the Company; provided that the release does not disclose the amount or other specific terms of the investment and is approved in advance in writing by the Investor. Each Investor, at its sole discretion, may provide an executive quote or other material regarding its investment in the Company. No other announcement regarding the Investor's investment in the Company in a press conference, in any professional or trade publication, in any marketing materials or otherwise to the general public may be made without the prior written consent of the Investor, which consent may be withheld at the sole discretion of the Investor. Notwithstanding the foregoing, the Investor may disclose its investment in the Company and the terms thereof to third parties or to the public at its discretion, and the Company shall have the right to disclose to third parties any such information disclosed by the Investor in a press release or other public announcement. If the Company or the Investor determines that any disclosure not otherwise authorized by this Agreement is required by law or regulation, then the provisions of Section 9.13 regarding disclosure of Confidential Information by a Disclosing Party shall govern.

9.15 Dispute Resolution. The parties agree to negotiate in good

faith to resolve any dispute between them regarding this Agreement. If the negotiations do not resolve the dispute to the reasonable satisfaction of both parties, then each party shall nominate one senior officer of the rank of Vice President or higher as its representative. These representatives shall, within thirty (30) days of a written request by either party to call such a meeting, meet in person and alone (except for one assistant for each party) and shall attempt in good faith to resolve the dispute. If the disputes cannot be resolved by such senior managers in such meeting, the parties agree that they shall, if requested in writing by either party, meet within thirty (30) days after such written notification for one day with an impartial mediator and consider dispute resolution alternatives other than litigation. If an alternative method of dispute resolution is not agreed upon within thirty (30) days after the one day mediation, either party may begin litigation proceedings. This procedure shall be a prerequisite before taking any additional action hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year herein above first written.

INVESTOR

INTERNET TECHNOLOGIES
CHINA INCORPORATED

(Name of Investor)

Signature

Signature

Printed Name

Printed Name

Title

Title

CHARLES ZHANG

Executed solely for the purpose of making the representations and warranties set forth in Section 4B hereof:

Charles C.Y. Zhang

[SIGNATURE PAGE FOR SERIES B PREFERRED
STOCK PURCHASE AGREEMENT]

SERIES B-1 PREFERRED STOCK PURCHASE AGREEMENT

This Series B-1 Preferred Stock Purchase Agreement (the "Agreement") is entered into as of August 18, 1998 (the "Effective Date"), by and between Internet Technologies China Incorporated, a Delaware corporation (the "Company"), and Dow Jones & Company, Inc., a Delaware corporation (the "Investor"). Charles Zhang is a party to this Agreement for the sole purpose of making the representations and warranties set forth in Section 4B hereof.

In consideration of the mutual promises, covenants and conditions hereinafter set forth, the parties hereto agree as follows:

1. DEFINITIONS.

1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following respective meanings:

"Common Stock" shall mean the Company's Common Stock, \$.01 par value.

"Proceeds" shall mean whatever is received when assets, whether tangible or intangible, are sold, changed, collected or otherwise disposed of, both cash and non-cash, including the Proceeds of insurance payable by reason of loss or damage to Proceeds.

"Proprietary Assets" shall mean all patents, patent applications, trademarks, service marks, trade names, copyrights, moral rights, maskworks, trade secrets, confidential and proprietary information, compositions of matter, formulas, designs, proprietary rights, know-how, processes, domain names and URLs.

1.2 Index of Other Defined Terms. In addition to the terms defined above, the following terms shall have the respective meanings given thereto in the sections indicated below:

Defined Term	Section
"Agreement"	Preamble
"Bylaws"	4.12
"CERCLA"	4.22
"Certificate"	2.1
"Closing"	3.1
"Code"	4.20
"Company"	Preamble
"Confidential Information"	9.13
"Conversion Shares"	4.2(c)
"Disclosing Party"	9.13

"Effective Date"	Preamble

"Financial Statements"	4.16

"Hazardous Materials"	4.22

"Investor"	Preamble

"Non-Disclosing Party"	9.13

"Disclosure Schedule"	4

"SEC"	4.14

"Securities Act"	4.5(b)

"Shares"	2.2

2. AGREEMENT TO PURCHASE AND SELL STOCK

2.1. Authorization. As of the First Closing (as defined below), the

Company will have authorized the issuance, pursuant to the terms and conditions of this Agreement, of 67,659 shares of the Company's Series B-1 Convertible Preferred Stock, \$0.01 par value, ("Series B-1 Preferred") having the rights, preferences, privileges and restrictions set forth in the Form of Amended and Restated Certificate of Incorporation of the Company attached to this Agreement as Exhibit A (the "Certificate").

2.2. Agreement to Purchase and Sell at the Closing. Subject to the

terms and conditions hereof, on the date of the Closing, the Company will issue and sell to the Investor, and the Investor agrees to purchase from the Company, an aggregate of 67,659 shares of Series B-1 Preferred (the "Shares") at a price of \$5.173 per share for an aggregate purchase price of \$350,000.01 The purchase price for the Shares shall be paid by wire transfer of funds to a designated account of the Company, provided that wire transfer instructions are delivered to the Investor at least one (1) business day prior to the Closing.

2.3 Currency. All monetary amounts set forth herein shall be in

United States dollars.

3. CLOSING; DELIVERY.

3.1. The Closing. The purchase and sale of the Shares hereunder

shall be held at the offices of Goulston & Storrs, P.C., on August 18, 1998, or at such other time and place as the Company and the Investor may agree upon (the "Closing").

3.2. Delivery. At the Closing the Company will deliver to the

Investor a certificate representing the Shares against payment of the full purchase price therefor by wire transfer.

4. COMPANY REPRESENTATIONS AND WARRANTIES. The Company hereby represents and

warrants to the Investors that, except as set forth in the Disclosure Schedule ("Disclosure Schedule") attached to this Agreement as Exhibit B (which

Disclosure Schedule shall be deemed to be representations and warranties to the Investor), the statements in the following paragraphs of this Section 4 are all true and correct:

4.1. Organization, Good Standing and Qualification. The Company is

a corporation duly organized, validly existing and in good standing under, and by virtue of, the laws of the State of Delaware and has all requisite corporate power and authority to own its properties and assets and to carry on its business as now conducted and as presently proposed to be conducted. The Company is qualified to do business as a foreign corporation in each jurisdiction where failure to be so qualified would have a material adverse effect on its financial condition, business, prospects or operations.

4.2. Capitalization. Immediately before the Closing, the authorized

capital stock of the Company will consist of the following:

(a) Common Stock. A total of 5,000,000 authorized shares of

Common Stock, \$0.01 par value ("Common Stock")) of which 712,719 shares are issued and outstanding 478,281 shares are reserved for issuance upon conversion of outstanding shares of Preferred Stock.

(b) Preferred Stock. A total of 722,000 authorized shares of

Preferred Stock, \$0.01 par value ("Preferred Stock"), of which 225,000 shares are designated as Series A Convertible Preferred Stock ("Series A Preferred"), all of which are be outstanding, 400,000 shares are designated as Series B Convertible Preferred Stock ("Series B Preferred), 347,299 shares of which are issued or outstanding, and 96,656 shares are designated as Series B-1 Preferred, none of which are issued and outstanding.

(c) Options, Warrants, Reserved Shares. The Company has

reserved 67,659 shares of its Common Stock for possible issuance upon the conversion of shares of Series B-1 Preferred (the "Conversion Shares"). Except

as set forth in Section 4.2(d) of the Disclosure Schedule and except for (i) the conversion privileges of the Series A Preferred and the Series B Preferred, (ii) the conversion privileges of the Series B-1 Preferred to be issued hereunder and one or more similar agreements, (iii) the 120,000 shares of Common Stock reserved for issuance or to be reserved for issuance under the Company's stock option plan, under which options to purchase 16,188 shares of Common Stock are outstanding, and (iv) warrants to purchase 5,781 shares of Common Stock of the Company, issued in connection with the Company's bridge financing in December 1997, there are no options, warrants, conversion privileges or other rights, or agreements with respect to the issuance thereof, presently outstanding to purchase any of the capital stock of the Company. Apart from the exceptions noted in this Section 4.2, no shares (including the Shares and Conversion Shares) of the Company's outstanding capital stock, or stock issuable upon exercise or exchange of any outstanding options or other stock issuable by the Company, are subject to any rights of first refusal or other rights to purchase such stock (whether in favor of the Company or any other person), pursuant to any agreement or commitment of the Company.

(d) Outstanding Security Holders. Section 4.2(d) of the

Disclosure Schedule sets forth a complete list of all outstanding shareholders, option holders and other security holders of the Company as of the Effective Date.

4.3. Subsidiaries. The Company owns all of the issued and

outstanding stock of ITC Electronic Technology Beijing Co. Ltd., a company organized under the laws of the People's Republic of China ("ITC China"). ITC China is a wholly foreign owned enterprise (WFOE) authorized by the government of China and has the government permits, approvals authorizations and licenses necessary to engage in the business currently conducted and currently proposed to be conducted by ITC China. No other person or entity other than the Company has any right to acquire any equity or other ownership interest of ITC China. Except for the Company's ownership of ITC China, the Company does not presently own or control, directly or indirectly, any interest in any other corporation, partnership, limited liability company, trust, joint venture, association, or other entity.

4.4. Due Authorization. All corporate action on the part of the

Company and ITC China, their officers, directors and shareholders necessary for the authorization, execution and delivery of, and the performance of all obligations of the Company under, this Agreement, and the authorization, issuance, reservation for issuance and delivery of all of the Shares being sold under this Agreement has been taken or will be taken before the Closing. This Agreement is a valid and binding obligation of the Company enforceable in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles. The Shares are not subject to any preemptive rights or rights of first refusal, except such as have been waived.

4.5. Valid Issuance of Stock.

(a) The Shares, when issued, sold and delivered in accordance with the terms of this Agreement, will be duly and validly issued, fully paid and nonassessable. The Conversion Shares have been duly and validly reserved for issuance and, upon issuance in accordance with the terms of the Certificate, will be duly and validly issued, fully paid and nonassessable.

(b) The outstanding shares of the capital stock of the Company and ITC China are duly and validly issued, fully paid and nonassessable, and such shares of such capital stock, and all outstanding stock, options and other securities of the Company and ITC China have been issued in full compliance with the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the registration and qualification requirements of all applicable state securities laws, or in compliance with applicable exemptions therefrom, and all other provisions of applicable federal and state securities laws, including, without limitation, anti-fraud provisions.

4.6. Liabilities. Neither the Company nor ITC China has any

indebtedness for borrowed money that the Company or ITC China has directly or indirectly created, incurred, assumed, or guaranteed, or with respect to which the Company or ITC China has otherwise become directly or indirectly liable.

4.7. Title to Properties and Assets. Each of the Company and ITC

China has good and marketable title to its properties and assets held in each case subject to no mortgage,

pledge, lien, encumbrance, security interest or charge of any kind. With respect to the property and assets it leases, each of the Company and ITC China is in compliance with such leases and, to the best of the Company's knowledge, each of the Company and ITC China holds valid leasehold interests in such assets free of any liens, encumbrances, security interests or claims of any party other than the lessors of such property and assets.

4.8. Status of Proprietary Assets.

(a) Ownership. Each of the Company and ITC China has full

title and ownership of, or has license to, all Proprietary Assets necessary to enable it to carry on its business as now conducted and as presently proposed to be conducted without any conflict with or infringement of the rights of others. No third party has any ownership right, title, interest, claim in or lien on any of the Company's or ITC China's Proprietary Assets and the Company and ITC China have taken, and in the future will use their best efforts to take, all steps reasonably necessary to preserve their respective legal rights in, and the secrecy of, all its Proprietary Assets, except those for which disclosure is required for legitimate business or legal reasons.

(b) Licenses; Other Agreements. Neither the Company nor ITC

China has granted, and there are not outstanding, any options, licenses or agreements of any kind relating to any Proprietary Asset of the Company or ITC China, nor is the Company or ITC China bound by or a party to any option, license or agreement of any kind with respect to any of their respective Proprietary Assets. Neither the Company nor ITC China is obligated to pay any royalties or other payments to third parties with respect to the marketing, sale, distribution, manufacture, license or use of any Proprietary Asset or any other property or rights.

(c) No Infringement. To the knowledge of the Company, neither

the Company nor ITC China has violated or infringed, and is not currently violating or infringing, any Proprietary Asset of any other person or entity. Neither the Company nor ITC China has received any communications alleging that the Company or ITC China (or any of their respective employees or consultants) has violated or infringed or, by conducting its business as proposed, would violate or infringe, any Proprietary Asset of any other person or entity.

(d) No Breach by Employee. After due inquiry, neither the

Company nor ITC China is aware that any employee or consultant of the Company or ITC China is obligated under any agreement (including licenses, covenants or commitments of any nature) or subject to any judgment, decree or order of any court or administrative agency, or any other restriction that would interfere with the use of his or her best efforts to carry out his or her duties for the Company or ITC China or to promote the interests of the Company or ITC China or that would conflict with the Company's or ITC China's business as proposed to be conducted. The carrying on of each of the Company's and ITC China's business by the employees and contractors of the Company and ITC China and the conduct of the Company's and ITC China's business as presently proposed, will not, to the best of the Company's knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees or contractors of the Company or ITC China are now obligated. Neither the Company nor ITC China believes it is or will be necessary to utilize any inventions of any employees of the Company or ITC China (or

persons the Company or ITC China currently intends to hire) made prior to their employment by the Company or ITC China. To the Company's knowledge, at no time during the conception of or reduction of any of the Company's or ITC China's Proprietary Assets to practice was any developer, inventor or other contributor to such patents operating under any grants from any governmental entity or agency or private source, performing research sponsored by any governmental entity or agency or private source or subject to any employment agreement or invention assignment or nondisclosure agreement or other obligation with any third party that could adversely affect the Company's or ITC China's rights in such Proprietary Assets.

4.9. Material Contracts and Obligations. All agreements, contracts,

leases, licenses, instruments, commitments (oral or written), indebtedness, liabilities and other obligations to which the Company or ITC China is a party or by which they are bound that (i) are material to the conduct and operations of the businesses and properties of the Company or ITC China; (ii) involve any of the officers, consultants, directors, employees or shareholders of the Company or ITC China; or (iii) obligate the Company or ITC China to share, license or develop any product or technology are listed in Section 4.9 of the Disclosure Schedule and have been made available for inspection by the Investor. For purposes of this Section 4.9, "material" shall mean any agreement, contract, indebtedness, liability or other obligation either: (i) having an aggregate value, cost or amount in excess of \$10,000 or (ii) not terminable upon thirty days notice.

4.10. Litigation. There is no action, suit, proceeding, claim,

arbitration or investigation ("Action") pending (or, to the Company's knowledge, -----
currently threatened) against the Company or ITC China, their activities, properties or assets or, to the Company's knowledge, against any officer, director or employee of the Company or ITC China in connection with such officer's, director's or employee's relationship with, or actions taken on behalf of the Company or ITC China. To the Company's knowledge, there is no factual or legal basis for any such Action that might result, individually or in the aggregate, in any material adverse change in the business, properties, assets, financial condition, affairs or prospects of the Company or ITC China. By way of example but not by way of limitation, there are no Actions pending or, to the Company's knowledge, threatened (or any basis therefor known to the Company or ITC China) relating to the prior employment of any of the Company's or ITC China's employees or consultants, their use in connection with the Company's or ITC China's business of any information, technology or techniques allegedly proprietary to any of their former employers, clients or other parties, or their obligations under any agreements with prior employers, clients or other parties. Neither the Company nor ITC China is a party to or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality and there is no Action by the Company or ITC China currently pending or which the Company or ITC China intends to initiate.

4.11. Governmental Consents. All consents, approvals, orders,

authorizations or registrations, qualifications, designations, declarations or filings with any federal, state or local governmental authority on the part of each of the Company and ITC China required in connection with the consummation of the transactions contemplated herein shall have been obtained prior to and be effective as of the First Closing. Based in part on the representations of

the Investor set forth in Section 5 below, the offer, sale and issuance of the Shares in conformity with the terms of this Agreement are exempt from the registration and prospectus delivery requirements of the Securities Act.

4.12. Compliance with Other Instruments. Neither the Company nor

ITC China is in, nor will the conduct of their businesses as proposed to be conducted result in, any violation, breach or default of any term of the Company's Certificate or ITC China's charter or the Company's or ITC China's bylaws (collectively, the "Bylaws") or in any material respect of any term or provision of any mortgage, indenture, contract, agreement or instrument to which the Company or ITC China is a party or by which it may be bound, or of any provision of any foreign or domestic state or federal judgment, decree, order, statute, rule or regulation applicable to or binding upon the Company or ITC China. The execution, delivery and performance of and compliance with this Agreement and the consummation of the transactions contemplated hereby will not result in any such violation or default, or be in conflict with or constitute, with or without the passage of time or the giving of notice or both, either a default under the Company's Certificate or Bylaws or ITC China's charter or Bylaws, or any agreement or contract of the Company or ITC China, or, to the Company's knowledge, a violation of any statutes, laws, regulations or orders, or an event which results in the creation of any lien, charge or encumbrance upon any asset of the Company or ITC China.

4.13. Disclosure. No representation or warranty by the Company in

this Agreement or in any statement or certificate signed by any officer of the Company or ITC China furnished or to be furnished to the Investors pursuant to this Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they are made, not misleading.

4.14. Registration Rights. Except as provided in the Investor

Rights Agreement and except for rights granted to the holders of the Series B Preferred, neither the Company nor ITC China has granted or agreed to grant any person or entity any rights (including piggyback registration rights) to have any securities of the Company or ITC China registered with the United States Securities and Exchange Commission ("SEC") or any other governmental authority.

4.15. Insurance. Each of the Company and ITC China have obtained,

and will maintain, fire and casualty insurance policies with extended coverage, sufficient in amount (subject to reasonable deductibles) to allow it to replace any of its properties that might be damaged or destroyed.

4.16. Financial Statements. The Company has supplied to the

Investor (i) the audited balance sheet of the Company as at December 31, 1997 and the related audited statements of income, changes in stockholders' equity and cash flow of the Company for the fiscal year then ended, accompanied by the report thereon by Coopers & Lybrand CIEC, the Company's independent certified public accountants (together with the related schedules and notes thereto, the "Audited Financial Statements") and (ii) the unaudited balance sheet of the Company as at May 31, 1998 and the related unaudited statements of income, changes in

stockholders' equity and cash flow of the Company for the quarter then ended (the "Interim Financial Statements") (the Audited Financial Statements and the Interim Financial Statements are referred to herein collectively as the "Financial Statements").

The Financial Statements present fairly the financial condition of the Company as of the respective dates thereof, and the income, changes in stockholders' equity and cash flow of the Company for the year and period then ended and have been prepared in accordance with United States generally accepted accounting principles ("GAAP") applied consistently throughout the periods involved, except that some or all footnotes required by GAAP for year-end financial statements are not included in the Interim Financial Statements. Other than as set forth in the Disclosure Schedule, neither the Company nor ITC China has any material indebtedness or other material liability.

4.17. Certain Actions. Since the date of the Interim Financial

Statements, neither the Company nor ITC China has (a) declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its capital stock; (b) incurred any indebtedness for money borrowed or incurred any other liabilities individually in excess of \$10,000 or in excess of \$25,000 in the aggregate; (c) made any loans or advances to any person, other than ordinary advances for travel expenses; (d) sold, exchanged or otherwise disposed of any material assets or rights other than the sale of inventory in the ordinary course of its business; or (e) entered into any transactions with any of its officers, directors or employees or any entity controlled by any of such individuals.

4.18. Activities Since Interim Financial Statement Date. Since the

date of the Interim Financial Statements, there has not been:

- (a) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the assets, properties, financial condition, operating results, prospects or business of the Company or ITC China (as presently conducted and as presently proposed to be conducted);
- (b) any waiver by the Company or ITC China of a valuable right or of a material debt owed to it;
- (c) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by the Company or ITC China, except such a satisfaction, discharge or payment made in the ordinary course of business that is not material to the assets, properties, financial condition, operating results or business of the Company or ITC China;
- (d) any material change or amendment to a material contract or arrangement by which the Company or ITC China or any of their assets or properties is bound or subject, except for changes or amendments which are expressly provided for or disclosed in this Agreement;

- (e) any material change in any compensation arrangement or agreement with any present or prospective employee, contractor or director not approved by the Company's or ITC China's Board of Directors; or
- (f) to the Company's knowledge, any other event or condition of any character which would materially and adversely affect the assets, properties, financial condition, operating results or business of the Company or ITC China.

4.19. Tax Matters. The Company has made sufficient provision for,

and has adequate resources to pay, all accrued and unpaid federal, state, provincial, foreign, county and local taxes of each of the Company and ITC China, whether or not assessed or disputed as of the date hereof. There have been no examinations or audits of any tax returns or reports by any applicable federal, state or local governmental agency. Except as set forth in the Disclosure Schedule, each of the Company and ITC China have duly filed all federal, state, county and local tax returns required to have been filed by it and paid all taxes shown to be due on such returns. To the extent that any tax returns have not been filed as reflected on the Disclosure Schedule, such failure to file has not had and will not have any material adverse effect on the Company or ITC China. There are in effect no waivers of applicable statutes of limitations with respect to taxes for any year.

4.20. Tax Elections. Neither the Company nor ITC China has elected

pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), to be

treated as an "S" corporation or a collapsible corporation pursuant to Section 341(f) or Section 1362(a) of the Code, nor has the Company or ITC China made any other elections pursuant to the Code (other than elections which relate solely to matters of accounting, depreciation or amortization) which would have a material affect on the Company or ITC China, their financial conditions, their businesses as presently conducted or presently proposed to be conducted or any of their properties or material assets.

4.21. Invention Assignment and Confidentiality Agreement. The

Company has caused each employee, officer, consultant and contractor of each of the Company and ITC China to enter into and execute an agreement as to assignment to the Company of inventions made during employment and the confidentiality of proprietary information of the Company.

4.22. Environmental Matters. During the period that each of the

Company and ITC China has owned or leased its properties and facilities, (a) there have been no disposals, releases or threatened releases of Hazardous Materials (as defined below) on, from or under such properties or facilities, (b) neither the Company nor ITC China, nor to the Company's knowledge any third party, has used, generated, manufactured or stored on, under or about such properties or facilities or transported to or from such properties or facilities any Hazardous Materials. Neither the Company nor ITC China has knowledge of any presence, disposals, releases or threatened releases of Hazardous Materials on, from or under any of such properties or facilities, which may have occurred prior to the Company or ITC China having taken possession of any of such properties or facilities. For purposes of this Agreement, the terms "disposal",

"release", and "threatened release" shall have the definitions assigned thereto

by the Comprehensive

Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601 et seq., as amended ("CERCLA"). For the purposes of this Section,

"Hazardous Materials" shall mean any hazardous or toxic substance, material or waste which is regulated under, or defined as a "hazardous substance", "pollutant", "contaminant", "toxic chemical", "hazardous material", "toxic substance", or "hazardous chemical" under (1) CERCLA; (2) the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. Section 11001 et

seq.; (3) the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et

seq.; (4) the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq.; (5)

the Occupational Safety and Health Act of 1970, 29 U.S.C. Section 651 et seq.;

(6) regulations promulgated under any of the above statutes; or (7) any applicable state or local statute, ordinance, rule, or regulation that has a scope or purpose similar to those statutes identified above.

4.23. Interested Party Transactions. To the knowledge of the

Company, no officer or director of the Company or ITC China or any "affiliate" or "associate" (as those terms are defined in Rule 405 promulgated under the Securities Act) of any such person has had, either directly or indirectly, a material interest in: (i) any person or entity which purchases from or sells, licenses or furnishes to the Company or ITC China any goods, property, technology, intellectual or other property rights or services; or (ii) any contract or agreement to which the Company or ITC China is a party or by which it may be bound or affected, except that Dr. Shelley Harrison, a director of the Company, is a major stockholder of a company that shares office space and expenses with ITC China in Shanghai, China.

4.24. Stock Restriction Agreements. Each person who, pursuant to

any benefit, bonus or incentive plan of the Company or ITC China, holds any currently outstanding shares of Common Stock or other securities of either the Company or ITC China or any option, warrant or right to acquire such shares or other securities, has entered into or is otherwise bound by, an agreement granting the Company or ITC China (i) the right to repurchase the shares for the original purchase price, or to cancel the option, warrant or right, in the event the holder's employment or services with the Company or ITC China terminate for any reason, subject to release of such repurchase or cancellation right on terms and conditions specified by the Board of Directors of the Company, and (ii) a right of first refusal with respect to all such shares, except that there are no restrictions imposed upon shares underlying options granted to Edward B. Roberts and Andrew Mason. Each of the Company and ITC China has furnished to each Investor true and complete copies of the forms of all such stock restriction agreements.

4B. REPRESENTATIONS AND WARRANTIES OF CHARLES ZHANG. Charles Zhang

represents and warrants to the Investors as follows:

4B.1 Conflicting Agreements. He is not, as a result of the nature of

the business conducted or proposed to be conducted by the Company or for any other reason, in violation of (i) any fiduciary or confidential relationship, (ii) any term of any contract or covenant (either with the Company or with another entity) relating to employment, patents, proprietary information disclosure, non-competition or non-solicitation, or (iii) any other contract or agreement, or any judgment, decree or order of any court or administrative agency relating to or affecting the right of Mr. Zhang to be employed by the Company. No such relationship, term, judgment, decree, or order conflicts with Mr. Zhang obligations to use his best efforts to promote the interests of the

Company nor does the execution and delivery of this Agreement and the transactions contemplated hereby, nor the carrying on of the Company's business as an officer or key employee of the Company, conflict with any such relationship, term, judgment, decree or order.

4B.2 Litigation. There is no action, suit or proceeding, or

governmental inquiry or investigation, pending or, to the best of Mr. Zhang 's knowledge, threatened against Mr. Zhang and, to the best of his knowledge, there is no basis for any such action, suit, proceeding, or governmental inquiry or investigation.

4B.3 Stockholder Agreements. Except as contemplated by or disclosed

in this Agreement, Mr. Zhang is not a party to and has no knowledge of any agreements, written or oral, relating to the acquisition, disposition, registration under the Securities Act, or voting of the capital stock of the Company.

5. REPRESENTATIONS AND WARRANTIES OF THE INVESTOR. The Investor

represents and warrants to the Company as follows:

5.1. Authorization. This Agreement when executed and delivered by

the Investor will constitute a valid and legally binding obligation of the Investor, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles.

5.2. Investigation; Economic Risk. The Investor acknowledges that

it is an "accredited investor" within the meaning that term as defined in Rule 501(a) of Regulation D of the Securities Act (meaning that, in the case of a corporation, it either has total assets in excess of \$5,000,000 and was not formed for the specific purpose of acquiring the Shares, or each of its equity owners are "accredited investors"). The Investor's address is 200 Liberty Street, New York, New York 10281, which represents its state of domicile, upon which the Company may rely for the purpose of complying with applicable state "Blue Sky" laws. The Investor acknowledges that it has had an opportunity to discuss the business, affairs and current prospects of the Company with its officers. The Investor further acknowledges having had access to information about the Company that it has requested. The Investor acknowledges that it is able to fend for itself in the transactions contemplated by this Agreement and has the ability to bear the economic risks of its investment pursuant to this Agreement.

5.3. Purchase for Own Account. The Shares and the Conversion Shares

will be acquired for the Investor's own account, not as a nominee or agent, and not with a view to or in connection with the sale or distribution of any part thereof.

5.4. Exempt from Registration; Restricted Securities. The Investor

understands that the Shares and the Conversion Shares will not be registered under the Securities Act, on the ground that the sale provided for in this Agreement is exempt from registration under of the Securities Act, and that the reliance of the Company on such exemption is predicated in part on the Investor's representations set forth in this Agreement. The Investor understands that the Shares and the Conversion Shares being purchased hereunder are restricted securities within the meaning of Rule 144 under the Securities Act; that the Shares and the Conversion Shares

are not registered and must be held indefinitely unless they are subsequently registered or an exemption from such registration is available.

5.5. Restrictive Legends. It is understood that each certificate

representing (a) the Shares, (b) the Conversion Shares, and (c) any other securities issued in respect of the any of the foregoing upon any stock split, stock dividend, recapitalization, merger or similar event shall be stamped or otherwise imprinted with a legend substantially in the following form:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

5.6 Removal of Restrictive Legend. The legend set forth above shall

be removed by the Company from any certificate evidencing Shares or Conversion Shares upon delivery to the Company of an opinion of counsel, reasonably satisfactory to the Company, that a registration statement under the Securities Act is at that time in effect with respect to the legended security or that such security can be freely transferred in a public sale without such a registration statement being in effect and that such transfer will not jeopardize the exemption or exemptions from registration pursuant to which the Company issued the Shares or Conversion Shares.

6. COVENANTS OF THE COMPANY. The Company covenants to the Investor as

follows:

6.1 Use of Proceeds. The Company will use the Proceeds from the

sale of the Shares for business expansion, capital expenditures and general working capital.

6.2 Vesting. Any Common Stock or other securities of the Company

issued after the Closing to employees, directors and consultants of the Company pursuant to any benefit, bonus or incentive plan of the Company shall be subject to customary vesting provisions over a period of four (4) years (other than Common Stock issued pursuant to the exercise of options held by Edward Roberts and Andrew Mason as of the date hereof), and a minimum of 50% of the shares issued to Charles Zhang shall be subject to four (4) years of customary vesting and repurchase provisions at the original issue price.

7. CONDITIONS TO THE INVESTOR'S OBLIGATIONS AT THE CLOSING. The

obligation of the Investor to purchase the Shares at the Closing is subject to the fulfillment, to the satisfaction the Investor, on or before the Closing, of the following conditions:

7.1. Representations and Warranties Correct. The representations and

warranties made by the Company in Section 4 hereof shall be true and correct (i) when made and (ii) as of the date of the Closing. Such representations and warranties shall have the same force and effect as if made on and as of such date, subject to changes contemplated by this Agreement.

7.2. Performance of Obligations. The Company shall have performed and

complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it on or before the Closing and the Company shall have obtained all approvals, consents and qualifications necessary to complete the purchase and sale described herein.

7.3. Proceedings and Documents. All corporate and other proceedings

in connection with the transactions contemplated hereby and all documents and instruments incident to such transactions shall be satisfactory in substance and form to the Investor, and the Investor shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

7.4. Consents and Waivers. The Company shall have obtained any and

all consents and waivers necessary or appropriate for consummation of the transactions contemplated by this Agreement.

7.5. Compliance Certificate. At the Closing, the Company shall

deliver to the Investor a certificate, dated as of the Closing, signed by the Company's President certifying that the conditions specified in Paragraphs 7.1 and 7.2 have been fulfilled.

7.6. Securities Laws. The offer and sale of the Shares to the

Investors pursuant to this Agreement shall be exempt from the registration requirements of the Securities Act and the registration and/or qualification requirements of all applicable state securities laws.

7.7. Amendment to Certificate. The Certificate shall have been duly

adopted by the Company by all necessary corporate action of its Board of Directors and shareholders and shall have been duly filed with and accepted by the Secretary of State of the State of Delaware.

7.8. Opinion of Company's Counsel. At the Closing, the Investor shall

have received from counsel to the Company an opinion addressed to the Investor, dated the date of the Closing, in form and substance reasonably acceptable to the Investor.

8. CONDITIONS TO COMPANY'S OBLIGATIONS AT THE CLOSINGS. The obligations

of the Company under this Agreement are subject to the fulfillment, on or before the Closing, of the following conditions:

8.1. Representations and Warranties. The representations and

warranties of the Investor contained in Section 5 hereof shall be true as of the
Closing.

8.2. Payment of Purchase Price. The Investor shall have delivered to

the Company the purchase price in accordance with the provisions of Section 3.

8.3. Certificate Effective. The Certificate shall have been duly

adopted by the Company by all necessary corporate action of its Board of
Directors and shareholders, and shall have been duly filed with and accepted by
the Secretary of State of the State of Delaware.

8.4. Securities Exemptions. The offer and sale of the Shares to the

Investor pursuant to this Agreement shall be exempt from the registration
requirements of the Securities Act, and the requirements of all applicable state
securities laws.

9. MISCELLANEOUS.

9.1. Governing Law. This Agreement shall be governed in all respects

by the laws of the State of Delaware without regard to provisions regarding
choice of laws.

9.2. Survival. The representations, warranties, covenants and

agreements made herein shall survive any investigation made by any party hereto
and the closing of all the transactions contemplated hereby.

9.3. Successors and Assigns. Except as otherwise expressly provided

herein, the provisions hereof shall inure to the benefit of, and be binding
upon, the successors, assigns, heirs, executors and administrators of the
parties hereto whose rights or obligations hereunder are affected by such
amendments. This Agreement and the rights and obligations therein may not be
assigned by the Investor without the written consent of the Company except to a
parent corporation, a subsidiary or an affiliate. This Agreement and the rights
and obligations herein may not be assigned by the Company without the written
consent of the Investor.

9.4. Entire Agreement. This Agreement and the exhibits hereto which

are hereby expressly incorporated herein by this reference constitute the entire
understanding and agreement between the parties with regard to the subjects
hereof and thereof; provided, however, that nothing in this Agreement shall be

deemed to terminate or supersede the provisions of any confidentiality and
nondisclosure agreements executed by the parties hereto prior to the date
hereof, which agreements shall continue in full force and effect until
terminated in accordance with their respective terms.

9.5. Notices. Except as may be otherwise provided herein, all notices,

requests, waivers and other communications made pursuant to this Agreement shall
be in writing and shall be conclusively deemed to have been duly given (a) when
hand delivered to the other party; (b) when received when sent by facsimile at
the address and number set forth below; (c) for notices between parties both of
which are located in the United States, three business days after deposit in the
U.S. mail with first class or certified mail return receipt requested postage
prepaid and addressed to the other party as set forth below; or (d) when
received, if sent by a national

overnight delivery service, postage prepaid, addressed to the parties as set forth below, provided that the sending party receives a confirmation of delivery from the delivery service provider. Each person making a communication hereunder by facsimile shall promptly confirm by telephone to the person to whom such communication was addressed each communication made by it by facsimile pursuant hereto but the absence of such confirmation shall not affect the validity of any such communication. A party may change or supplement the addresses given below, or designate additional addresses, for purposes of this Section 9.5 by giving the other party written notice of the new address in the manner set forth above.

If to the Company:

Internet Technologies China Incorporated
7 Jianguomen Nei Avenue
Bright China Chang An Building
Tower 2 Room 519
Beijing, China 100005
Phone: 011 8610 6510 2165
Fax: 011 8610 6510 2159

with a copy to:

Goulston & Storrs, P.C.
400 Atlantic Avenue
Boston, MA 02110
Attn: Timothy B. Bancroft
Phone: (617) 574-3511
Fax: (617) 574-4112

If to the Investor:

Kummell Investments Limited
Suite 922C, Europort
Gibraltar
Fax Number 350-736-25

with a copy to:

9.6. Amendments and Waivers. Any term of this Agreement may be amended

only with the written consent of the Company and the Investor.

9.7. Delays or Omissions. No delay or omission to exercise any right,

power or remedy accruing to the Company or to the Investor, upon any breach or default of any party hereto under this Agreement, shall impair any such right, power or remedy of the Company, or

the Investor nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach of default thereafter occurring; nor shall any waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of the Company or the Investor of any breach of default under this Agreement or any waiver on the part of the Company or the Investor of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, or by law or otherwise afforded to the Company or the Investor shall be cumulative and not alternative.

9.8. Legal Fees. In the event of any action at law, suit in equity

or arbitration proceeding in relation to this Agreement or any Shares or other securities of the Company issued or to be issued, the prevailing party, shall be paid by the other party a reasonable sum for attorney's fees and expenses for such prevailing party.

9.9. Finder's Fees. Each party (a) represents and warrants to the

other party hereto that it has retained no finder or broker in connection with the transactions contemplated by this Agreement, and (b) hereby agrees to indemnify and to hold harmless the other party hereto from and against any liability for any commission or compensation in the nature of a finder's fee of any broker or other person or firm (and the costs and expenses of defending against such liability or asserted liability) for which the indemnifying party or any of its employees or representatives are responsible.

9.10. Titles and Subtitles. The titles of the paragraphs and

subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

9.11. Counterparts. This Agreement may be executed in any number of

counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

9.12. Severability. Should any provision of this Agreement be

determined to be illegal or unenforceable, such determination shall not affect the remaining provisions of this Agreement.

9.13 Protection of Confidential Information. Confidential or

proprietary information disclosed by either party under this Agreement, as well as the terms of this Agreement and each Investor's investment in the Company, shall be considered confidential information (the "Confidential Information") and shall not be disclosed by the Company or any other party to this Agreement to any third party, subject to Section 9.14 below. Each party shall immediately notify the other parties of any information that comes to its attention which might indicate that there has been a loss of confidentiality with respect to the Confidential Information. In the event that the Company or any other party becomes legally compelled (by statute or regulation or by oral questions, interrogatories, request for information or documents, subpoena, criminal or civil investigative demand or similar process, including without limitation, in connection with any public or private offering of the Company's capital stock) to disclose any of

the Confidential Information, such party (the "Disclosing Party") shall provide the other party (the "Non-Disclosing Party") with prompt written notice of that fact so that the appropriate party may seek (with the cooperation and reasonable efforts of the other parties) a protective order, confidential treatment or other appropriate remedy. In such event, the Disclosing Party shall furnish only that portion of the Confidential Information which is legally required and shall exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Confidential Information to the extent reasonably requested by the Non-Disclosing Party. The provisions of this Section 9.13 shall be in addition to, and not in substitution for, the provisions of any separate nondisclosure agreement executed by the parties hereto with respect to the transaction contemplated hereby.

9.14 Disclosure of Terms; Press Releases. Notwithstanding the

provisions of Section 9.13 above, from and after the Closing, the Company may disclose the existence of this Agreement and the terms hereof, as well as the Investor's investment in the Company solely to the Company's investors, investment bankers, lenders, accountants, legal counsel, business partners, and bona fide prospective investors, employees, lenders and business partners, in each case only where such persons or entities are under appropriate nondisclosure obligations. In addition, the Company may disclose the fact that the Investor is an investor in the Company to third parties without the requirement of nondisclosure obligations. Within sixty (60) days of the Closing, the Company may issue a press release disclosing that the Investor has invested in the Company; provided that the release does not disclose the amount or other specific terms of the investment and is approved in advance in writing by the Investor. The Investor, at its sole discretion, may provide an executive quote or other material regarding its investment in the Company. No other announcement regarding the Investor's investment in the Company in a press conference, in any professional or trade publication, in any marketing materials or otherwise to the general public may be made without the prior written consent of the Investor, which consent may be withheld at the sole discretion of the Investor. Notwithstanding the foregoing, the Investor may disclose its investment in the Company and the terms thereof to third parties or to the public at its discretion, and the Company shall have the right to disclose to third parties any such information disclosed by the Investor in a press release or other public announcement. If the Company or the Investor determines that any disclosure not otherwise authorized by this Agreement is required by law or regulation, then the provisions of Section 9.13 regarding disclosure of Confidential Information by a Disclosing Party shall govern.

9.15 Dispute Resolution. The parties agree to negotiate in good faith

to resolve any dispute between them regarding this Agreement. If the negotiations do not resolve the dispute to the reasonable satisfaction of both parties, then each party shall nominate one senior officer of the rank of Vice President or higher as its representative. These representatives shall, within thirty (30) days of a written request by either party to call such a meeting, meet in person and alone (except for one assistant for each party) and shall attempt in good faith to resolve the dispute. If the disputes cannot be resolved by such senior managers in such meeting, the parties agree that they shall, if requested in writing by either party, meet within thirty (30) days after such written notification for one day with an impartial mediator and consider dispute resolution alternatives other than litigation. If an alternative method of dispute resolution is not agreed upon

within thirty (30) days after the one day mediation, either party may begin litigation proceedings. This procedure shall be a prerequisite before taking any additional action hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year herein above first written.

THE COMPANY:

INTERNET TECHNOLOGIES CHINA INCORPORATED

By: _____

Name:
Title:

INVESTOR:

DOW JONES & COMPANY, INC.

By: _____

Name:
Title:

CHARLES ZHANG:

Executed solely for the purpose of making the representations and warranties set forth in Section 4B hereof:

Charles C.Y. Zhang

[SIGNATURE PAGE FOR SERIES B-1 PREFERRED STOCK PURCHASE AGREEMENT]

SERIES C PREFERRED STOCK PURCHASE AGREEMENT

This Series C Preferred Stock Purchase Agreement (the "Agreement") is entered into as of October 18, 1999 (the "Effective Date"), by and between Sohu.com, a Delaware corporation formerly known as Internet Technologies China Incorporated (the "Company"), ITC Electronic Technology Beijing Co. Ltd., a company organized under the laws of the People's Republic of China ("ITC China"), the persons and entities set forth on Exhibit A-1 hereto (each, a "Tranche I Investor" and, together, the "Tranche I Investors"), and the persons and entities set forth on Exhibit A-2 hereto (each, a "Tranche II Investor" and, collectively, the "Tranche II Investors") (each Tranche I Investor or Tranche II Investor, an "Investor" and the Tranche I Investors and Tranche II Investors collectively, the "Investors").

In consideration of the mutual promises, covenants and conditions hereinafter set forth, the parties hereto agree as follows:

1. DEFINITIONS.

1.1 Certain Defined Terms. As used in this Agreement, the following terms shall have the following respective meanings:

"Common Stock" shall mean the Company's Common Stock, \$.001 par value.

"Proceeds" shall mean whatever is received when assets, whether tangible or intangible, are sold, changed, collected or otherwise disposed of, both cash and non-cash, including the Proceeds of insurance payable by reason of loss or damage to Proceeds.

"Proprietary Assets" shall mean all patents, patent applications, trademarks, service marks, trade names, copyrights, moral rights, maskworks, trade secrets, confidential and proprietary information, compositions of matter, formulas, designs, proprietary rights, know-how, processes, domain names and URLs.

1.2 Index of Other Defined Terms. In addition to the terms defined above, the following terms shall have the respective meanings given thereto in the sections indicated below:

Defined Term	Section
"Agreement"	Preamble
"Business Plan"	4.25
"Bylaws"	4.12
"CERCLA"	4.22
"Certificate"	2.1

"Code" -----	4.20
"Company" -----	Preamble
"Confidential Information" -----	9.13
"Conversion Shares" -----	4.2(c)
"Disclosing Party" -----	9.13
"Disclosure Schedule" -----	4.0
"Effective Date" -----	Preamble
"Financial Statements" -----	4.16
"First Closing" -----	3.1
"Hazardous Materials" -----	4.22
"Investors", "Investor" -----	Preamble
"Investor Rights Agreement" -----	4.2(c)
"ITC China" -----	Preamble
"Kummell" -----	2.2
"Kummell Note" -----	2.2
"Non-Disclosing Party" -----	9.13
"Right of First Refusal and Co-Sale Agreement" -----	7.8
"Second Closing" -----	3.2
"Stockholders' Voting Agreement" -----	7.8
"SEC" -----	4.14
"Securities Act" -----	4.5(b)
"Series C Preferred Stock" -----	2.1
"Shares" -----	2.2
"Tranche I Shares" -----	2.2
"Tranche II Shares" -----	2.3

2. AGREEMENT TO PURCHASE AND SELL STOCK

2.1. Authorization. As of the First Closing (as defined below), the

Company has authorized the issuance, pursuant to the terms and conditions of this Agreement, of up to 1,848,885 shares of the Company's Series C Convertible Preferred Stock ("Series C Preferred Stock") having the rights, preferences, privileges and restrictions set forth in the form of the Third Amended and Restated Certificate of Incorporation of the Company attached to this Agreement as Exhibit B (the "Certificate").

2.2. Agreement to Purchase and Sell at the First Closing. Subject to

the terms and conditions hereof, on the date hereof, (a) the Company will issue and sell to Kummell Investments Limited ("Kummell") and Kummell agrees to purchase from the Company 1,318,588 shares of Series C Preferred Stock, (b) the Company will issue and sell to Edward B. Roberts, as trustee of the Roberts Family Trust (Mr. Roberts as trustee, "Roberts") and Roberts agrees to purchase from the Company 31,902 shares of Series C Preferred Stock, (c) the Company will issue and sell to Brant C. Binder ("Binder") and Binder agrees to purchase from the Company 31,902 shares of Series C Preferred Stock, and (d) the Company will issue and sell to Nicholas Negroponete, to one or more designees consisting of Mr. Negroponete's ancestors, descendants or spouse, one or more trusts for the benefit of such persons, or an entity owned solely by Mr. Negroponete or one or more of such persons, or to any combination of

Mr. Negro Ponte and one or more such designees (Mr. Negro Ponte and each such designee, "Negro Ponte"), and Negro Ponte agrees to purchase from the Company 31,902 shares of Series C Preferred Stock (the "Tranche I Shares"), in each case

at a price of \$4.702 per share for an aggregate purchase price of \$6,650,010. The purchase price for the Tranche I Shares shall be paid by wire transfer of funds to a designated account of the Company, provided that (i) wire transfer instructions are delivered to Kummell, Roberts, Binder and Negro Ponte at least one (1) business day prior to the First Closing and (ii) the purchase price for 319,013 of the Shares purchased by Kummell shall be paid through the conversion and cancellation (in accordance with the terms and conditions thereof) of that certain Convertible Promissory Note of the Company to Kummell, dated as of July 20, 1999 in the original principal amount of \$1,500,000 (the "Kummell Note").

2.3 Agreement to Issue and Sell at the Second Closing. Subject to

the terms and conditions hereof, on the date of the Second Closing (as defined below), the Company will issue and sell to the Tranche II Investors, at the election of each Tranche II Investor, up to an aggregate of 433,454 shares of Series C Preferred Stock (the "Tranche II Shares") at a price of \$4.702 per

share for an aggregate purchase price of up to \$2,038,101. The number of Tranche II Shares that may be purchased by each Tranche II Investor is set forth next to such Investor's name on Exhibit A-2. The purchase price for the Tranche II

Shares shall be paid by wire transfer of funds to a designated account of the Company, provided that wire transfer instructions are delivered to each Investor at least one (1) business day prior to the Second Closing. The Tranche I Shares and the Tranche II Shares are sometimes referred to herein collectively as the "Shares."

2.4 Currency. All monetary amounts set forth herein shall be in

United States dollars.

3. CLOSING; DELIVERY.

3.1. The First Closing. The purchase and sale of the Tranche I Shares hereunder shall be held at the offices of Goulston & Storrs, P.C. on the date hereof (the "First Closing").

3.2. The Second Closing. The purchase and sale of the Tranche II Shares hereunder (the "Second Closing") shall be held at the offices of Goulston & Storrs, P.C. on that date which is 28 days after the date of this Agreement (provided that if such date falls on a day which is not a business day, the Second Closing will occur on the next succeeding business day) or such earlier date as the Company and the Tranche II Investors may agree upon.

3.3 Delivery. At the First Closing, and also at the Second Closing, the Company will deliver to each Investor a certificate representing the Shares purchased by each Investor hereunder against payment of the full purchase price therefor by wire transfer (and against delivery of the Kummell Note for cancellation in the case of the Tranche I Shares to be purchased by conversion and cancellation of the Kummell Note).

4. COMPANY REPRESENTATIONS AND WARRANTIES. The Company hereby represents and warrants to the Investors that, except as set forth in the Disclosure Schedule

("Disclosure Schedule") attached to this Agreement as Exhibit C (which

Disclosure Schedule shall be deemed to be representations and warranties to the Investors), the statements in the following paragraphs of this Section 4 are all true and correct:

4.1. Organization, Good Standing and Qualification. The Company is a

corporation duly organized, validly existing and in good standing under, and by virtue of, the laws of the State of Delaware and has all requisite corporate power and authority to own its properties and assets and to carry on its business as now conducted and as presently proposed to be conducted. The Company is qualified to do business as a foreign corporation in each jurisdiction where failure to be so qualified would have a material adverse effect on its financial condition, business, prospects or operations.

4.2. Capitalization. Immediately before the First Closing, the

authorized capital stock of the Company will consist of the following:

(a) Common Stock. A total of 11,000,000 authorized shares of

Common Stock (\$0.001 par value) of which 3,621,410 shares are issued and outstanding.

(b) Preferred Stock. A total of 5,100,000 authorized shares of

Preferred Stock (\$0.001 par value), of which 1,125,000 are designated as Series A Convertible Preferred Stock ("Series A Preferred Stock"), all of which are outstanding; 1,738,910 are designated as Series B Convertible Preferred Stock ("Series B Preferred Stock"), all of which are outstanding; 338,295 are designated as Series B-1 Convertible Preferred Stock ("Series B-1 Preferred Stock"), all of which are outstanding; and 1,848,885 are designated as Series C Preferred, none of which is issued or outstanding.

(c) Options, Warrants, Reserved Shares. The Company has

reserved up to 1,441,880 shares of its Common Stock for possible issuance upon the conversion of the shares of the Series C Preferred (the "Conversion

Shares"). Except as set forth in Section 4.2(d) of the Disclosure Schedule and

except for (i) the conversion privileges of the Series A Preferred, the Series B Preferred and the Series B-1 Preferred, (ii) the conversion privileges of the Series C Preferred to be issued hereunder and one or more similar agreements, (iii) the 472,810 shares of Common Stock reserved for issuance upon the exercise of options granted or contemplated to be granted to employees of the Company, under which options to purchase 117,500 shares of Common Stock (including options for the purchase of 50,000 shares of Common Stock to be granted to Charles Zhang effective upon the First Closing) are outstanding, and (iv) warrants to purchase 17,345 shares of Common Stock of the Company, issued in connection with the Company's bridge financing in December 1997, there are no options, warrants, conversion privileges or other rights, or agreements with respect to the issuance thereof, presently outstanding to purchase any of the capital stock of the Company. Apart from the exceptions noted in this Section 4.2, no shares (including the Shares and Conversion Shares) of the Company's outstanding capital stock, or stock issuable upon exercise or exchange of any outstanding options or other stock issuable by the Company, are subject to any rights of first refusal or other rights to purchase such stock (whether in favor of the Company or any other person), pursuant to any agreement or commitment of the Company, except as set forth in the Amended and Restated Investor Rights Agreement dated as of August 18, 1998 (the "Investor Rights Agreement") between the Company and the persons listed in Schedule B thereto.

(d) Outstanding Security Holders. Section 4.2(d) of the

Disclosure Schedule sets forth a complete and accurate list of all outstanding shareholders, option holders and other security holders of the Company as of the Effective Date.

4.3. Subsidiaries. The Company owns all of the issued and

outstanding stock of ITC China. ITC China is a wholly foreign owned enterprise (WFOE) authorized by the government of China and seeks to have the government permits, approvals authorizations and licenses necessary to engage in the business currently conducted and currently proposed to be conducted by ITC China. ITC China may not be licensed to engage in all aspects of its business in the People's Republic of China (the "PRC"), however, and Minister Wu Jichuan of the PRC Ministry of the Information Industry announced recently that PRC law prohibits foreign ownership of Internet content providers. No other person or entity other than the Company has any right to acquire any equity or other ownership interest of ITC China. Except for the Company's ownership of ITC China, the Company does not presently own or control, directly or indirectly, any interest in any other corporation, partnership, limited liability company, trust, joint venture, association, or other entity.

4.4. Due Authorization. All corporate action on the part of the

Company and ITC China, their officers, directors and shareholders necessary for the authorization, execution and delivery of, and the performance of all obligations of the Company under, this Agreement, and the authorization, issuance, reservation for issuance and delivery of all of the Shares being sold under this Agreement has been taken or will be taken before the Closing. This Agreement is a valid and binding obligation of the Company enforceable in accordance with its terms, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles. The Shares are not subject to any preemptive rights or rights of first refusal, except such as have been waived or are being accommodated under the terms of this Agreement.

4.5. Valid Issuance of Stock.

(a) The Shares, when issued, sold and delivered in accordance with the terms of this Agreement, will be duly and validly issued, fully paid and nonassessable. The Conversion Shares have been duly and validly reserved for issuance and, upon issuance in accordance with the terms of the Certificate, will be duly and validly issued, fully paid and nonassessable.

(b) The outstanding shares of the capital stock of the Company and ITC China are duly and validly issued, fully paid and nonassessable, and such shares of such capital stock, and all outstanding stock, options and other securities of the Company and ITC China have been issued in full compliance with the registration and prospectus delivery requirements of the Securities Act of 1933, as amended (the "Securities Act"), and the registration and qualification

requirements of all applicable state securities laws, or in compliance with applicable exemptions therefrom, and all other provisions of applicable federal and state securities laws, including, without limitation, anti-fraud provisions.

4.6. Liabilities. Other than as evidenced by the Kummell Note,

neither the Company nor ITC China has any indebtedness for borrowed money that the Company or ITC

China has directly or indirectly created, incurred, assumed, or guaranteed, or with respect to which the Company or ITC China has otherwise become directly or indirectly liable.

4.7. Title to Properties and Assets. Each of the Company and ITC

China has good and marketable title to its properties and assets held in each case subject to no mortgage, pledge, lien, encumbrance, security interest or charge of any kind. With respect to the property and assets it leases, each of the Company and ITC China is in compliance with such leases and, to the best of the Company's knowledge, each of the Company and ITC China holds valid leasehold interests in such assets free of any liens, encumbrances, security interests or claims of any party other than the lessors of such property and assets.

4.8. Status of Proprietary Assets.

(a) Ownership. Each of the Company and ITC China has full

title and ownership of, or has license to, all Proprietary Assets necessary to enable it to carry on its business as now conducted and as presently proposed to be conducted, including but not limited to those Proprietary Assets set forth in Schedule 4.8(a) of the Disclosure Schedule, without any conflict with or

infringement of the rights of others. No third party has any ownership right, title, interest, claim in or lien on any of the Company's or ITC China's Proprietary Assets and the Company and ITC China have taken, and in the future will use their best efforts to take, all steps reasonably necessary to preserve their respective legal rights in, and the secrecy of, all its Proprietary Assets, except those for which disclosure is required for legitimate business or legal reasons.

(b) Licenses; Other Agreements. Neither the Company nor ITC

China has granted, and there are not outstanding, any options, licenses or agreements of any kind relating to any Proprietary Asset of the Company or ITC China, nor is the Company or ITC China bound by or a party to any option, license or agreement of any kind with respect to any of their respective Proprietary Assets. Neither the Company nor ITC China is obligated to pay any royalties or other payments to third parties with respect to the marketing, sale, distribution, manufacture, license or use of any Proprietary Asset or any other property or rights.

(c) No Infringement. Neither the Company nor ITC China has

violated or infringed, and is not currently violating or infringing any Proprietary Asset of any other person or entity. Neither the Company nor ITC China has received any communications alleging that the Company or ITC China (or any of their respective employees or consultants) has violated or infringed or, by conducting its business as proposed, would violate or infringe, any Proprietary Asset of any other person or entity.

(d) No Breach by Employee. After due inquiry, neither the

Company nor ITC China is aware that any employee or consultant of the Company or ITC China is obligated under any agreement (including licenses, covenants or commitments of any nature) or subject to any judgment, decree or order of any court or administrative agency, or any other restriction that would interfere with the use of his or her best efforts to carry out his or her duties for the Company or ITC China or to promote the interests of the Company or ITC China or that would conflict with the Company's or ITC China's business as proposed to be conducted. The carrying on of each of the Company's and ITC China's business by the employees and

contractors of the Company and ITC China and the conduct of the Company's and ITC China's business as presently proposed, will not, to the best of the Company's knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any of such employees or contractors of the Company or ITC China are now obligated. Neither the Company nor ITC China believes it is or will be necessary to utilize any inventions of any employees of the Company or ITC China (or persons the Company or ITC China currently intends to hire) made prior to their employment by the Company or ITC China. To the best of the Company's knowledge, at no time during the conception of or reduction of any of the Company's or ITC China's Proprietary Assets to practice was any developer, inventor or other contributor to such patents operating under any grants from any governmental entity or agency or private source, performing research sponsored by any governmental entity or agency or private source or subject to any employment agreement or invention assignment or nondisclosure agreement or other obligation with any third party that could adversely affect the Company's or ITC China's rights in such Proprietary Assets.

4.9. Material Contracts and Obligations. All agreements, contracts,

leases, licenses, instruments, commitments (oral or written), indebtedness, liabilities and other obligations to which the Company or ITC China is a party or by which they are bound that (i) are material to the conduct and operations of the businesses and properties of the Company or ITC China; (ii) involve any of the officers, consultants, directors, employees or shareholders of the Company or ITC China; or (iii) obligate the Company or ITC China to share, license or develop any product or technology are listed in Section 4.9 of the

Disclosure Schedule and have been made available for inspection by the Investors and their respective counsel. For purposes of this Section 4.9, "material" shall mean any agreement, contract, indebtedness, liability or other obligation having an aggregate value, cost or amount in excess of \$10,000.

4.10. Litigation. There is no action, suit, proceeding, claim,

arbitration or investigation ("Action") pending (or, to the best of the

Company's knowledge, currently threatened) against the Company or ITC China, their activities, properties or assets or, to the best of the Company's knowledge, against any officer, director or employee of the Company or ITC China in connection with such officer's, director's or employee's relationship with, or actions taken on behalf of the Company or ITC China. To the best of the Company's knowledge, there is no factual or legal basis for any such Action that might result, individually or in the aggregate, in any material adverse change in the business, properties, assets, financial condition, affairs or prospects of the Company or ITC China. By way of example but not by way of limitation, there are no Actions pending or, to the best of the Company's knowledge, threatened (or any basis therefor known to the Company or ITC China) relating to the prior employment of any of the Company's or ITC China's employees or consultants, their use in connection with the Company's or ITC China's business of any information, technology or techniques allegedly proprietary to any of their former employers, clients or other parties, or their obligations under any agreements with prior employers, clients or other parties. Neither the Company nor ITC China is a party to or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality and there is no Action by the Company or ITC China currently pending or which the Company or ITC China intends to initiate.

4.11. Governmental Consents. All consents, approvals, orders,

authorizations or registrations, qualifications, designations, declarations or filings with any federal, state or local

governmental authority on the part of each of the Company and ITC China required in connection with the consummation of the transactions contemplated herein have been obtained prior to and be effective as of the First Closing and will have been obtained prior to and be effective as of the Second Closing. Based in part on the representations of the Investors set forth in Section 5 below, the offer, sale and issuance of the Shares in conformity with the terms of this Agreement are exempt from the registration and prospectus delivery requirements of the Securities Act.

4.12. Compliance with Other Instruments. Neither the Company nor ITC

China is in, nor will the conduct of their businesses as proposed to be conducted result in, any violation, breach or default of any term of the Company's Certificate or ITC China's charter or the Company's or ITC China's bylaws (together, the "Bylaws") or in any material respect of any term or provision of any mortgage, indenture, contract, agreement or instrument to which the Company or ITC China is a party or by which it may be bound, or of any provision of any foreign or domestic state or federal judgment, decree, order, statute, rule or regulation applicable to or binding upon the Company or ITC China, except that Minister Wu Jichuan of the PRC Ministry of the Information Industry announced recently that PRC law prohibits foreign ownership of Internet content providers, and ITC China may not be fully licensed to conduct its business in the PRC. The execution, delivery and performance of and compliance with this Agreement and the consummation of the transactions contemplated hereby will not result in any such violation or default, or be in conflict with or constitute, with or without the passage of time or the giving of notice or both, either a default under the Company's Certificate or Bylaws or ITC China's charter or Bylaws, or any agreement or contract of the Company or ITC China, or, to the best of the Company's knowledge, a violation of any statutes, laws, regulations or orders, or an event which results in the creation of any lien, charge or encumbrance upon any asset of the Company or ITC China.

4.13. Disclosure. No representation or warranty by the Company in

this Agreement or in any statement or certificate signed by any officer of the Company or ITC China furnished or to be furnished to the Investors pursuant to this Agreement contains or will contain any untrue statement of a material fact or omits or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances in which they are made, not misleading.

4.14. Registration Rights. Except as provided in the Investor Rights

Agreement, neither the Company nor ITC China has granted or agreed to grant any person or entity any rights (including piggyback registration rights) to have any securities of the Company or ITC China registered with the United States Securities and Exchange Commission ("SEC") or any other governmental authority.

4.15. Insurance. Each of the Company and ITC China has obtained and

will maintain, fire and casualty insurance policies with extended coverage, sufficient in amount (subject to reasonable deductibles) to allow it to replace any of its properties that might be damaged or destroyed.

4.16. Financial Statements. The Company has supplied to the

Investors (i) the audited balance sheet of the Company as at December 31, 1998 and the related audited

statements of income, changes in stockholders' equity and cash flow of the Company for the fiscal year then ended, accompanied by the report thereon by Coopers & Lybrand CIEC, the Company's independent certified public accountants (together with the related schedules and notes thereto, the "Audited Financial Statements") and (ii) the unaudited balance sheet of the Company as at July 31, 1999 and the related unaudited statements of income, changes in stockholders' equity and cash flow of the Company for the quarter then ended (the "Interim Financial Statements"). The Financial Statements present fairly the financial condition of the Company as of the respective dates thereof, and the income, changes in stockholders' equity and cash flow of the Company for the year and period then ended and have been prepared in accordance with United States generally accepted accounting principles ("GAAP") applied consistently throughout the periods involved, except that some or all footnotes required by GAAP for year-end financial statements are not included in the Interim Financial Statements. Other than as set forth in the Disclosure Schedule, neither the Company nor ITC China has any material indebtedness or other material liability.

4.17. Certain Actions. Since the date of the Audited Financial

Statements, neither the Company nor ITC China has: (a) declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its capital stock; (b) incurred any indebtedness for money borrowed or incurred any other liabilities individually in excess of \$10,000 or in excess of \$25,000 in the aggregate (other than as evidenced by the Kummell Note); (c) made any loans or advances to any person, other than ordinary advances for travel expenses; (d) sold, exchanged or otherwise disposed of any material assets or rights other than the sale of inventory in the ordinary course of its business; or (e) entered into any transactions with any of its officers, directors or employees or any entity controlled by any of such individuals.

4.18. Activities Since Audited Financial Statement Date. Since the

date of the Audited Financial Statements, there has not been:

- (a) any damage, destruction or loss, whether or not covered by insurance, materially and adversely affecting the assets, properties, financial condition, operating results, prospects or business of the Company or ITC China (as presently conducted and as presently proposed to be conducted);
- (b) any waiver by the Company or ITC China of a valuable right or of a material debt owed to it;
- (c) any satisfaction or discharge of any lien, claim or encumbrance or payment of any obligation by the Company or ITC China, except such a satisfaction, discharge or payment made in the ordinary course of business that is not material to the assets, properties, financial condition, operating results or business of the Company or ITC China;
- (d) any material change or amendment to a material contract or arrangement by which the Company or ITC China or any of their assets or properties is bound or subject, except for changes or amendments which are expressly provided for or disclosed in this Agreement;

- (e) any material change in any compensation arrangement or agreement with any present or prospective employee, contractor or director not approved by the Company's or ITC China's Board of Directors; or
- (f) to the Company's knowledge, any other event or condition of any character which would materially and adversely affect the assets, properties, financial condition, operating results or business of the Company or ITC China.

4.19. Tax Matters. The Company has made sufficient provision for, and

has adequate resources to pay, all accrued and unpaid federal, state, provincial, foreign, county and local taxes of each of the Company and ITC China, whether or not assessed or disputed as of the date hereof. There have been no examinations or audits of any tax returns or reports by any applicable federal, state or local governmental agency. Each of the Company and ITC China has duly filed all federal, state, county and local tax returns required to have been filed by it and paid all taxes shown to be due on such returns. There are in effect no waivers of applicable statutes of limitations with respect to taxes for any year.

4.20. Tax Elections. Neither the Company nor ITC China has elected

pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), to be

treated as an "S" corporation or a collapsible corporation pursuant to Section 341(f) or Section 1362(a) of the Code, nor has the Company or ITC China made any other elections pursuant to the Code (other than elections which relate solely to matters of accounting, depreciation or amortization) which would have a material effect on the Company or ITC China, their financial conditions, their businesses as presently conducted or presently proposed to be conducted or any of their properties or material assets.

4.21. Invention Assignment and Confidentiality Agreement. The Company

has caused each employee, officer, consultant and contractor of each of the Company and ITC China to enter into and execute an agreement as to assignment to the Company of inventions made during employment and the confidentiality of proprietary information of the Company.

4.22. Environmental Matters. During the period that each of the

Company and ITC China has owned or leased its properties and facilities, (a) there have been no disposals, releases or threatened releases of Hazardous Materials (as defined below) on, from or under such properties or facilities, (b) neither the Company nor ITC China, nor to the Company's knowledge any third party, has used, generated, manufactured or stored on, under or about such properties or facilities or transported to or from such properties or facilities any Hazardous Materials. Neither the Company nor ITC China has knowledge of any presence, disposals, releases or threatened releases of Hazardous Materials on, from or under any of such properties or facilities, which may have occurred prior to the Company or ITC China having taken possession of any of such properties or facilities. For purposes of this Agreement, the terms "disposal",

"release", and "threatened release" shall have the definitions assigned thereto

by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. Section 9601 et seq., as amended ("CERCLA"). For the purposes

of this Section, "Hazardous Materials" shall mean any hazardous or toxic

substance, material or waste which is regulated under, or defined as a "hazardous substance", "pollutant", "contaminant", "toxic chemical", "hazardous material",

"toxic substance", or "hazardous chemical" under (1) CERCLA; (2) the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. Section 11001 et seq.; (3) the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801, et seq.; (4) the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq.; (5) the Occupational Safety and Health Act of 1970, 29 U.S.C. Section 651 et seq.; (6) regulations promulgated under any of the above statutes; or (7) any applicable state or local statute, ordinance, rule, or regulation that has a scope or purpose similar to those statutes identified above.

4.23. Interested Party Transactions. To the best knowledge of the

Company, no officer or director of the Company or ITC China or any "affiliate" or "associate" (as those terms are defined in Rule 405 promulgated under the Securities Act) of any such person has had, either directly or indirectly, a material interest in: (i) any person or entity which purchases from or sells, licenses or furnishes to the Company or ITC China any goods, property, technology, intellectual or other property rights or services; or (ii) any contract or agreement to which the Company or ITC China is a party or by which it may be bound or affected, except that Charles Zhang is a stockholder of a Chinese entity popularly referred to as "Sohu."

4.24. Stock Restriction Agreements. Each person who, pursuant to any

benefit, bonus or incentive plan of the Company or ITC China, holds any currently outstanding shares of Common Stock or other securities of either the Company or ITC China or any option, warrant or right to acquire such shares or other securities, has entered into or is otherwise bound by, an agreement granting the Company or ITC China the right to repurchase the shares for the original purchase price, or to cancel the unvested portion of the option, warrant or right, in the event the holder's employment or services with the Company or ITC China terminate for any reason, subject to release of such repurchase or cancellation right on terms and conditions specified by the Board of Directors of the Company.

4.25. Year 2000 Compatibility. All of the Company's and ITC China's

systems will record, store, process and calculate and present calendar dates falling on and after January 1, 2000, and will calculate any information dependent on or relating to such dates in the same manner and with the same functionality, data integrity and performance as the products record, store, process, calculate and present calendar dates on or before December 31, 1999, or calculate any information dependent on or relating to such dates (collectively "Year 2000 Compliant"). All of the Company's and ITC China's systems will lose no functionality with respect to the introduction of records containing dates falling on or after January 1, 2000. All of the Company's and ITC China's internal computer systems, including without limitation, its accounting systems, are Year 2000 Compliant.

4B. REPRESENTATIONS AND WARRANTIES OF CHARLES ZHANG. Charles Zhang

represents and warrants to the Investors as follows:

4B.1 Conflicting Agreements. He is not, as a result of the nature of

the business conducted or proposed to be conducted by the Company or for any other reason, in violation of (i) any fiduciary or confidential relationship, (ii) any term of any contract or covenant (either with the Company or with another entity) relating to employment, patents, proprietary information disclosure, non-competition or non-solicitation, or (iii) any other contract or agreement, or any judgment, decree or order of any court or administrative agency relating to or

affecting the right of Mr. Zhang to be employed by the Company. No such relationship, term, judgment, decree, or order conflicts with Mr. Zhang obligations to use his best efforts to promote the interests of the Company nor does the execution and delivery of this Agreement and the transactions contemplated hereby, nor the carrying on of the Company's business as an officer or key employee of the Company, conflict with any such relationship, term, judgment, decree or order.

4B.2 Litigation. There is no action, suit or proceeding, or

governmental inquiry or investigation, pending or, to the best of Mr. Zhang's knowledge, threatened against Mr. Zhang and, to the best of his knowledge, there is no basis for any such action, suit, proceeding, or governmental inquiry or investigation.

4B.3 Stockholder Agreements. Except as contemplated by or disclosed

in this Agreement, Mr. Zhang is not a party to and has no knowledge of any agreements, written or oral, relating to the acquisition, disposition, registration under the Securities Act, or voting of the capital stock of the Company.

5. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS. Each Investor

represents and warrants to the Company as follows:

5.1. Authorization. This Agreement when executed and delivered by

the Investor will constitute a valid and legally binding obligation of the Investor, subject, as to enforcement of remedies, to applicable bankruptcy, insolvency, moratorium, reorganization and similar laws affecting creditors' rights generally and to general equitable principles.

5.2. Investigation; Economic Risk. The Investor acknowledges that it

is an "accredited investor" within the meaning that term as defined in Rule 501(a) of Regulation D of the Securities Act (meaning that, in the case of a corporation, partnership, or limited liability company, it either has total assets in excess of \$5,000,000 and was not formed for the specific purpose of acquiring the Shares, or each of its equity owners are "accredited investors" and, in the case of an individual, that the Investor has either (a) net worth (or net worth with the Investor's spouse) in excess of \$1 million, or net income (not including any net income of the Investor's spouse) in excess of \$200,000, or joint income with the Investor's spouse in excess of \$300,000, in each of the two most recent years, with a reasonable expectation of reaching the same income level in the current year). The Investor's address as set forth on Exhibit A hereto represents its state or other jurisdiction of domicile, upon which the Company may rely for the purpose of complying with applicable state "Blue Sky" laws. The Investor acknowledges that it has had an opportunity to discuss the business, affairs and current prospects of the Company with its officers. The Investor further acknowledges having had access to information about the Company that it has requested. The Investor acknowledges that it is able to fend for itself in the transactions contemplated by this Agreement and has the ability to bear the economic risks of its investment pursuant to this Agreement. The Investor acknowledges that it is aware that Minister Wu Jichuan of the PRC Ministry of the Information Industry announced recently that PRC law prohibits foreign ownership of Internet content providers.

5.3. Purchase for Own Account. The Shares and the Conversion Shares

will be acquired for the Investor's own account, not as a nominee or agent, and not with a view to or in connection with the sale or distribution of any part thereof.

5.4. Exempt from Registration; Restricted Securities. The Investor

understands that the Shares and the Conversion Shares will not be registered under the Securities Act, on the ground that the sale provided for in this Agreement is exempt from registration under the Securities Act, and that the reliance of the Company on such exemption is predicated in part on the Investor's representations set forth in this Agreement. The Investor understands that the Shares and the Conversion Shares being purchased hereunder are restricted securities within the meaning of Rule 144 under the Securities Act; that the Shares and the Conversion Shares are not registered and must be held indefinitely unless they are subsequently registered or an exemption from such registration is available.

5.5. Restrictive Legends. It is understood that each certificate

representing (a) the Shares, (b) the Conversion Shares, and (c) any other securities issued in respect of the any of the foregoing upon any stock split, stock dividend, recapitalization, merger or similar event shall be stamped or otherwise imprinted with a legend substantially in the following form:

THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF CERTAIN STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE REASONABLY SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

5.6 Removal of Restrictive Legend. The legend set forth above shall

be removed by the Company from any certificate evidencing Shares or Conversion Shares upon delivery to the Company of an opinion of counsel, reasonably satisfactory to the Company, that a registration statement under the Securities Act is at that time in effect with respect to the legended security or that such security can be freely transferred in a public sale without such a registration statement being in effect and that such transfer will not jeopardize the exemption or exemptions from registration pursuant to which the Company issued the Shares or Conversion Shares.

5A. ACKNOWLEDGMENTS AND RELEASES BY HOLDERS OF SERIES A CONVERTIBLE

PREFERRED STOCK. Edward B. Roberts ("Ed Roberts"), Binder and Negroponete, in

their capacities as holders of Common Stock of the Company and/or Series A Preferred Stock, each hereby acknowledges and agrees as follows:

5A.1 No Preemptive Rights; Settlement of Dispute. As a holder of

Common Stock of the Company and/or Series A Preferred Stock, he has no preemptive rights with respect to the issuance and sale by the Company of shares of its capital stock. Nevertheless, in order to prevent any future dispute, and to resolve and settle any claims he may believe he may have as to the fairness, from a financial point of view, to the Company and its stockholders of the transactions contemplated by this Agreement, the Company, acting through its Board of Directors, has offered to him or his designees the opportunity to purchase 31,902 shares of Series C Preferred Stock as set forth herein.

5A.2 Waiver of Certain Rights by Holders of Series B Preferred Stock

and Series B-1 Preferred Stock. Holders of shares of Series B Preferred Stock

and Series B-1 Preferred Stock have preemptive rights with respect to the issuance of capital stock of the Company. Nevertheless, in order to facilitate the prevention of any future dispute and the resolution and settlement of any potential claims of Ed Roberts, Binder or Negrofonte as described above, such holders have agreed to waive such preemptive rights with respect to the shares of Series C Preferred Stock being offered to and purchased by Ed Roberts, Binder and Negrofonte or their designees as set forth herein.

5A.3 Acknowledgment and Release. In consideration of the foregoing,

and the Company's issuance and sale of shares of Series C Preferred Stock in accordance with this Agreement, each of Ed Roberts, Binder and Negrofonte hereby (1) acknowledges that he has relied on no representations, warranties or agreements of the Company or its directors, officers, stockholders or agents except as set forth in this Agreement in making the acknowledgments and agreements set forth in this Section 5A, (2) acknowledges that he has had the opportunity to consult with legal counsel as to the subject matter hereof, (3) acknowledges and agrees that the transactions contemplated by this Agreement are fair, from a financial point of view, to the Company and each of its stockholders, and (4) releases and forever discharges the Company and each of its subsidiary and affiliate corporations, successors, assigns, officers, directors, agents, consultants, attorneys, stockholders, employees, and insurers from any and all claims, demands, liabilities, rights or causes of action, actions, suits, and costs and fees of any kind or nature whatsoever relating to the fairness, from a financial point of view, to the Company and each of its stockholders of the transactions contemplated by this Agreement.

6. COVENANTS OF THE COMPANY. The Company covenants to each Investor as

follows:

6.1 Use of Proceeds. The Company will use the Proceeds from the

sale of the Shares for business expansion, capital expenditures and general working capital.

6.2 Vesting. Any Common Stock or other securities of the Company

issued after the First Closing to employees, directors and consultants of the Company pursuant to any benefit, bonus or incentive plan of the Company shall be subject to customary vesting provisions over a period of four (4) years (other than Common Stock issued pursuant to the exercise of options held by Edward Roberts and Andrew Mason as of the date hereof), and a minimum of 50% of the shares issued to Charles Zhang shall be subject to four (4) years of customary vesting and repurchase provisions at the original issue price, except that options for the purchase of

50,000 shares of Common Stock, at an exercise price of \$4.702 being granted to Mr. Zhang effective upon the First Closing will vest quarterly over a one-year period.

6.3 Initial Public Offering. The Company will use its efforts to

conduct a firm commitment underwritten public offering of its Common Stock within twelve months after the date hereof.

7. CONDITIONS TO THE INVESTORS' OBLIGATIONS AT THE CLOSINGS. The

obligations of each Tranche I Investor to purchase the Tranche I Shares at the First Closing and of each Tranche II Investor who has elected to purchase Shares to purchase Tranche II Shares at the Second Closing are subject to the fulfillment, to the satisfaction each Investor, on or before the First Closing and Second Closing, respectively, of the following conditions:

7.1. Representations and Warranties Correct. The representations and

warranties made by the Company in Section 4 hereof shall be true and correct (i) as of the date of the First Closing, and (ii) as of the date of the Second Closing, subject to changes contemplated by this Agreement; and the Company shall have performed all obligations and conditions herein required to be performed or observed by it (i) on or before the First Closing, with respect to the issuance and sale of the Tranche I Shares, and (ii) on or before the Second Closing, if consummated, with respect to the issuance and sale of the Tranche II Shares.

7.2. Performance of Obligations. The Company shall have performed and

complied with all agreements, obligations and conditions contained in this Agreement that are required to be performed or complied with by it (i) on or before the First Closing, with respect to the issuance and sale of the Tranche I Shares, and (ii) on or before the Second Closing, with respect to the issuance and sale of the Tranche II Shares; and the Company shall have obtained all approvals, consents and qualifications necessary to complete the purchases and sales described herein.

7.3. Proceedings and Documents. All corporate and other proceedings

in connection with the transactions contemplated hereby and all documents and instruments incident to such transactions shall be satisfactory in substance and form to the Investor, and the Investor shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

7.4. Consents and Waivers. The Company shall have obtained any and

all consents and waivers necessary or appropriate for consummation of the transactions contemplated by this Agreement.

7.5. Compliance Certificate. At the First Closing, the Company shall

deliver to each Tranche I Investor a certificate, dated as of the First Closing, signed by the Company's President certifying that the conditions specified in Paragraphs 7.1 and 7.2 have been fulfilled. At the Second Closing the Company shall deliver to each Tranche II Investor another certificate, dated as of the Second Closing, signed by the Company's President certifying that the conditions specified in Sections 7.1 and 7.2 have been fulfilled.

7.6. Securities Laws. The offer and sale of the Shares to the

Investors pursuant to this Agreement shall be exempt from the registration requirements of the Securities Act and the registration and/or qualification requirements of all applicable state securities laws.

7.7. Amendment to Certificate. The Certificate shall have been duly

adopted by the Company by all necessary corporate action of its Board of Directors and stockholders and shall have been duly filed with and accepted by the Secretary of State of the State of Delaware.

7.8 Execution and Delivery of Other Agreements. Execution and

delivery of amendments to accommodate and include the Series C therein and the Investors as parties thereto of (a) the Investor Rights Agreement, (b) that certain Amended and Restated Right of First Refusal and Co-Sale Agreement dated as of August 18, 1998 between the Company, the persons listed on Exhibit B thereto, Charles Zhang, Brant Binder, Nicholas Negroponte and Edward B. Roberts (the "Right of First Refusal and Co-Sale Agreement") and (c) that certain Amended and Restated Stockholders' Voting Agreement dated as of August 18, 1998 between the Company, the persons listed on Exhibit B thereto, Charles Zhang, Brant Binder, Nicholas Negroponte and Edward B. Roberts (the "Stockholders' Voting Agreement"), in each case by the parties whose participation is necessary to effectuate such respective amendments.

7.9. Opinion of Company's Counsel. At the First Closing each Tranche

I Investor and, at the Second Closing, each Tranche II Investor, shall have received from counsel to the Company an opinion addressed to the Investor, dated the date of the Closing, in form and substance reasonably acceptable to the Investor.

8. CONDITIONS TO COMPANY'S OBLIGATIONS AT THE CLOSINGS. The obligations

of the Company under this Agreement are subject to the fulfillment, on or before the First Closing and the Second Closing, of the following conditions:

8.1. Representations and Warranties. The representations and

warranties of the Tranche I Investors contained in Section 5 hereof shall be true as of the First Closing and the representations and warranties of the Tranche II Investors contained in Section 5 hereof shall be true as of the Second Closing.

8.2. Payment of Purchase Price. Each Investor shall have delivered

to the Company the purchase price in accordance with the provisions of Section 3.

8.3. Certificate Effective. The Certificate shall have been duly

adopted by the Company by all necessary corporate action of its Board of Directors and shareholders, and shall have been duly filed with and accepted by the Secretary of State of the State of Delaware.

8.4. Securities Exemptions. The offer and sale of the Shares to the

Investors pursuant to this Agreement shall be exempt from the registration requirements of the Securities Act, and the registration and/or qualification requirements of all applicable state securities laws.

8.5 Execution of Other Agreements. Execution and delivery by the

Investors of amendments to accommodate and include the Series C therein and the Investors as parties thereto or beneficiaries of rights equivalent to those set forth in (a) the Investor Rights

Agreement, (b) the Right of First Refusal and Co-Sale Agreement and (c) the Stockholders' Voting Agreement.

9. MISCELLANEOUS.

9.1. Governing Law. This Agreement shall be governed in all respects

by the laws of the State of Delaware without regard to provisions regarding
choice of laws.

9.2. Survival. The representations, warranties, covenants and

agreements made herein shall survive any investigation made by any party hereto
and the closing of all the transactions contemplated hereby.

9.3. Successors and Assigns. Except as otherwise expressly provided

herein, the provisions hereof shall inure to the benefit of, and be binding
upon, the successors, assigns, heirs, executors and administrators of the
parties hereto whose rights or obligations hereunder are affected by such
amendments. This Agreement and the rights and obligations therein may not be
assigned by any Investor without the written consent of the Company except to a
parent corporation, a subsidiary or affiliate. This Agreement and the rights and
obligations therein may not be assigned by the Company.

9.4. Entire Agreement. This Agreement and the exhibits hereto which

are hereby expressly incorporated herein by this reference constitute the entire
understanding and agreement between the parties with regard to the subjects
hereof and thereof; provided, however, that nothing in this Agreement shall be

deemed to terminate or supersede the provisions of any confidentiality and
nondisclosure agreements executed by the parties hereto prior to the date
hereof, which agreements shall continue in full force and effect until
terminated in accordance with their respective terms.

9.5. Notices. Except as may be otherwise provided herein, all

notices, requests, waivers and other communications made pursuant to this
Agreement shall be in writing and shall be conclusively deemed to have been duly
given (a) when hand delivered to the other party; (b) when received when sent by
facsimile at the address and number set forth below; (c) for notices between
parties both of which are located in the United States, three business days
after deposit in the U.S. mail with first class or certified mail return receipt
requested postage prepaid and addressed to the other party as set forth below;
or (d) when received, if sent by a national overnight delivery service, postage
prepaid, addressed to the parties as set forth below, provided that the sending
party receives a confirmation of delivery from the delivery service provider.
Each person making a communication hereunder by facsimile shall promptly confirm
by telephone to the person to whom such communication was addressed each
communication made by it by facsimile pursuant hereto but the absence of such
confirmation shall not affect the validity of any such communication. A party
may change or supplement the addresses given below, or designate additional
addresses, for purposes of this Section 9.5 by giving the other party written
notice of the new address in the manner set forth above.

If to the Company:

Sohu.com Inc.
7 Jianguomen Nei Avenue
Bright China Chang An Building
Tower 2 Room 519
Beijing, China 100005
Phone: 011 8610 6510 2165
Fax: 011 8610 6510 2159

with a copy to:

Goulston & Storrs, P.C.
400 Atlantic Avenue
Boston, MA 02110
Attn: Timothy B. Bancroft
Phone: (617) 574-3511
Fax: (617) 574-4112

If to the Investors to the address for such Investors set forth on Exhibit A hereto.

9.6. Amendments and Waivers. Any term of this Agreement may be

amended only with the written consent of the Company and the holders of a majority of the shares of Series C Preferred Stock.

9.7. Delays or Omissions. No delay or omission to exercise any

right, power or remedy accruing to the Company or to any Investor, upon any breach or default of any party hereto under this Agreement, shall impair any such right, power or remedy of the Company, or the Investor nor shall it be construed to be a waiver of any such breach or default, or an acquiescence therein, or of any similar breach of default thereafter occurring; nor shall any waiver of any other breach or default theretofore or thereafter occurring. Any waiver, permit, consent or approval of any kind or character on the part of the Company or any Investor of any breach of default under this Agreement or any waiver on the part of the Company or any Investor of any provisions or conditions of this Agreement, must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, or by law or otherwise afforded to the Company or any Investor shall be cumulative and not alternative.

9.8. Legal Fees. In the event of any action at law, suit in equity

or arbitration proceeding in relation to this Agreement or any Shares or other securities of the Company issued or to be issued, the prevailing party, shall be paid by the other party a reasonable sum for attorney's fees and expenses for such prevailing party.

9.9. Finder's Fees. Except as set forth in Section 9.9 of the

Disclosure Schedule, each party (a) represents and warrants to the other party hereto that it has retained no finder or broker in connection with the transactions contemplated by this Agreement, and (b) hereby agrees to indemnify and to hold harmless the other party hereto from and against any liability for any commission or compensation in the nature of a finder's fee of any broker or

other person or firm (and the costs and expenses of defending against such liability or asserted liability) for which the indemnifying party or any of its employees or representatives are responsible.

9.10. Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

9.11. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

9.12. Severability. Should any provision of this Agreement be determined to be illegal or unenforceable, such determination shall not affect the remaining provisions of this Agreement.

9.13 Protection of Confidential Information. Confidential or proprietary information disclosed by either party under this Agreement, as well as the terms of this Agreement and each Investor's investment in the Company, shall be considered confidential information (the "Confidential Information") and shall not be disclosed by the Company or any other party to this Agreement to any third party, subject to Section 9.14 below. Each party shall immediately notify the other parties of any information that comes to its attention which might indicate that there has been a loss of confidentiality with respect to the Confidential Information. In the event that the Company or any other party becomes legally compelled (by statute or regulation or by oral questions, interrogatories, request for information or documents, subpoena, criminal or civil investigative demand or similar process, including without limitation, in connection with any public or private offering of the Company's capital stock) to disclose any of the Confidential Information, such party (the "Disclosing Party") shall provide the other party (the "Non-Disclosing Party") with prompt written notice of that fact so that the appropriate party may seek (with the cooperation and reasonable efforts of the other parties) a protective order, confidential treatment or other appropriate remedy. In such event, the Disclosing Party shall furnish only that portion of the Confidential Information which is legally required and shall exercise reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Confidential Information to the extent reasonably requested by the Non-Disclosing Party. The provisions of this Section 9.13 shall be in addition to, and not in substitution for, the provisions of any separate nondisclosure agreement executed by the parties hereto with respect to the transaction contemplated hereby; provided that, except as expressly set forth herein, disclosure of information and exchange of information between the Company and Intel Corporation ("Intel") (including without limitation any exchanges or disclosures of information with any Intel board observer) shall be governed by the terms of the Corporate Non-Disclosure Agreement, No. 101698, executed by Intel and ITC.

9.14 Disclosure of Terms; Press Releases. Notwithstanding the provisions of Section 9.13 above, from and after the First Closing, the Company may disclose the existence of this Agreement and the terms hereof, as well as each Investor's investment in the Company solely to the Company's investors, investment bankers, lenders, accountants, legal counsel, business partners, and bona fide prospective investors, employees, lenders and business partners,

in each case only where such persons or entities are under appropriate nondisclosure obligations. In addition, the Company may disclose the fact that any Investor is an investor in the Company to third parties without the requirement of nondisclosure obligations. Within sixty (60) days of the First Closing, the Company may issue a press release disclosing that any Investor has invested in the Company; provided that the release does not disclose the amount or other specific terms of the investment and is approved in advance in writing by the Investors. Each Investor, at its sole discretion, may provide an executive quote or other material regarding its investment in the Company. No other announcement regarding an Investor's investment in the Company in a press conference, in any professional or trade publication, in any marketing materials or otherwise to the general public may be made without the prior written consent of such Investor, which consent may be withheld at the sole discretion of the Investor. Notwithstanding the foregoing, an Investor may disclose its investment in the Company to third parties or to the public at its discretion, and the Company shall have the right to disclose to third parties any such information disclosed by the Investor in a press release or other public announcement. If the Company or an Investor determines that any disclosure not otherwise authorized by this Agreement is required by law or regulation, then the provisions of Section 9.13 regarding disclosure of Confidential Information by a Disclosing Party shall govern.

9.15 Dispute Resolution. The parties agree to negotiate in good

faith to resolve any dispute between them regarding this Agreement. If the negotiations do not resolve the dispute to the reasonable satisfaction of both parties, then each party shall nominate one senior officer of the rank of Vice President or higher as its representative. These representatives shall, within thirty (30) days of a written request by either party to call such a meeting, meet in person and alone (except for one assistant for each party) and shall attempt in good faith to resolve the dispute. If the disputes cannot be resolved by such senior managers in such meeting, the parties agree that they shall, if requested in writing by either party, meet within thirty (30) days after such written notification for one day with an impartial mediator and consider dispute resolution alternatives other than litigation. If an alternative method of dispute resolution is not agreed upon within thirty (30) days after the one day mediation, either party may begin litigation proceedings. This procedure shall be a prerequisite before taking any additional action hereunder.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year herein above first written.

SOHU.COM INC.

By: _____
Printed Name: _____
Title: _____

For and on behalf of
KUMMELL INVESTMENTS LIMITED

Printed Name: _____
Title: _____

ITC ELECTRONIC TECHNOLOGY
BEIJING CO. LTD.

By: _____
Printed Name: _____
Title: _____

Printed Name: _____
Title: _____

HARRISON ENTERPRISES, INC.

By: _____
Printed Name: _____
Title: _____

INTEL CORPORATION

By: _____
Printed Name: _____
Title: _____

DOW JONES & COMPANY, INC.

By: _____
Printed Name: _____
Title: _____

PTV-CHINA, INC.

By: _____
Printed Name: _____
Title: _____

EDWARD B. ROBERTS, as trustee of the
Roberts Family Trust and individually as to
Section 5A

NICHOLAS NEGROPONTE

BRANT C. BINDER

SIGNATURE PAGES OF SERIES C PREFERRED STOCK PURCHASE AGREEMENT

CHARLES ZHANG

Executed solely for the purpose of making
the representations and warranties set forth
in Section 4B hereof:

Charles C.Y. Zhang

SIGNATURE PAGES OF SERIES C PREFERRED STOCK PURCHASE AGREEMENT

SOHU.COM INC.
SECOND AMENDED AND RESTATED STOCKHOLDERS' VOTING AGREEMENT

This Second Amended and Restated Stockholders' Voting Agreement, (the "Agreement") is made as of October 18, 1999 by and among Sohu.com Inc., a Delaware corporation (the "Company") formerly known as Internet Technologies China Incorporated, the persons listed as Investors on Exhibit A (the "Investors") and Charles Zhang, Brant Binder, Nicholas Negroponte and Edward B. Roberts (the "Founders"). The Investors and the Founders will be referred to herein collectively as the "Holders."

WHEREAS, the Investors are parties to (a) a Series B Preferred Stock Purchase Agreement (the "Series B Purchase Agreement") dated as of March 10, 1998 between the Company and the Investors named therein (b) a Series B-1 Preferred Stock Purchase Agreement (the "Series B-1 Purchase Agreement") dated as of August 18, 1998 between the Company and the Investor named therein or (c) a Series C Preferred Stock Purchase Agreement (the "Series C Purchase Agreement") dated as of the date hereof between the Company and the Investors named therein;

WHEREAS, the Company and the Investors which are parties to the Series B Purchase Agreement and the Series B-1 Purchase Agreements (the "Initial Investors") are parties to an Amended and Restated Stockholders' Voting Agreement dated as of August 18, 1998 (the "First Amended and Restated Stockholders' Voting Agreement");

WHEREAS, certain of the obligations of the Company and of the Investors which are parties thereto under the Series C Purchase Agreements (the "Additional Investors") are conditioned upon the amendment and restatement of the First Amended and Restated Stockholders' Voting Agreement to add the Additional Investors as parties and to make such additional changes as are set forth herein; and

WHEREAS, the Company and the Initial Investors wish to amend and restate the First Amended and Restated Stockholders' Voting Agreement as set forth herein and the parties hereto wish to have this Agreement govern certain voting by the Holders in elections for directors of the Company and to clarify certain provisions of the Company's Third Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation").

NOW, THEREFORE, in consideration of the mutual covenants set forth herein, the parties hereto agree as follows:

1. Voting.

1.1 In all elections of Directors of the Company held during the term of this Agreement (whether at a meeting or by written consent in lieu of a meeting), each of the Holders unconditionally agrees to vote all shares of the Company's Common Stock, \$.01 par value

"Common Stock"), and all shares of the Company's Preferred Stock, \$.01 par value ("Preferred Stock"), and any other voting securities of the Company now owned or hereafter acquired or controlled by it or him, whether by purchase, conversion of other securities, exercise of rights, warrants or options, stock dividends or otherwise, to elect to the Board of Directors of the Company (i) at least one nominee selected by Intel Corporation ("Intel"), (ii) at least one nominee selected by the holders of a majority in interest of such voting securities held by Harrison Enterprises Inc. ("Harrison") and Kummell Investments Limited ("Kummell"), and (iii) at least one nominee selected by Dow Jones & Company, Inc. ("Dow Jones").

1.2 No Holder will vote to remove any member of the Board of Directors of the Company designated in accordance with the foregoing provisions of this Section, other than for cause, unless the person or persons entitled to nominate or approve that Director so votes or otherwise consents, and, if the person or persons so entitled to nominate or approve so votes or otherwise consents, then all Holders will vote likewise.

1.3 Without the approval of the holders of a majority of the Preferred Stock purchased by Intel pursuant to the Series B Purchase Agreement and the holders of a majority of the Preferred Stock purchased by Kummell pursuant to the Series B Purchase Agreement, the Company will not take, and no Holder will vote in favor of, any action which:

(i) increases the number of authorized shares of the Series B Convertible Preferred Stock of the Company (the "Series B Preferred") or amends or changes the rights, preferences, powers, privileges or restrictions of the Series B Preferred;

(ii) authorizes, creates or issues shares of any class or series of stock having a preference superior to or on a parity with the Series B Preferred;

(iii) reclassifies stock into shares having a preference over or on a parity with the Series B Preferred;

(iv) amends the Company's Certificate of Incorporation in a manner that adversely affects the rights of the Series B Preferred;

(v) results in a merger or consolidation of the Company with one or more other corporations or other entities in which the stockholders of the Company immediately prior to such merger or consolidation had stock representing less than a majority of the voting power of the outstanding shares of the Company or resulting entity immediately after such merger or consolidation;

(vi) results in the sale or other transaction in a single transaction or a series of related transactions of all or substantially all of the assets of the Company, or otherwise results in the reorganization of the Company;

(vii) results in the dissolution, liquidation or winding up of the Company;

(viii) declares or pays a dividend on the Common Stock (other than a dividend payable solely in shares of Common Stock);

(ix) results in the incurrence of indebtedness in excess of \$50,000;

(x) materially alters or changes the strategic direction or business operations of the Company in a manner that is not contemplated by the Company's most recent board-approved business plan; or

(xi) amends ARTICLE IX ("Indemnification") of the Company's By-Laws.

1.4 Without the approval of the holders of a majority of the Series C Convertible Preferred Stock of the Company (the "Series C Preferred"), the Company will not take, and no Holder will vote in favor of, any action which:

(i) increases the authorized number of shares of the Series C Preferred or amends or changes the rights, preferences, powers, privileges or restrictions of the Series C Preferred;

(ii) authorizes, creates or issues shares of any class or series of stock having a preference superior to or on a parity with the Series C Preferred;

(iii) reclassifies stock into shares having a preference over or on a parity with the Series C Preferred;

(iv) amends the Company's Certificate of Incorporation in a manner that adversely affects the rights of the Series C Preferred

(v) results in a merger or consolidation of the Company with one or more other corporations or other entities in which the stockholders of the Company immediately prior to such merger or consolidation had stock representing less than a majority of the voting power of the outstanding shares of the Company or resulting entity immediately after such merger or consolidation;

(vi) results in the sale or other transaction in a single transaction or a series of related transactions of all or substantially all of the assets of the Company, or otherwise results in the reorganization of the Company;

(vii) results in the dissolution, liquidation or winding up of the Company;

(viii) declares or pays a dividend on the Common Stock (other than a dividend payable solely in shares of Common Stock);

(ix) results in the incurrence of indebtedness in excess of \$50,000;

(x) materially alters or changes the strategic direction or business operations of the Company in a manner that is not contemplated by the Company's most recent board-approved business plan; or

(xi) amends the indemnification provisions of the Company's By-Laws.

2. Legend. For so long as this Agreement is in effect, each certificate

representing shares of Common Stock, Preferred Stock or other voting securities of the Company now or hereafter owned by a Holder or any transferee of a holder will be endorsed with the following legend:

VOTING OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE IS SUBJECT TO THE TERMS AND CONDITIONS OF A CERTAIN STOCKHOLDERS' VOTING AGREEMENT BY AND AMONG THE STOCKHOLDER, THE COMPANY AND CERTAIN HOLDERS OF STOCK OF THE COMPANY. COPIES OF SUCH AGREEMENT MAY BE OBTAINED UPON WRITTEN REQUEST TO THE SECRETARY OF THE COMPANY.

3. Termination.

(i) The obligations of the Holders as to clause (i) of Section 1.1 above will terminate at such time as Intel does not hold either (a) at least 50% of the Preferred Stock purchased by it pursuant to the Series B Purchase Agreement or (b) at least 50% of the Preferred Stock purchased by it pursuant to the Series C Purchase Agreement or, in either such case, Common Stock into which any such Preferred Stock has been converted.

(ii) The obligations of the Holders as to clause (ii) of Section 1.1 above will terminate at such time as Harrison and Kummell do not between them hold either (a) at least 50% of the Preferred Stock purchased by them pursuant to the Series B Purchase Agreement or (b) at least 50% of the Preferred Stock purchased by them pursuant to the Series C Purchase Agreement or, in either such case, Common Stock into which any such Preferred Stock has been converted.

(iii) The obligations of the Holders as to clause (iii) of Section 1.1 above will terminate at such time as Dow Jones does not hold either (a) at least 50% of the Preferred Stock purchased by it pursuant to the Series B Purchase Agreement or (b) at least 50% of the Preferred Stock purchased by it pursuant to the Series C Purchase Agreement or, in either such case, Common Stock into which any such Preferred Stock has been converted.

(iv) Sections 1.1 and 1.2 of this Agreement will terminate in their entirety at such time as none of Intel, Harrison and Kummell together, or Dow Jones holds at least 50% of the aggregate amount of Preferred Stock so purchased by it or, in any such case, Common Stock into which any such Preferred Stock has been converted.

4. Miscellaneous.

4.1 Specific Performance; Other Rights. The Company and the Holders

recognize that the rights of the parties under this Agreement are unique, and accordingly Intel, Harrison and Kummell and Dow Jones will, in addition to such other remedies as may be available to any of them at law or in equity, have the right to enforce their rights hereunder by actions for injunctive relief and specific performance to the extent permitted by law. Except as provided herein, this

Agreement is not intended to limit or abridge any rights of the parties which may exist apart from this Agreement.

4.2 Governing Law. This Agreement shall be governed by and construed under

the laws of the State of Delaware as applied to agreements among Delaware residents, made and to be performed entirely within the State of Delaware.

4.3 Obligations of Transferees. This Agreement and the obligations of the

parties hereunder shall be binding upon the parties hereto and, their respective successors, assigns, and transferees.

4.4 Severability. In the event one or more of the provisions of this

Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Agreement and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

4.5 Attorney Fees. In the event that any dispute among the parties to this

Agreement should result in litigation, the prevailing party in such dispute shall be entitled to recover from the losing party all fees, costs and expenses of enforcing any right of such prevailing party under or with respect to this Agreement, including without limitation, such reasonable fees and expenses of attorneys and accountants, which shall include, without limitation, all fees, costs and expenses of appeals.

4.6 Counterparts. This Agreement may be executed in two or more

counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

4.7 Stock Split. All references to numbers of shares in this Agreement

shall be appropriately adjusted to reflect any stock dividend, split, combination or other recapitalization of shares by the Company occurring after the date of this Agreement.

4.8 Aggregation of Stock. All shares of Common Stock held or acquired by

affiliated entities or persons shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

4.9 Termination of the First Amended and Restated Stockholders' Voting

Agreement. The First Amended and Restated Stockholders' Voting Agreement is hereby terminated in its entirety and replaced by this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

SOHU.COM INC.

By: _____
Charles Zhang
President

INVESTORS:

(Printed Name of Investor)

By: _____
Name:
Title:

FOUNDERS:

(Signature of Founder)

(Printed Name of Founder)

[SIGNATURE PAGE TO SECOND AMENDED AND RESTATED
STOCKHOLDERS' VOTING AGREEMENT]

SULLIVAN & CROMWELL
28th Floor
Nine Queen's Road Central
Hong Kong
Tel: 852-2826-8688
Fax: 852-2522-2280

VIA EDGAR

- - - - -

Sohu.com Inc.,
7 Jianguomen Nei Avenue,
Suite 519, Tower 2,
Bright China Chang An Building,
Beijing 100005,
People's Republic of China.

Dear Sirs:

We hereby consent to the reference to us under the caption "Validity of Common Stock" in the Prospectus of Sohu.com Inc. included in the Registration Statement filed by Sohu.com Inc. with the United States Securities and Exchange Commission as of the date hereof.

In giving this consent, we do not hereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended.

Very truly yours,

/s/ Sullivan & Cromwell

Consent of PRC Counsel

The Board of Directors
Sohu.com Inc.

We consent to the reference of our firm under the heading "Experts" in the prospectus.

/s/ TransAsia Lawyers

Beijing
People's Republic of China

Date: May 26, 2000

Consent of Independent Accountants

The Board of Directors
Sohu.com Inc.

We hereby consent to the use in this Registration Statement on Form S-1 of our report dated February 2, 2000 relating to the financial statements and financial statement schedules of Sohu.com Inc., which appear in such Registration Statement. We also consent to the references to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers

Beijing, China
Date: May 26, 2000

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Charles Zhang, Thomas Gurnee and Victor Koo, and each of them, his or her true and lawful attorneys-in-fact and agents, each with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any or all amendments (including post-effective amendments) to the Registration Statement on Form S-1 of Sohu.com Inc. (File No. 333-96137) and any and all additional registration statements pursuant to Rule 462(b) of the Securities Act of 1933, as amended, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Date:

Signature

Title

/s/ Mary Ma

Mary Ma

Director of Sohu.com Inc.