

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

**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): July 27, 2005

**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.)

**Level 12, Vision International Center  
No. 1 Unit Zhongguancun East Road, Haidian District  
Beijing 100084  
People's Republic of China  
(011) 8610-6272-6666**

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

## Item 2.02. Results of Operations and Financial Condition.

On July 28, 2005 (Beijing Time), the registrant announced its earnings results for the quarter ended June 30, 2005. A copy of the press release issued by the registrant regarding the foregoing is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

In addition, on July 28, 2005 (Beijing Time), the registrant'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 conference call, the registrant's management team disclosed that Sohu derives substantially all of its sponsored search revenue from agents, which receive sales commissions equal to 50% of the revenues collected by the registrant that such agents generate. Sohu records sponsored search revenue net of these sales commissions. Management further explained that it expects wireless revenue to grow modestly in the third quarter of 2005.

### **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.

Potential risks and uncertainties include, but are not limited to, our 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, wireless services (most wireless revenues are collected from a few mobile telecom operators), online games and e-commerce for its revenues. Further information regarding these and other risks is included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, and in our other filings with the Securities and Exchange Commission.

## Item 9.01. Financial Statements and Exhibits

(c) Exhibits.

99.1 Press Release dated July 28, 2005 (Beijing Time)

99.2 Transcript of earnings conference call (excluding question and answer portion)

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.

DATED: August 2, 2005

SOHU.COM INC.

By: /s/ Carol Yu

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Carol Yu  
Chief Financial Officer

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EXHIBIT INDEX

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated July 28, 2005 (Beijing Time)
99.2	Transcript of earnings conference call (excluding question and answer portion)

**SOHU.com Reports Second Quarter 2005 Unaudited Financial Results**  
**Second Quarter Revenues of US\$25.9 million; Search Revenue Growth of 14% Quarter-on-Quarter; Net Income of US\$0.18 Per Fully Diluted Share**

**BEIJING, CHINA, July 28, 2005** - SOHU.COM Inc. (Nasdaq: SOHU), China's leading online media, communications, commerce and mobile value-added services company, reported unaudited financial results for the second quarter ended June 30, 2005.

**Business Highlights**

Highlights for the second quarter 2005:

- Total revenues of US\$25.9 million, within high end of company guidance
- Advertising revenues of US\$17.0 million, a 27% year-on-year and 14% quarter-on-quarter improvement
- Non-advertising revenues of US\$8.9 million, with wireless revenue up 7% quarter-on-quarter, reflecting a continuing recovery in the company's wireless business
- Net profit of US\$7.1 million or US\$0.18 per fully diluted share, meeting company guidance
- The closing on May 31, 2005 of the acquisition of Go2Map, a leading online mapping services provider

"We are pleased to report a solid performance in our top and bottom line for the second quarter with healthy growth in our brand advertising, a strong uptake in our search revenue as traffic on our search engine SoGou shows rapid growth, and the recovery of our wireless business well on track," said Charles Zhang, Chairman and CEO of SOHU.

**Business Results**

Revenues for the second quarter ended June 30, 2005 totaled US\$25.9 million, compared to revenues of US\$23.7 million for the first quarter ended March 31, 2005, and US\$27.3 million for the second quarter ended June 30, 2004. Gross margin of 67% in Q2 2005 was down slightly from 68% in the previous quarter and slightly up from 66% in Q2 2004. Net income for the second quarter of 2005 was US\$7.1 million or US\$0.18 per fully diluted share. This compares to net income of US\$5.7 million or US\$0.15 per fully diluted share for the first quarter of 2005 and US\$9.9 million or US\$0.25 per fully diluted share for the second quarter of 2004.

SOHU's advertising revenues for the second quarter of 2005 totaled US\$17.0 million, a 27% year-on-year improvement and 14% increase quarter-on-quarter. Advertising revenues, consisting of US\$13.9 million in brand advertising and US\$3.1 million in sponsored search, accounted for 66% of total revenues in the second quarter of 2005. Advertising gross margin was 75%, compared to 76% in Q1 2005 and 75% in Q2 2004.

For the second quarter of 2005 SOHU's non-advertising revenues, which are derived from wireless value-added services, online games and e-commerce, decreased by 36% year-on-year but stayed unchanged quarter-on-quarter at US\$8.9 million, representing 34% of total revenues. The year-on-year decline was caused primarily by a reduction in wireless revenue of 44% year-on-year. Wireless

revenue posted its second consecutive quarter of sequential growth, however, increasing 7% over the first quarter, reflecting a continuing recovery in SOHU's wireless business. Online games revenue was unchanged compared to the first quarter. A decline in e-commerce revenue due to a change in the company's e-commerce business model offset the growth in wireless revenue, resulting in overall flat quarter-on-quarter non-advertising revenue. Non-advertising gross margin was 53% compared to 55% in Q1 2005 and 58% in Q2 2004, mostly due to Unicom's increasing its percentage share of SMS revenue and charging additional service fees for its marketing services.

For the second quarter of 2005, SOHU's operating expenses totaled US\$10.7 million, largely unchanged quarter-on-quarter, but an increase of 27% year-on-year. Operating profit margin of 26% was up from 23% in Q1 2005 and down from 35% in the second quarter last year. The year-on-year increase in operating expenses is mostly due to SOHU's investment in long-term growth opportunities, the rise in sales and marketing spending, and the consolidation of operating expenses from the wireless services provider Goodfeel that SOHU acquired in May 31 2004 and the mapping services provider Go2Map that SOHU acquired in May 31 2005.

In July 2005, SOHU launched the beta version of a casual game platform with nine internally developed casual games. The company intends to build a substantial user base before considering ways to monetize this casual games platform.

"We are pleased to see SOHU's improved operational results as we continue to invest in our in-house research and development program and look into strategic opportunities to leverage the Company's organic growth and drive long-term shareholder value based on sustainable growth in China's Internet opportunity," Carol Yu, SOHU's Chief Financial Officer, said.

At June 30, 2005, SOHU's cash, cash equivalents and investments in marketable debt securities balance was US\$124.8 million.

### **Business Outlook**

SOHU estimates total revenues for the third quarter 2005 to be between US\$26.5 million and US\$28.5 million, with advertising revenues of US\$17.5 million to US\$18.5 million and non-advertising revenues of US\$9.0 million to US\$10.0 million. Third quarter earnings per fully diluted share are expected to be between US\$0.18 and US\$0.22.

### **Note to the Financial Information**

The financial information in this press release is extracted from SOHU's unaudited financial statements prepared in accordance with generally accepted accounting principles in the United States.

### **Safe Harbor Statement**

This 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.

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 and limited operating history, the uncertain regulatory landscape in the People's Republic of China, fluctuations in SOHU's quarterly operating results, and the company's reliance on online advertising sales, wireless services (most wireless

revenues are collected from a few mobile telecom operators), online games and e-commerce for its revenues. Further information regarding these and other risks is included in SOHU's annual report on Form 10-K for the year ended December 31, 2004, Quarterly Report on Form 10-Q for the quarter ended March 31, 2005, and other filings with the Securities and Exchange Commission.

### **Conference Call**

SOHU's management team will host a conference call at 9:00 PM EST, July 27, 2005 (or 9:00 AM on July 28, 2005 in the Beijing/Hong Kong time zone) following the quarterly results announcement.

To listen to the conference call, please use the dial in numbers below:

CHINA Netcom Toll Free Number: 10800-852-0824

CHINA Telecom Toll Free Number: 10800-152-0824

HONG KONG Toll Number: +852-2258-4102

USA Toll Number: +1-210-795-0495

USA Backup Number: 1-210-795-0505

PASSCODE: 7515726

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

### **About SOHU**

SOHU.COM Inc. (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, wireless messaging, instant messaging, browsing, games and shopping. SOHU has built one of the most comprehensive matrices of Chinese language web properties and proprietary search engines, consisting of the mass portal and leading online media destination [www.sohu.com](http://www.sohu.com); interactive search engine [www.sogou.com](http://www.sogou.com); leading online mapping service provider [www.go2map.com](http://www.go2map.com); the #1 online alumni club [www.chinaren.com](http://www.chinaren.com); the #1 games information portal [www.17173.com](http://www.17173.com); the top real estate website [www.focus.cn](http://www.focus.cn); and wireless value-added services provider [www.goodfeel.com.cn](http://www.goodfeel.com.cn). This network of web properties offers the vast SOHU user community very broad choices regarding information, entertainment, communication and commerce.

SOHU corporate services consist of online advertising on its matrix of websites as well as paid listing and bidding listing on its in-house developed search directory and engines. SOHU also offers three types of consumer services. SOHU offers wireless value-added services such as news, information, ringtone and picture content sent over mobile phones. The company also operates two massively multi-player online role-playing games as well as a casual game platform, and manages an e-commerce platform.

SOHU.COM, established by Dr. Charles Zhang, one of China's Internet pioneers, is in its ninth year of operation.

### **For further information:**

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**SOHU.COM INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended			Six Months Ended	
	Jun. 30, 2005	Mar. 31, 2005	Jun. 30, 2004	Jun. 30, 2005	Jun. 30, 2004
<b>Revenues:</b>					
Advertising					
Brand advertising	\$13,859	\$12,124	\$10,950	\$25,983	\$19,943
Sponsored search	3,105	2,731	2,432	5,836	4,453
Subtotal of advertising revenues	16,964	14,855	13,382	31,819	24,396
Non-advertising:					
Wireless	6,360	5,959	11,316	12,319	23,561
E-commerce	841	1,265	1,370	2,106	2,689
Others	1,714	1,646	1,199	3,360	2,556
Subtotal of non-advertising revenues	8,915	8,870	13,885	17,785	28,806
Total revenues	25,879	23,725	27,267	49,604	53,202
<b>Cost of revenues:</b>					
Advertising					
Brand advertising	\$ 3,835	\$ 3,229	\$ 3,128	\$ 7,064	\$ 5,788
Sponsored search	453	293	244	746	372
Subtotal of advertising cost of revenues	4,288	3,522	3,372	7,810	6,160
Non-advertising:					
Wireless	2,781	2,205	4,132	4,986	8,313
E-commerce	783	1,231	1,346	2,014	2,632
Others	594	572	386	1,166	754
Subtotal of non-advertising cost of revenues	4,158	4,008	5,864	8,116	11,699
Total cost of revenues	8,446	7,530	9,236	15,976	17,859
Gross profit	17,433	16,195	18,031	33,628	35,343
<b>Operating expenses:</b>					
Product development	3,594	3,142	2,091	6,736	3,971
Sales and marketing	4,269	4,734	4,261	9,003	7,382
General and administrative	2,399	2,412	1,752	4,811	3,324
Amortization of intangibles	474	456	360	930	537
Total operating expenses	10,736	10,744	8,464	21,480	15,214
Operating profit	6,697	5,451	9,567	12,148	20,129
Other expense	(102)	(248)	(196)	(350)	(404)
Interest income	555	573	578	1,128	1,208
Income before tax expense	7,150	5,776	9,949	12,926	20,933
Income tax expense	(50)	(62)	(70)	(112)	(124)
Net income	7,100	5,714	9,879	12,814	20,809
Basic net income per share	\$ 0.20	\$ 0.16	\$ 0.27	\$ 0.36	\$ 0.57
Shares used in computing basic net income per share	36,015	36,171	36,349	36,093	36,302
Diluted net income per share	\$ 0.18	\$ 0.15	\$ 0.25	\$ 0.33	\$ 0.52
Shares used in computing diluted net income per share	39,596	39,931	40,893	39,764	40,939

(UNAUDITED, IN THOUSANDS EXCEPT PER SHARE AMOUNTS)



**SOHU.COM INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED, IN THOUSANDS)**

	As of Jun. 30, 2005	As of Dec. 31, 2004
<b>ASSETS</b>		
Cash, cash equivalents and investments in marketable debt securities	\$ 124,833	\$ 141,322
Accounts receivable, net	21,496	19,901
Prepaid and other current assets	3,173	4,894
Fixed assets, net	15,234	12,175
Goodwill	50,700	44,502
Intangible assets, net	7,499	7,503
Other assets, net	7,591	4,470
	<u>230,526</u>	<u>234,767</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	26,213	30,799
Deferred revenues	4,939	5,469
Zero coupon convertible senior notes	90,000	90,000
	<u>121,152</u>	<u>126,268</u>
Total liabilities	121,152	126,268
Shareholders' equity	109,374	108,499
	<u>\$ 230,526</u>	<u>\$ 234,767</u>

SOHU.COM  
SECOND QUARTER 2005 EARNINGS REPORT  
CONFERENCE CALL

Conference Call Transcript

**Caroline Straathof, Senior IR Director**

Thank you for joining Sohu.com to discuss our Second Quarter 2005 Results. Online today are

Charles Zhang, Chairman of the Board and CEO

Carol Yu, Chief Financial Officer, and

Jianjun Wang, Vice President of Search

Before the management presentations I would like to read you the Safe Harbor Statement in connection with today's conference call.

Except for the historical information contained herein, the matters discussed in this conference call 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, mobile phone related wireless revenue, online game and e-commerce for its revenues. Further information regarding these and other risks is included in Sohu's Annual Report on Form 10-K and other filings with the Securities and Exchange Commission.

Thank you for your patience. Now, let me turn the call to Charles Zhang, Chairman of the board and CEO,

Charles?

**Charles Zhang, Chairman and CEO:**

Thank you all for being on our conference call today.

We are pleased to report a solid performance in top and bottom line growth for the second quarter. It is our second quarter of sequential growth after a tough year for our wireless business in 2004, which hurt our overall business performance last year. Now, our recovery is well under way.

The key highlights for our second quarter are:

-Revenues of \$25.9 million dollar, growing 9% sequentially, came in at the high end of company guidance.

-Our core business of advertising revenues, which include brand advertising and sponsored search, also came in at the high end of guidance, due to the seasonal uptake of brand advertising in the second quarter and a strong uptake for our promising sponsored search business as our search traffic grows rapidly.

-In our consumer business we enjoy a continuing recovery in our wireless business, despite stricter regulations on new customer acquisition, with sequential growth in wireless revenues for the second quarter in a row.

Now, let me discuss the progress of our business lines.

First, advertising revenues.

Our advertising revenues of \$17.0 million dollar met the high end of company guidance. Brand advertising comprised \$13.9 million dollar and Sponsored Search \$3.1 million dollar, both increasing by 14% over Q1.

In our brand advertising we continued in the second quarter to see strong contributions from advertisers in the dotcom sector, financial services, fast moving consumer goods, as well as real estate advertising. Advertising from automobile manufacturers was stronger than we had seen in recent quarters because of the April autoshow.

In sponsored search, I am happy to report that both the traffic growth and monetization of our search is progressing very well. Our search engine SoGou version 2.0, which we launched during the first quarter, is showing rapid traffic growth. According to Alexa.com, SoGou's traffic rank on the top 500 global sites on July 27<sup>th</sup> was in 35<sup>th</sup>, up from 228<sup>th</sup> place three months ago. SoGou's current reach of 21,000 per 1 million users is up 365% compared to its values three months ago.

As we have explained before, our key objective for this year is to grow our search traffic, so that we build up a solid basis from which to monetize our search engine. Even though traffic growth currently has priority over our monetization efforts, I am pleased to see that client spending is growing well, increasing 14% quarter-on-quarter, which was in line with our earlier expectation.

Our long-term goal is to make SoGou the #1 search engine for Chinese language search in terms of technology, product and usage. A key component of our drive to grow traffic is our effort to build the largest Chinese language indexed database. Currently our indexed pages in the search engine stand at a little over 1 billion pages, which we believe is the largest Chinese search database in the world.

Naturally we have also engaged SOHU's flagship marketing strength to promote the SoGou brand. I just came back from a mountaineering expedition in Tibet, where I reached the summit of the the 6,200-meter high QiZi peak together with Miss World and 20 Chinese celebrities. The event was widely reported by all media throughout China, which helped to build up SoGou into a household brand name in China. We will continue to make extensive marketing efforts in Q3 and the rest of the year to promote our new upgrades and applications of SoGou, seach dog.

We expect our long-term prospects in online search to be further strengthened with the acquisition of Go2Map, the leading online mapping service provider in China. We closed the acquisition of Go2Map on May 31 and have begun the integration process. We believe the acquisition will enhance our overall competitive strength as a portal and search engine.

Turning now to the outlook for advertising for the remainder of the year:

Year-to-Date we are now at precisely 30% growth over the first half of 2004 for our advertising revenue, consisting of both brand advertising and search revenue. We expect our sponsored search to continue to perform very well and achieve a year-on-year growth rate of more than 30%.

Our sales offices in Beijing, Shanghai and our real estate website Focus are showing healthy growth in brand advertising. However, our South China sales office and the games website 17173 have started to experience some changes in the market place in the last two months. But overall, we need to revise our earlier guidance for annual growth in advertising revenues. We now expect advertising revenues growth for the full year 2005 to be between 20-25% instead of our previous guidance of 30%.

Let me explain what has changed for our South China and 17173 operations in the last two months:

- First of all, in South China SOHU derives a substantial portion of its revenues from Chinese companies in the mobile handset and other electronics industries. However, a number of our clients in these industries are now experiencing operational problems or financial difficulties because of overheated competition and price wars. As a result, we are seeing a reduction in our clients' advertising spending from these sectors. These industries have become seriously damaged and we expect it will take time to recover.
- Secondly, in the online games sector we are faced with a new situation in the last two months as a result of the overwhelming success of the World of Warcraft, or WOW game. In our original guidance we had included advertising revenues from other games to be launched this year. While we noticed initially that other game operators considered a delay of their new games to later in the year, we now believe that they may delay the launch of their new games until next year. As a result, we are expecting significantly less marketing spending on online games for 17173 in the second half of this year.

However, we expect overall online advertising to grow to a new level in the next few years with a further ramp-up of the total online population, now at just over 100 million, that will be online via high speed broadband access, which currently 50% of all Chinese online use. This will allow the Internet to compete more effectively with television for multimedia advertising contracts so that our existing advertisers spend more with us and we attract new advertisers to our portal network. We strongly believe the online advertising market in China continues to have long-term and structural growth potential.

We also believe brand advertising continues to be a key growth driver in our business model. We believe SOHU's presence as a leading online media platform is difficult for competitors to challenge and protects our position as a default destination for clients seeking online branding exposure to the Internet mass market. We are also quite unique in that we offer advertising clients both general branding to the mass online population and effective targeting on our popular channels such as news, real estate, online games and automobile channels. We see the increasing competition from verticals and other portals, but a comprehensive player like SOHU is still rare in this space. All in all, we believe SOHU is in a strong position to continue to capture the growth opportunity in online advertising over the long term.

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Turning to our other business lines, our non-advertising revenue of \$8.9 million dollar came in at the high end of company guidance. Let me now briefly go over each of our non-advertising business lines: wireless business, online games, and e-commerce.

We see a continuing cautious recovery in our wireless business, with 7% sequential growth to \$6.4 million dollar. SMS, WAP, IVR and Ringback tones all recorded growth, with WAP showing 2% sequential growth, a little above our expectation. We had guided flat for WAP as a result of the double-confirmation requirement that came into effect at the beginning of the second quarter. Even so, we believe that the fully integrated SOHU-Goodfeel WAP team is taking full advantage of Chinese consumers' increasing acceptance of WAP services.

We had an inline quarter for online games, with our two multi-player games Blade online and Knight online performing as expected. Blade is still growing and that growth offset the decline in Knight, which is now a mature game. We are pleased to see that Blade showed growth despite the launch of the popular WOW game in the market. We are committed to online games for the long term and we are encouraged by this incremental progress.

Finally, a few words on e-commerce. Our e-commerce operation has undergone a change in operational model in the course of the second quarter, which affected our revenue this quarter.

Instead of making direct sales to customers, on May 1, we started a new business model mainly for health care products, cosmetics and gifts, whereby suppliers list their products on our website and receive orders directly from customers through the website. SOHU engages third party delivery companies to deliver products to and collect payment from customers.

SOHU now acts as both a retailer and an agent, therefore we record this revenue on a net basis instead of a gross basis. We expect there will be an improvement in profitability as a result. We believe there is an attractive long-term opportunity for e-commerce in China.

Before we move on to the financial presentation, I would like to say that looking at the progress we made in the second quarter, we believe SOHU follows the right strategy of investing in China's Internet opportunity through our in-house research

and product development program and by making calculated, strategic acquisitions. We are pleased to see these investments are beginning to pay off even though the overall market is still in a relatively early stage of monetization. We believe we are well positioned to enjoy long-term sustainable growth in China's Internet opportunity.

Now I would like to give the floor to our CFO, Carol Yu, for a financial review.

**Caro Yu, CFO:**

Thank you Charles. I would like to take this opportunity to discuss some key financials to enhance your understanding of our business operations.

**I. Revenues**

We are pleased to report revenues of \$25.9 million for the second quarter came in at the high end of our guidance.

**1. Advertising**

With advertising revenues of \$17.0 million we experienced a healthy 14% sequential and 27% year-on-year improvement. Year-to-Date we are right on track of our original target to reach 30% growth in 2005 over 2004 for the entire advertising business. However, as Charles has explained, we are seeing some softness in the online advertising sector. As a result we are revising downwards our advertising growth projection to between 20 and 25% for the full year 2005.

**2. Wireless:**

We are very pleased to note that our wireless business is back on a growth track.

Let me give you a breakdown of the second quarter wireless revenue:

Our SMS services grew 5% quarter-on quarter to \$3.5 million.

Our WAP services grew 2% to \$2.1 million

Our IVR business grew 27% to \$600,000.

Our MMS and RingBackTone services contribute only very small amounts.

Going forward we believe, barring any unforeseeable circumstances, we will continue to see a cautious recovery in our wireless business.

**3. Other revenue:**

Let me give you a brief explanation on the revenues from Go2Map, the online mapping company we have just acquired. As a result of the closing of the acquisition on May 31, we have consolidated the June Go2Map operations into our financial statements. Since the existing revenue of Go2Map is mainly comprised of software sales and rental of its map search engine, such revenue is classified as "other" revenue in the financial statements. For the one month ended June 30, 2005, the revenue of Go2Map was \$201,000 with a net loss of \$35,000, after deducting \$48,000 as amortization of the intangibles that are recognized as a result of the acquisition.

**II. Turning to our gross margins:**

Overall gross margin of 67% in Q2 2005 was slightly down from 68% in the previous quarter and slightly up from 66% in Q2 2004. Advertising gross margin of 75% in Q2 was slightly down from 76% in Q1. We are pleased to note that gross advertising profit increased to \$12.7 million from \$11.3 million in Q1.

Non-advertising gross margin was 53% compared to 55% in Q1 2005 and 58% in Q2 last year. This is mostly due to Unicom's increasing its percentage share of SMS revenue and charging additional service fees for its marketing services. On the other hand, the e-commerce gross margin has improved because we added a new business model with SOHU acting as an agent instead of a primary obligator, and thus have started to record this revenue on a net basis instead of gross basis.

### III. Operating expenses

For the second quarter of 2005, SOHU's operating expenses totaled \$10.7 million, largely unchanged quarter-on-quarter but increased by 27% year-on-year. The year-on-year increase in operating expenses is mostly due to investment in long-term growth opportunities, the rise in sales and marketing spending, and the consolidation of operating expenses from two companies we acquired in May 2004 being Goodfeel and May 2005 being Go2Map.

### IV. Operating Profit Margin

Operating profit margin of 26% was up from 23% in Q1 2005 as our operations have improved quarter-on-quarter, but down from 35% in the same period last year. We are still in the build-up phase of a very promising but competitive market, therefore we need to continue to invest in the future growth of the company.

### V. Balance Sheet.

Let me now make a few comments on the Balance Sheet.

Our DSO for Q2 is 81 days compared to 79 days in Q1 (74 days in Q4). Advertising DSO for Q2 is 89 days, down from 93 days in Q1 (92 days in Q4). Our June 30 net accounts receivable balance was \$ 21.5 million compared to \$19.1 million in Q1, (\$19.9 million in Q4), including \$13.4 million related to our advertising business and \$7.4 million for our wireless business.

Our bad debt provision for advertising as of June 30, 2005 amounted to \$1.6 million, a reduction from the \$1.7 million provision as of March 31, 2005. While we consider this level of bad debt provision to be relatively low as compared to our level of advertising sales, we pay particular attention to continue to be prudent in our credit extension policy. Given the financial difficulties of some of our clients in South China we have tightened our credit policy and we actually saw improvement over bad debt provision in Q2 compared to Q1.

As in the past, we had regular collections from our mobile operators. We have never had a bad debt from a mobile operator. To illustrate this, I am pleased to inform you that yesterday we received \$3.2 million from China Mobile as settlement of its receivables due to Goodfeel as of June 30, 2005.

### VI. And finally, the Business Outlook

You will find detailed guidance for the third quarter in our earnings release. Here I would like to discuss the effect of the RMB revaluation in more detail.

- 1) Going forward, as most of our revenue is denominated in RMB, our revenue will be improved. Accordingly, we have included that such positive impact in our guidance.
- 2) On the balance sheet side, our accounting policy is to translate all assets and liabilities of our China subsidiaries into US dollars using the current exchange rate. For illustrative purpose, had the appreciation of RMB of 2% happened on June 30 2005, the appreciation would bring



in a gain of approximately \$2 million. However this so-called gain is recorded as an equity item on the balance sheet and has no impact on our profit and loss account. Accordingly, no such gain has been included in our guidance.

Let me emphasize that while we see some new challenges in our brand advertising outlook that causes us to lower our outlook for advertising revenues in the second half of the year, our sponsored search business continues to be a bright spot for SOHU. At the same time we expect to see a continuing recovery in our wireless business. We are confident in the long-term future of SOHU.

That concludes my presentation. Thank you for your attention and now I would like to open the floor for questions. Operator?