

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

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**FORM 8-K**

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

Date of Report (Date of earliest event reported): February 2, 2004

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**SOHU.COM INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other  
jurisdiction of incorporation)

**0-30961**  
(Commission  
File Number)

**98-0204667**  
(I.R.S. Employer  
Identification No.)

7 Jianguomen Nei Avenue  
Bright China Chang An Building  
Tower 2, Room 1519  
Beijing 100005  
People's Republic of China  
(011) 8610-6510-2160

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

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Item 7. Financial Statements and Exhibits.

(a) Exhibits.

99.1 Press Release dated February 2, 2004.

99.2 Transcript of year-end and fourth fiscal quarter earnings conference call (excluding question and answer portion).

Item 12. Results of Operations and Financial Condition.

On February 2, 2004, Sohu announced its earnings results for the year and quarter ended December 31, 2003. A copy of the press release issued by Sohu regarding the foregoing is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

In addition, on February 2, 2004, Sohu's management team hosted a conference call to discuss the earnings press release. A transcript of the call (excluding the question and answer portion of the call) is filed herewith as Exhibit 99.2 and is incorporated herein by reference.

During the question and answer portion of the call, Sohu also disclosed that:

- It has ten million wireless subscribers. Sohu hereby clarifies that this is the approximate number of persons who have registered for its wireless services since inception; and
- With respect to the reason for its wireless revenues not increasing, Sohu explained that users are switching from SMS-enabled phones to MMS-enabled phones. It takes time for people to learn how to use the MMS applications, but meanwhile they become inactive users for SMS products, and Sohu needs to cancel the inactive subscriptions. However, as the application becomes more mainstream and easier to use, Sohu expects its MMS services will show more growth momentum (in the latter part of 2004). In addition, Sohu explained that the churn rate for some of its mature products such as online dating has increased. The company hopes to find new subscribers for new products to replace the churn rate of these mature products.

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**Safe Harbor Statement**

This current report on 8-K contains forward-looking statements. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement and reference should be made to this filing and our other filings with the Securities and Exchange Commission. Actual results may differ materially from the results predicted and reported results should not be considered as an indication of future performance.

Potential risks and uncertainties include, but are not limited to, our historical and future losses, limited operating history, uncertain regulatory landscape in the People's Republic of China, fluctuations in quarterly operating results, and the company's reliance on online advertising sales, e-subscriptions (most of which are collected from a few mobile telecom operators) and e-commerce for its revenues. Further information regarding these and other risks is included in our registration statement on Form S-3 filed with the Securities and Exchange Commission on December 23, 2003 and in our other filings with the Securities and Exchange Commission.

SIGNATURES

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

SOHU.COM INC.

DATED: February 5, 2004

By: /s/ Derek Palaschuk

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Derek Palaschuk  
Senior Vice President and Chief Financial Officer

EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated February 2, 2004.
99.2	Transcript of year-end and fourth fiscal quarter earnings conference call (excluding question and answer portion).

SOHU.COM REPORTS FOURTH QUARTER AND 2003 FISCAL YEAR  
FINANCIAL RESULTS

*Full Year 2003 Revenues Grow 180% over 2002; Fourth Quarter Net Income of 28 Cents  
Per Share; Fourth Quarter Revenue Growth of 133%;*

BEIJING, CHINA, February 3, 2004 – SOHU.COM Inc. (Nasdaq: SOHU), China's leading online media, communications, commerce and mobile value-added services company, today reported results for the fourth quarter and fiscal year ending December 31, 2003.

**Business Highlights**

Highlights for the fourth quarter 2003:

- Revenues rise 133% year-on-year to US\$24.6 million
- 14th consecutive quarter of double-digit quarterly sequential revenue growth
- Advertising revenues rise 120% year-on-year to US\$9.5 million
- Non-advertising revenues grow 141% year-on-year to US\$15.1 million
- Gross margins reach 72% and operating profit margins increase to 45%
- US GAAP net income reaches US\$11.6 million

Highlights for fiscal 2003:

- Record total revenues of US\$80.4 million, a 180% increase year-on-year
- Revenue diversification for the year with a 37-63% mix between advertising and non-advertising
- Fiscal 2003 US GAAP net income of US\$26.4 million, including a one-time non-cash tax charge of US\$6.5 million, is a US\$27.4 million improvement over a US GAAP net loss of US\$1.0 million in fiscal 2002
- Operating profit reaches US\$32.0 million with operating profit margins of 40%
- Proven monetization strategy and scalability: revenues increase by 180% with a 33% increase in operating expenses in 2003 compared to 2002
- Consistent business strategy and proven execution track record

"2003 has been a year of unprecedented success for SOHU in building sustainable profitability while continuing to expand our diversified revenue lines. Both our online advertising business and consumer products grew rapidly as advertisers and users alike

recognized the Internet as a mainstream media and entertainment platform in China. We are well positioned for another successful year in which we tap the revenue potential of advertising, search, wireless, online games and e-commerce services in the growing China Internet market,” said Charles Zhang, Chairman and CEO of SOHU.

SOHU reported record revenues of US\$24.6 million for its fourth quarter ended December 31, 2003, an increase of 133% year-on-year. Gross margins rose to 72% in Q4 2003. The Q4 2003 US GAAP (Generally Accepted Accounting Principles) net income of US\$11.6 million or US\$0.28 per share was a US\$9.6 million improvement from the Q4 2002 net income of US\$1.9 million or US\$0.05 per share.

SOHU’s fiscal 2003 revenues totaled US\$80.4 million, representing a 180% increase over revenues of US\$28.7 million in 2002. Gross margins rose to 69% in 2003, up from 53% in 2002. The US GAAP net income for 2003 was US\$26.4 million or US\$0.66 per share compared to a net loss of US\$1.0 million or US\$0.03 per share in 2002.

### **Business Results**

The fourth quarter’s financial results reflect the solid foundation of the Company’s sustainable and diversified business model: an expanding corporate online advertising base and large paying consumer base.

For the fourth quarter of 2003, SOHU’s advertising revenue (consisting of brand advertising and sponsored search) totaled US\$9.5 million, a 120% year-on-year improvement. Advertising revenue accounted for 39% of total revenues in Q4 2003. Advertising revenue gross margins of 77% increased from 65% in the same period a year ago, underscoring how online advertising has grown into a highly scaleable revenue stream.

In fiscal 2003, SOHU’s advertising revenues jumped 113% from US\$13.9 million in 2002 to US\$29.5 million, a marked acceleration from the 50% year-on-year growth achieved in fiscal 2002, as a result of widespread acceptance of the Internet as a key platform for advertising and sponsored search to reach an online user population of 79.5 million.

“In the fourth quarter, we further strengthened SOHU’s website and importance as an online marketing platform through the acquisitions of 17173.com, the largest online games portal in China, and the Focus.cn website, which is one of the most active real estate and home furnishings websites in China. The acquisitions strengthen our lead as a prime new media and communications platform in China amidst the excellent opportunity we expect for online advertising this year with key events such as the 2004 Athens Olympics, European Cup and the Formula One and Grand Touring car races that China will host for the first time,” Victor Koo, COO of SOHU, explained.

For the fourth quarter of 2003 SOHU’s non-advertising revenues, which are derived from consumer services, grew 141% year-on-year to US\$15.1 million and contributed 61% of total revenues. Non-advertising revenue gross margins reached an all time high of 69%. Q4 2003 non-advertising revenues consisted of US\$14.2 million in e-subscriptions (most of which are from wireless services) and US\$0.9 million in e-commerce sales.

In fiscal 2003, SOHU’s non-advertising revenues surged 242% from US\$14.9 million in 2002 to US\$50.9 million, reflecting how wireless value-added services on mobile phones are becoming part of young people’s daily lifestyle.

“Multimedia messaging services and other 2.5G applications, while at a low percentage of revenues, showed strong growth in the fourth quarter of 2003. Our marketing strategy, product innovation and close working relationship with the mobile operators form the basis for our confidence in the long-term outlook for SOHU’s wireless value-added services,” explained Charles Zhang.

At December 31, 2003, SOHU's cash and marketable debt securities balance was US\$142.6 million.

"We closed a very successful 2003 with full year net income of US\$26.4 million. We raised US\$90 million in a convertible bond to finance further expansion and closed two earnings accretive and strategically important acquisitions. Our fundamentals are stronger than ever and the market opportunity in China continues to offer SOHU outstanding opportunities for sustainable growth and profitability," Derek Palaschuk, SOHU's Chief Financial Officer, said.

SOHU is pleased to announce the promotion of Belinda Wang to Vice-President of Marketing. Ms. Wang has been with the Company for five years in various sales and marketing functions.

### **Business Outlook**

SOHU's strategy in 2004 is aimed at capturing the benefits of the rapidly growing Internet in China. SOHU's business outlook is:

- For the first quarter of 2004, we expect that total revenues will be between US\$25.6 million and US\$26.6 million.
- For the first quarter of 2004, we expect that advertising revenues will be between US\$10.2 million and US\$10.6 million. Because of Chinese New Year the first quarter is traditionally a seasonally weak quarter. However, we expect that SOHU will experience sequential growth from Q4 2003 due to contributions from the recently acquired websites 17173.com and Focus.cn. For the full year 2004 advertising revenue visibility is stronger than ever with record e-marketing backlog at December 31, 2003 of US\$14 million (at December 31, 2002 e-marketing backlog was US\$2.6 million). We expect that advertising revenue growth will accelerate after the Chinese New Year quarter and we are projecting full year 2004 advertising revenues of US\$50 million, which would be an increase of 70% from 2003.
- For the first quarter of 2004, we are projecting non-advertising revenues of US\$15.4 million to US\$16.0 million, including e-subscriptions (mainly wireless services) revenues of \$14.6 to \$15.0 million. For the full year 2004, we will be providing guidance on a quarterly basis for non-advertising revenues. Wireless growth in 2004 will come from MMS and other 2.5G applications, the build-out of our local sales network and the introduction of new products. No changes in revenue sharing arrangements with mobile operators are anticipated. We expect non-advertising gross margins to be approximately 67% to 69%. In the 3rd quarter of 2004, we plan to commercially launch our 2nd multi-player online game Blade Online, a domestically developed game, and expect additional revenue contribution to non-advertising revenues from our online games division at that time.
- Due to our acquisitions of 17173.com and Focus.cn, and as additional investment is made in improving our products and developing our online game business, we expect that operating expenses in the first quarter of 2004 will be approximately 15% higher than the fourth quarter of 2003. To enhance our competitive position we plan to continue to expand our business and spend intelligently during 2004. We expect operating profit margins to increase after the first quarter as advertising revenues increase, our investments in product yield returns and Blade Online is commercially launched in the 2<sup>nd</sup> half of 2004.
- We are projecting income tax expense for the first quarter of 2004 of US\$300,000 and US\$1.2 million for the full year 2004.

- We expect first quarter net income to be between US\$11.2 million and US\$11.9 million or US\$0.27 to US\$0.29 per diluted share. For the full year 2004, we plan to provide quarterly guidance for net income, and expect net income in the second quarter of 2004 to increase from Q1 2004.

“Going forward, we are confident of our ability to consolidate the Company’s leading position in the China Internet market and to grow shareholder value in 2004,” concluded Charles Zhang, Chairman and CEO of SOHU.COM.

### **Safe Harbor Statement**

This company’s announcement contains forward-looking statements. It is currently expected the Business Outlook will not be updated until the release of SOHU’s next quarterly earnings announcement; however, SOHU reserves the right to update its Business Outlook at any time for any reason. We may also make written or oral forward-looking statements in our periodic reports to the Securities and Exchange Commission on Forms 10-K, 10-Q, 8-K, etc., in our annual report to shareholders, in our proxy statements, in press releases and other written materials and in oral statements made by our officers, directors or employees to third parties. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. These statements are based on current plans, estimates and projections, and therefore you should not place undue reliance on them.

Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Potential risks and uncertainties include, but are not limited to, SOHU’s historical and possible future losses, limited operating history, uncertain regulatory landscape in the People’s Republic of China, fluctuations in quarterly operating results, and the company’s reliance on online advertising sales, e-subscriptions (most of which are collected from a few mobile telecom operators) and e-commerce for its revenues. Further information regarding these and other risks is included in SOHU’s Annual Report on Form 10K for the year ended December 31, 2002, Quarterly Report on Form 10Q for the quarter ended September 30, 2003 and other filings with the Securities and Exchange Commission.

### **Conference Call**

SOHU’s management team will host a conference call at 8:00 PM EST, February 2, 2004 (9:00 AM on February 3, 2004 in the Hong Kong/China time zone) following the quarterly results announcement.

The conference call will be available on web cast live and replay at: <http://www.sohu.com/about/English/conference.htm>

Conference call dial-in details for the Live conference call: Hong Kong Toll Number: +852-2258-4102; China Toll Free Number: 10800-852-0824; U.S.A Toll Number: +1-415-228-4939; Passcode: 9917018; Conference Leader: Caroline Straathof.

For the Replay of the conference call (available for 24 hours): Hong Kong Toll Number: +852-2802-5151; U.S.A. Toll Number: +1-402-220-1048; Passcode: 760140

### **About SOHU**

SOHU.COM (NASDAQ: SOHU) is China’s premier online brand and indispensable to the daily life of millions of Chinese who use the portal network for their news, search, e-mail, SMS messaging, instant messaging, browsing, games and shopping. SOHU has built the most comprehensive matrix of web properties in China, consisting of the mass portal and leading online media destination [www.sohu.com](http://www.sohu.com); the #1 online alumni club [www.chinaren.com](http://www.chinaren.com); #1 games portal [www.17373.com](http://www.17373.com) and top real estate website [www.focus.cn](http://www.focus.cn). This network of web properties offers the vast SOHU user community the broadest possible choices regarding information, entertainment, communication and commerce. SOHU.com, established by Dr. Charles Zhang, one of China’s Internet pioneers, is in its eighth year of operation.

### **For further information:**

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**SOHU.COM INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)

	Three Months Ended			Twelve Months Ended	
	Dec. 31, 2003	Sep. 30, 2003	Dec. 31, 2002	Dec. 31, 2003	Dec. 31, 2002
<b>Revenues:</b>					
Advertising	\$ 9,478	\$ 8,748	\$ 4,304	\$ 29,503	\$ 13,852
<b>Non-advertising:</b>					
E-subscription	14,171	12,640	4,784	47,053	10,132
E-commerce	936	692	1,166	3,787	4,201
Other	—	—	310	82	544
Subtotal of non-advertising revenues	15,107	13,332	6,260	50,922	14,877
Total revenues	24,585	22,080	10,564	80,425	28,729
<b>Cost of revenues:</b>					
Advertising	2,134	1,973	1,513	7,459	5,943
<b>Non-advertising:</b>					
E-subscription	3,762	4,299	1,551	14,336	3,655
E-commerce	882	629	995	3,411	3,546
Other	—	—	16	—	280
Subtotal of non-advertising cost of revenues	4,644	4,928	2,562	17,747	7,481
Total cost of revenues	6,778	6,901	4,075	25,206	13,424
Gross profit	17,807	15,179	6,489	55,219	15,305
<b>Operating expenses:</b>					
Product development	1,906	1,968	1,549	7,542	5,508
Sales and marketing	3,211	2,839	2,224	10,570	7,973
General and administrative	1,517	1,181	1,002	5,086	3,908
Total operating expenses	6,634	5,988	4,775	23,198	17,389
Operating profit/(loss)	11,173	9,191	1,714	32,021	(2,084)
Other expense	(202)	(552)	(114)	(964)	(217)
Interest income	748	532	331	1,950	1,265
Net income/(loss) before taxes	11,719	9,171	1,931	33,007	(1,036)
Income tax expense	150	6,500	—	6,650	—
Net income/(loss)	11,569	2,671	1,931	26,357	(1,036)
Basic net income/(loss) per share	\$ 0.33	\$ 0.07	\$ 0.06	\$ 0.75	\$ (0.03)
Shares used in computing basic net income/(loss) per share	36,040	35,824	34,709	35,483	35,420
Diluted net income/(loss) per share	\$ 0.28	\$ 0.07	\$ 0.05	\$ 0.66	\$ (0.03)
Shares used in computing diluted net income/(loss) per share	42,146	41,643	38,196	40,351	35,420

**SOHU.COM INC.**  
**CONSOLIDATED SUMMARY BALANCE SHEET DATA**  
**(UNAUDITED, IN THOUSANDS)**

	Dec. 31, 2003	Dec. 31, 2002
<b>ASSETS</b>		
Cash, cash equivalents and investments in marketable debt securities	\$ 142,570	\$ 44,211
Accounts receivable, net	12,381	3,954
Prepaid and other current assets	4,050	2,009
Fixed assets, net	6,846	6,012
Loans to related parties	—	4,827
Goodwill	31,664	—
Intangible assets, net	4,082	—
Other assets	3,462	959
	<u>205,055</u>	<u>61,972</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	19,454	5,119
Deferred revenues	3,962	1,622
Long term debt	90,000	—
	<u>113,416</u>	<u>6,741</u>
Total liabilities	113,416	6,741
Shareholders' equity	91,639	55,231
	<u>\$ 205,055</u>	<u>\$ 61,972</u>

**CAROLINE  
SOHU.COM  
FOURTH QUARTER 2003 AND FISCAL 2003 EARNINGS REPORT  
CONFERENCE CALL**

Conference Call Script

Date: February 3, 2003 Hong Kong Time Zone Time: 9 AM Hong Kong Time

Date: February 2, 2003 Eastern Time Zone Time: 8:00 PM Eastern Time

***Live conference call: Hong Kong Toll Number: +852-2258-4102; China Toll Free Number: 10800-852-0824;  
U.S.A Toll Number: +1-415-228-4939; Passcode: 9917018; Conference Leader: Caroline Straathof***

Operator: Turns over call to Caroline

***Caroline (TOTAL: 2 MINUTES)***

Thank you for joining Sohu.com to discuss the financial results for the Fourth Quarter as well as Fiscal 2003. Today, Charles Zhang, CEO and Chairman of the Board, will give you an update on the Company's corporate strategy and direction; Victor Koo, COO, will discuss the business results of the 4<sup>th</sup> Quarter and fiscal 2003. After Victor, Derek Palaschuk, Chief Financial Officer, will discuss some financial aspects on the quarter. Then we will open the floor for questions.

Except for the historical information contained herein, the matters discussed in this conference call are forward looking statements involving risks and uncertainties that could cause actual results to differ materially from those forward-looking statements. Potential risks and uncertainties include, but are not limited to, SOHU.com historical and future losses, limited operating history, uncertain regulatory landscape in the People's Republic of China, fluctuations in quarterly operating results and the company's reliance on online advertising sales, mobile phone related e-subscriptions revenue and e-commerce for a significant portion of its revenues. Further information regarding these and other risks is included in Sohu.com's 10K annual report and in its other filings with the Securities and Exchange Commission.

Thank you for your patience. Now, I would like to introduce Charles Zhang, CEO and Chairman of the board.

***Charles (5 minutes)***

2003 has been a year of unprecedented success for SOHU in building sustainable profitability while continuing to expand our diversified revenue lines. Quarter after quarter we have taken our revenue base and earnings power to a new level, with net income in the fourth quarter at a record high of 11.6 million dollars.

This proves again that our business model of Diversified and Balanced revenues is a sustainable growth strategy in the dynamic Chinese market.

Both our online advertising business and consumer products grew rapidly as advertisers and users alike recognized the Internet as a mainstream media and entertainment platform in China. We are well positioned for another successful year in which we tap the revenue potential of advertising, search, wireless and online consumer services and consolidate our leading position. We intend to stay well ahead of the increasing number of competitors who are trying to break into this promising Internet market.

Let me share with you some observations, which make me confident about SOHU's future:

Firstly, the Internet already reaches 80 million users in China, and the growth of the user population continues to be strong. 2004 will see a new inflection point with the Internet population surging above 100 million users.

Secondly, One of the key growth drivers for 2004 and future years will be Online Advertising and Search where Sohu as the Search Fox has a leadership position. After spending so many years teaching Chinese companies about the benefits of the internet, I must admit that I have been surprised by the recent rapid take off in online advertising and the monetization of our directory search over the past 3 quarters. For example, our e-marketing backlog at December 31 2003 was 14 million, which is more than 500% higher than the backlog balance at the end of 2002. With our recent acquisitions of 17173.com and Focus, we have better than ever visibility. On the search side, we now have 55,000 small and medium enterprises that are paying to list in our directory. I expect our advertising revenues in 2004 to grow by a very healthy 70% over 2003 to 50 million.

My third observation is that we continue to successfully turn our users into paying consumers, leveraging our online content, large user base and strong brand.

So far we are monetizing our users mostly through wireless services and we are confident of the outstanding long-term opportunities for SOHU in this area. We are currently seeing a "short breather" in our growth for wireless services as compared to early 2003 because of increased competition and churn rates for some of our products such as dating. I would like to emphasize that the fundamentals are strong for our wireless business. Our expanding nationwide sales network will assist our future wireless growth. Our MMS and other 2.5G services are also showing rapid growth and these will reach scale in the latter part of 2004 also helping our revenue growth. I also do not anticipate any significant changes in the revenue sharing arrangements with the mobile operators. Most importantly China's millions of consumers are requesting and using these mobile services in their daily lives.

As I have mentioned before, I am confident that the mobile operators' support of Sohu and their cooperation with us are stable and long term. In November, I joined China Mobile executives at their invitation on a visit to Japan for a first hand look into the highly advanced wireless services industry there. For all of us it was an inspiring trip. It made me understand – and no doubt China Mobile as well – that together we have only just begun in building a Virtual Community for entertainment, information and communication in China which will assist in the monetization of our users.

In another area of consumer services, online games, we have set some ambitious goals for ourselves. Our objective for 2004 is to gain a stronger foothold in this lucrative market. We will launch a new multi-player online

game for open beta in Q2, and Victor Koo will give you more information on that.

We have built strong shareholder value in 2003 as the 5<sup>th</sup> best performer on Nasdaq, but that is not the end of our story. 2003 was the year in which we proved how profitable our business could be. We finished the year with revenue of slightly over \$80 million, an increase of 180% from the previous year and operating profit of \$32 million, compared with an operating loss of \$ 2 million in 2002. We have now had 14 consecutive quarters where our revenues have grown double-digit quarter-to-quarter. Our 2003 operating margins of 40% are in the top tier of any publicly listed company. We have a lot of work to do and I see continued revenue growth in 2004 and I also see our profitability accelerating after this first quarter as we yield returns from our additional investment in product and marketing.

Before Victor takes you through SOHU's business operations, so you understand what is driving our growth and why we believe SOHU is the best-positioned company to capture the growth opportunity of the Internet in China, let me update you on the search for a new CFO. We are currently in the process of recruiting candidates and will make an announcement once the search is complete.

Victor?

**Victor (8 minutes)**

Thank you Charles. Thanks for being with us today and I will discuss how each of our main business lines performed in the Fourth Quarter and is expected to contribute to our 2004 Company results.

**Turning first to Advertising Business**

**1. On SOHU's Brand Advertising Revenues, let me discuss in more detail how dynamic the online advertising industry is and how SOHU's strategy is aimed at expanding market share.**

1. We grew our Advertising revenue as guided on the back of strong performance in both our brand advertising and sponsored search component of our Advertising Revenue. As expected, Q4 is traditionally relatively weak for corporate brand advertising compared to the year's second and third quarters, but we still managed to improve our advertising in Q4 on the record-high Q3 results. Our top clients in Q4 included: China Mobile, China Unicom, Volkswagen, Hyundai, Eachnet, TCL and Lenovo.
2. We have made an important strategic advance by way of the acquisitions of the 17173.com online games portal and the Focus.cn real estate web site in the last quarter. While their revenue contribution was not material in the Fourth Quarter, we expect these two websites to contribute to our top-line revenue growth in 2004. The acquisitions strengthen our lead as a prime new media and communications platform in China.
3. 2004 is marked by some high-profile top events that SOHU will capitalize on as one of China's leading Internet companies. The Olympics in Athens and European Soccer Cup are global sporting events during which we expect advertisers to do intensive online marketing and promotion. And for the first time China will host the Formula One in Shanghai and Grand Touring car race in Zhuhai. We are very pleased to be the official website for the Grand Touring race. All these events will attract advertisers to SOHU and that gives

us strong visibility for the year. As Charles mentioned, we expect our 2004 ad revenues to grow by a healthy 70% to \$50 million.

4. Because of Chinese New Year holidays there is always the seasonality impact on our ad revenues in the first quarter. We are pleased that increases in our rate card and our recent acquisitions will provide us with a healthy 8% to 12% sequential advertising growth from the fourth quarter. We are positive on the outlook for 2004 as reflected in our full year guidance where our ad revenue growth will accelerate from Q2 onwards. SOHU's backlog is at a record high as we have backlog of 14 million at Dec 31, 2003 as compared to 2.6 million at Dec 31, 2002. Visibility is stronger than ever because corporate clients are signing contracts earlier and for longer-term than before.
5. Our key operational objectives for 2004 are to further strengthen our media platform and invest back in brand and product. As you may recall, we already booked high profile successes last year with NBA, Yao Ming, Disney and AC Milan. As broadband becomes more widely used in China and multimedia wireless services develop, exclusive entertainment content is crucial to our continuing success.

## **2. Sohu.net**

Our second business line within Advertising is the Sponsored Search based revenues and other marketing services for small and medium sized enterprises which continued to show consistent, solid growth in the Fourth Quarter. Our customer base among the small and medium enterprises expanded to over 55,000, up from 47,000 in Q3. While Search and Paid Listing are still at early stages of development in China, Search is one of the key long-term business lines at SOHU and we are leading the way in monetizing our Search Product in China.

In short, advertising is a Core Business for Sohu and the market outlook in 2004 is very strong for online advertising, paid listing, search and other corporate marketing services.

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### **Next, let me discuss our non-advertising, or consumer business revenue during the Fourth quarter.**

Within the consumer business area we expect different business lines to be an engine of growth at different stages in the Company's development.

- **E-subscriptions**

In Q4, 94% of our non-advertising revenue is from e-subscriptions, most of which are collected from the mobile phone through revenue sharing arrangements with China Mobile and China Unicom. We presently have revenue sharing contracts with 11 subsidiaries of China Mobile and one nation-wide contract with China Unicom. There is strong user acceptance of our products, including dating and friends matching, paid alumni club, mobile e-mail and content services.

As for our mobile messaging services, we achieved revenue growth of 12% from Q3 through a combination of product innovation and expansion of our local sales network. There are exciting new opportunities presenting themselves in 2004 through new technology of MMS, WAP and IVR. Our MMS and other 2.5G applications,

while at a low percentage of revenues, showed strong growth in the fourth quarter of 2003. Product innovation and marketing continue to be important growth drivers in this business area.

- **Online Game**

Games are an important component of our long-term business strategy. We are still in the first phase of our business strategy for online games. Our online game Knight Online enables us to gain solid business experience in this growth industry, which is still at an early stage in China.

We are moving to the second phase of our business strategy in the second quarter of 2004 with the open-beta launch of a new Online Game, a multi-player adaptation of the popular Chinese PC based game Blade Online, which was produced in China. In additions, we are very pleased to have on board the employees of 17173.com, the games portal we acquired in Q4. They bring a team with strong games expertise inhouse, and we look forward to further develop our games development strategy together.

### **In conclusion**

The Internet in China offers great opportunities and we are confident in our ability to capture the benefits of this growing market. Our longstanding momentum provides the ability to scale up our business to achieve sustainable, long-term growth and profitability.

This concludes my part of the presentation. Now it is Derek Palaschuk's turn, our Chief Financial Officer, to discuss some of the financial aspects for the fourth quarter.

### **Financial Overview – Derek (TOTAL: 5 MINUTES)**

Derek Financial Script Q4 -

#### **I. Introduction**

A. Thanks Victor. Q4 was another solid quarter for Sohu as we increased our Operating Profit by US\$ 2.0 million from the previous quarter to \$11.2 million. We did this on the back of our 14<sup>th</sup> consecutive quarter where we achieved double digit sequential revenue growth. Cash flow from operations for the 4<sup>th</sup> quarter was \$12.8 mln (Q3: 10 mln). Our operating margins reached record highs of 45% and we completed 2 earnings accretive acquisitions.

B. Rather than repeating what you have already read in the press release and to leave more time for the Q&A, I will just make some additional comments on the balance sheet and our cost structure before I finish with my closing comments.

#### **II. Balance Sheet**

1. We often get questions from investors on our receivables collection especially as regards collections from the mobile operators. We are pleased with our accounts receivable control as our DSO at the end of the year was 45 Days as compared to 49 days in the 3<sup>rd</sup> quarter and looking back to the first quarter of 2003 where it was 67 days. Our December 31,2003 accounts receivable balance of 12.8 million includes 6.1 million of receivables related to our advertising business and 5.9 million for e-subscriptions (Q3: 11.5 million includes \$4.9 million for advertising business and \$6.9 million for e-subscriptions). As in the past, we had a regular collections from our

mobile operators demonstrated in that the Dec 31,2003 e subscriptions accounts receivable balance of 5.9 mln was \$1 million less than the 6.9 mln at September 30, 2003. Let me emphasize here that we have never had a bad debt from a mobile operator.

2. Capex spending was US\$2.2 million in Q4 and US\$5.3 million for the fiscal year 2003. (1.2 million in Q3; 780,000 in Q2; 1,038 K in Q1).

You will note on the Dec 31,2003 balance sheet there is goodwill of 31.7 million which arose on our acquisition of focus and 17173. In accordance with US GAAP this goodwill will not be amortised. Also included on the Dec 31 balance sheet is intangible assets of 4.1 million which were are also related to the Q4 acquisitions. These intangibles are amortised over their useful lives and we will record quarterly amortization of \$17,000 per quarter for the next 3 years and 50,000 per quarter in years 4 to 15.

Before we proceed to the Q&A, I would like to make a few comments on our business outlook for Sohu which we believe will lead to continued long term growth and profitability. As Victor and Charles have already discussed the revenue side, I will review with you our cost structure.

First let me first talk about our non advertising gross margins which we have guided to be 67% to 69%. The key point we would like to make here is that at this time we do not anticipate any significant changes in the revenue sharing arrangements with the mobile operators. Speaking to investors over the past few years this has always been a significant concern. Charles has already discussed the win/win partnership we have with the operators.

Our operating costs are expected to increase 15% in the first quarter of 2004. As Sohu has always spent intelligently we would like you to understand the nature of these increases which will bring benefit to our shareholders. We began consolidating focus and 17173 in Dec so that our Q4 results only include one month of these costs whereas Q1 will have 3 months of operating costs including the 171 thousand in amortization of intangibles. As we prepare for the launch of our next online game, since US GAAP does not allow the deferral of our prelaunch game operating and development costs the game's costs are included in our current operating expenses. We are also increasing investment in improving our key products such as search, instant messaging and email. While this spending has a short term impact on our first quarter revenue fall through rate and a small decrease in our operating margin we believe it will yield benefits in future quarters.

As a result of our tax restructuring undertaken in 2003, we expect income taxes on our China sourced income to be nominal in 2004 and that income taxes on our US source income which is mainly interest income will be 300 thousand per quarter or 1.2 million for the full year.

In closing, Sohu's solid fundamentals, its top internet brand, and Sohu's proven and talented managers combined with the unrivalled growth of the Chinese internet provide exciting opportunities for the company and its shareholders.

I look forward to any questions during the Q&A. Moderator, can you please open the floor for questions.