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

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2019

OR

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

OR

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

Commission file number: 001-38511

SOHU.COM LIMITED

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Cayman Islands

(Jurisdiction of incorporation or organization)

Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road, Haidian District
Beijing 100190
People's Republic of China
(Address of principal executive offices)

Joanna Lv

Chief Financial Officer

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Block 3, No. 2 Kexueyuan South Road, Haidian District
Beijing 100190
Telephone: (011) 8610-6272 6666

Email: IR@sohu-inc.com

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

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

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

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

None

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: 39,268,698 ordinary shares, par value \$0.001 per share, as of December 31, 2019.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Introduction

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

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

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

This annual report on Form 20-F includes our audited consolidated statements of comprehensive income/(loss) for the years ended December 31, 2017, 2018 and 2019 and audited consolidated balance sheets as of December 31, 2018, and 2019.

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

Sogou completed its IPO on the New York Stock Exchange (the “NYSE”) in November 2017, trading under the symbol “SOGO.”

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

FORWARD-LOOKING INFORMATION

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

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

- our ability to maintain and strengthen our position as a leading Chinese online media, search and game service group in China;
- our expected development, launch and market acceptance of our products and services;
- our various initiatives to implement our business strategies to expand our business;
- our future business development, results of operations and financial condition;
- the expected growth of and change in the online media, search and game industries in China; and
- the PRC government policies relating to the Internet and Internet content providers, including online media, search and game developers and operators.

We operate in an emerging and evolving environment. New risk factors emerge from time to time and it is impossible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable.

ITEM 3. KEY INFORMATION

Selected Consolidated Financial Data

The following tables present the selected consolidated financial information for our company. The selected consolidated statements of comprehensive income data for the years ended December 31, 2017, 2018, and 2019 and the consolidated balance sheets data as of December 31, 2018 and 2019 have been derived from our audited consolidated financial statements included in this annual report beginning on page F-1. The selected consolidated statements of comprehensive income data for the years ended December 31, 2015 and 2016 and our consolidated balance sheets data as of December 31, 2015, 2016, and 2017 have been derived from prior-period consolidated financial statements that are not included in this annual report. Our consolidated financial statements are prepared and presented in accordance with U.S. GAAP. The selected consolidated financial data should be read in conjunction with, and are qualified in their entirety by reference to, our audited consolidated financial statements and related notes and “Item 5. Operating and Financial Review and Prospects” below. Our historical results do not indicate the results that may be expected for any future periods.

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As of August 12, 2019, we deconsolidated Changyou's cinema advertising business as a result of Changyou ceasing the business's operations. Accordingly, the historical financial results of the cinema advertising business for periods from January 1, 2017 to August 12, 2019 are reflected in our audited consolidated financial statements included in this annual report as discontinued operations, and historical results discussed elsewhere in this annual report exclude such results unless they are expressly included.

Selected Consolidated Statements of Comprehensive Income /(Loss) Data

	Year Ended December 31,				
	2015	2016	2017	2018	2019
(In thousands, except per ADS data)					
Statements of Comprehensive Income Data:					
Revenues:					
Online advertising:					
Brand advertising	\$ 577,114	\$ 447,964	\$ 314,112	\$ 231,945	\$ 174,861
Search and search-related advertising	539,521	597,133	801,199	1,022,456	1,072,860
Subtotal of online advertising revenues	1,116,635	1,045,097	1,115,311	1,254,401	1,247,721
Online games	636,846	395,709	449,533	389,788	440,902
Others	141,037	141,091	204,745	168,638	156,824
Total revenues	1,894,518	1,581,897	1,769,589	1,812,827	1,845,447
Cost of revenues (1):					
Online advertising:					
Brand advertising	383,187	371,066	363,624	184,473	126,406
Search and search-related advertising	238,944	290,158	412,904	664,164	703,144
Subtotal of cost of online advertising revenues	622,131	661,224	776,528	848,637	829,550
Online games	156,315	96,168	62,775	60,981	88,992
Others	51,387	56,457	110,965	72,868	63,553
Total cost of revenues	829,833	813,849	950,268	982,486	982,095
Gross profit	1,064,685	768,048	819,321	830,341	863,352
Operating expenses:					
Product development (1)	398,143	353,144	412,173	441,161	419,114
Sales and marketing (1)	372,572	418,427	390,423	380,290	340,840
General and administrative (1)	170,829	116,301	119,041	108,764	95,773
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	40,324	0	86,882	16,369	7,245
Total operating expenses	981,868	887,872	1,008,519	946,584	862,972
Operating profit /(loss)	82,817	(119,824)	(189,198)	(116,243)	380
Other income /(expense), net	74,859	(10,893)	6,697	64,724	21,948
Interest income	30,642	22,499	24,138	24,074	10,546
Interest expense	(7,184)	(1,356)	(4,088)	(17,538)	(14,370)
Exchange difference	5,337	12,803	(14,385)	9,026	3,279
Income /(loss) before income tax expense /(benefit)	186,471	(96,771)	(176,836)	(35,957)	21,783
Income tax expense /(benefit)	76,260	23,340	272,636	(13,433)	31,176
Net income /(loss) from continuing operations	110,211	(120,111)	(449,472)	(22,524)	(9,393)
Net income /(loss) from discontinued operations, net of tax	(1,356)	5,138	(20,531)	(44,835)	(33,998)
Net income /(loss)	108,855	(114,973)	(470,003)	(67,359)	(43,391)
Less: Net income from continuing operations attributable to the noncontrolling interest shareholders					
Dividend or deemed dividend to noncontrolling Sogou Pre-IPO Series A Preferred shareholders	146,982	107,434	91,076	107,318	117,177
Less: Net income /(loss) from discontinued operations attributable to the noncontrolling interest shareholders	11,911	0	0	0	0
Net loss from continuing operations attributable to Sohu.com Limited	(440)	1,614	(6,553)	(14,595)	(11,232)
Net loss from discontinued operations attributable to Sohu.com Limited	\$ (48,682)	\$ (227,545)	\$ (540,548)	\$ (129,842)	\$ (126,570)

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Net income /(loss) from discontinued operations attributable to Sohu.com Limited	(916)	3,524	(13,978)	(30,240)	(22,766)
Net loss attributable to Sohu.com Limited	<u>(49,598)</u>	<u>\$ (224,021)</u>	<u>\$ (554,526)</u>	<u>\$ (160,082)</u>	<u>\$ (149,336)</u>
Net income /(loss)	\$ 108,855	\$ (114,973)	\$ (470,003)	\$ (67,359)	\$ (43,391)
Other comprehensive income /(loss)	<u>(87,655)</u>	<u>(77,155)</u>	<u>68,429</u>	<u>(37,339)</u>	<u>(13,069)</u>
Comprehensive income /(loss)	<u>21,200</u>	<u>(192,128)</u>	<u>(401,574)</u>	<u>(104,698)</u>	<u>(56,460)</u>
Less: Comprehensive income attributable to noncontrolling interest shareholders	118,138	78,824	117,960	61,376	93,244
Dividend or deemed dividend to noncontrolling Sogou Pre-IPO Series A Preferred shareholders	<u>11,911</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Comprehensive loss attributable to Sohu.com Limited.	<u>(108,849)</u>	<u>(270,952)</u>	<u>(519,534)</u>	<u>(166,074)</u>	<u>(149,704)</u>
Basic net loss per ADS					
Continuing operations	\$ (1.26)	\$ (5.88)	\$ (13.91)	\$ (3.33)	\$ (3.22)
Discontinued operations	(0.02)	0.09	(0.36)	(0.78)	(0.58)
Net loss per share	<u>(1.28)</u>	<u>(5.79)</u>	<u>(14.27)</u>	<u>(4.11)</u>	<u>(3.80)</u>
Shares used in computing basic net loss per ADS	<u>38,598</u>	<u>38,706</u>	<u>38,858</u>	<u>38,959</u>	<u>39,249</u>
Diluted net loss per ADS					
Continuing operations	\$ (1.29)	\$ (5.92)	\$ (13.95)	\$ (3.36)	\$ (3.25)
Discontinued operations	(0.03)	0.09	(0.35)	(0.77)	(0.58)
Net loss per share	<u>(1.32)</u>	<u>(5.83)</u>	<u>(14.30)</u>	<u>(4.13)</u>	<u>(3.83)</u>
Shares used in computing diluted net loss per ADS	<u>38,598</u>	<u>38,706</u>	<u>38,858</u>	<u>38,959</u>	<u>39,249</u>

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

	Year Ended December 31,				
	2015	2016	2017	2018	2019
	(In thousands)				
Cost of revenues	\$ 1,748	\$ 366	\$ 198	\$ (69)	\$ 615
Product development expenses	19,344	9,184	23,547	6,131	12,063
Sales and marketing expenses	3,054	2,394	5,915	405	3,398
General and administrative expenses	29,297	7,176	15,817	(4,372)	2,175

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

Selected Consolidated Balance Sheet Data

	As of December 31,				
	2015	2016	2017	2018	2019
	(In thousands)				
Balance Sheets Data:					
Cash and cash equivalents	\$1,244,674	\$1,050,809	\$1,363,853	\$ 819,485	\$ 305,126
Restricted cash	0	0	3,928	3,539	8,661
Restricted time deposits	363,979	269	271	244,179	240
Working capital	835,144	918,520	1,474,699	1,133,680	916,875
Total assets	3,063,685	2,590,679	3,439,943	3,370,847	2,689,790
Short-term bank loans	344,500	0	61,216	129,677	114,528
Long-term bank loans	0	0	122,433	302,323	0
Total liabilities	1,332,933	1,032,884	1,622,706	1,817,896	1,382,873
Ordinary Shares: \$0.001 par value per share (75,400 shares authorized; 38,653 shares, 38,742 shares, 38,898 shares, 39,229 shares, and 39,269 shares, respectively, issued and outstanding as of December 31, 2015, 2016, 2017, 2018 and 2019)	45	45	45	39	39
Total Sohu.com Limited shareholders' equity	1,241,022	993,580	750,634	588,840	428,454
Noncontrolling interest	489,730	564,215	1,066,603	964,111	878,463
Total shareholders' equity	1,730,752	1,557,795	1,817,237	1,552,951	1,306,917

Risk Factors

Risks Related to Our Business

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

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

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

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

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

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

For the year ended December 31, 2019, 58% of our total revenues were derived from Sogou's search and search-related advertising services, and 17% of our total revenues and 72% of our online game revenues were derived from TLBB and Legacy TLBB Mobile. If Sogou's search and search-related advertising revenues do not continue to grow or if they decrease, if Changyou's revenues from TLBB and Legacy TLBB Mobile continue to decline as they have in recent years, or if Changyou's online game revenues from games other than TLBB and Legacy TLBB Mobile do not grow or if they decrease, our revenues, net income, and operating cash flows will be adversely affected. Furthermore, any interruptions in Sogou's search and search-related advertising services or in TLBB's and Legacy TLBB Mobile's operations could cause significant decreases in our revenues, net income, and operating cash flow. For example, Sogou suspended part of its advertising services for 10 days in July 2018 in order to implement remedial measures to ensure compliance with government regulations following a government investigation into certain non-compliant advertisements created by a third party unrelated to Sogou and displayed on Sogou's platform. See "Risks Related to Sogou Inc.—Sogou Risks Related to China's Regulatory and Economic Environment—Sogou may be subject to regulatory investigations and sanctions for inappropriate or illegal content that is accessed through its search results."

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

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

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

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

Our competitors may have certain competitive advantages over us including:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

As a component of our growth strategy, we have acquired and intend to actively identify and acquire assets, technologies and businesses that are complementary to our existing businesses. Our acquisitions could result in the use of substantial amounts of cash, issuance of potentially dilutive equity securities, significant impairment losses related to goodwill or amortization expenses related to intangible assets and exposure to undisclosed or potential liabilities of acquired companies. Companies that we have invested in could be adversely affected by the novel coronavirus disease ("COVID-19") outbreak, which may lead to impairment in the fair values of our investments and in turn adversely affect our financial condition and operating results. In 2014 Changyou recognized a \$33.8 million impairment loss for goodwill and a \$15.3 million impairment loss for acquired intangible assets related to RaidCall, and Changyou ceased RaidCall's operations in the first quarter of 2019; in 2015 Changyou sold Doyo and recognized a \$1.9 million impairment loss for goodwill; in 2015 Changyou recognized a \$29.6 million impairment loss for goodwill and an \$8.9 million impairment loss for acquired intangible assets relating to the MoboTap business; in 2017 Changyou recognized a further \$83.5 million impairment loss for goodwill and a \$3.4 million impairment loss for intangible assets relating to the MoboTap business, as a result of our management's conclusion that expected synergies would not materialize; in 2018 Changyou recognized a \$16.4 million impairment loss for goodwill relating to the 17173.com Website and sold MoboTap; and in 2019 Changyou ceased operation of its cinema advertising business, as the business had generated significant net losses in 2017 and 2018 and efforts to eliminate the losses were unsuccessful, and recognized a \$17.0 million impairment loss related to the assets of the business. In 2019, Sohu recognized a \$7.2 million impairment loss for a domain name related to the 56.com Website, mainly due to enhanced restrictions that Chinese regulatory authorities imposed on the broadcasting industry that had an adverse impact on the business of the 56.com Website. Also in 2019, the Sohu Group recognized a total of \$34.1 million in impairment losses for equity investments in third-party entities.

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

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

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

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

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

The growth of personnel requires significant time and resource commitments from us and our senior management. If we are unable to effectively manage a large and geographically dispersed group of employees or anticipate our future growth, our business could be adversely affected. As we have approximately 7,800 employees, it can be difficult for us to fully monitor each employee's behavior. In addition, as we have several branch offices in China, it is harder for us to monitor and regulate the overall behavior of our branch offices or of individual employees at such branch offices, to effectively implement our strategy to local offices and to manage the growth of these local operations. We cannot assure you that we will be able to maintain policies and procedures that are rigorous enough or that we will be able to cause all of our employees or all of our branch offices to behave in conformity with those policies and procedures, or to ensure that our employees will not engage in conduct that could expose us to third-party liability or governmental sanctions, which may limit our future growth and hamper our business strategy. Additionally, our business relies on our financial reporting and data systems (including our systems for billing users of our fee-based services), which have grown increasingly complex in recent years, due to acquisitions and the diversification and complexity of our business. Our ability to operate our business efficiently depends on these systems, and if we are unable to adapt to these changes, our business could be adversely affected.

Moreover, to keep pace with the rapidly developing and evolving Internet industry, we must explore new products, services or revenue models for our business. For example, in addition to using traditional advertising forms, we have begun to embed product placements in our self-developed content. Since we have limited experience in these business areas, we may fail to manage growth and adapt to industry trends and business models.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We cannot be certain that the products, services and intellectual property used in our normal course of business do not or will not infringe valid patents, copyrights or other intellectual property rights held by third parties. We have in the past been, and may in the future be, subject to claims and legal proceedings relating to the intellectual property of others in the ordinary course of our business and have in the past been, and may in the future be, required to pay damages or to agree to restrict our activities. In particular, if we are found to have violated the intellectual property rights of others, we may be enjoined from using such intellectual property, may be ordered to pay damages or fines, and may incur licensing fees or be forced to develop alternatives. We may incur substantial expense in defending against third party infringement claims, regardless of their merit. Successful infringement claims against us may result in substantial monetary liability or may materially disrupt the conduct of our business by restricting or prohibiting our use of the intellectual property in question. In March 2008, we were sued by four major record companies, Sony BMG, Warner, Universal and Gold Label, which alleged that we had provided music search links and download services that violated copyrights they owned. Although the lawsuits were settled in 2013 without any payment of damages by us, we may be subject to similar lawsuits in the future. In addition, it is possible that content on our Websites and Sohu News App, which not only includes content developed by us but also provides a platform for a significant amount of content generated by others, may violate the intellectual property rights of third parties. As we produce more self-developed content for our Internet platforms as part of our new content strategy, we, as the primary provider of such content, may incur relatively higher monetary liability if such content is found to have infringed the intellectual property rights of third parties. Also, as we increasingly rely on content provided by third-party UGC and PGC providers on our Internet platforms, either developed by the outlets themselves or adapted from content of parties separate from such outlets, it will become increasingly difficult for us to fully monitor such content, which could make us more vulnerable to potential infringement claims. Furthermore, PRC governmental authorities have recently been drawing attention to issues regarding the infringement of online intellectual property rights. For example, a governmental program, called the “Jian Wang Campaign,” aimed at cracking down on network copyright infringement, has been in effect for several years. The Jian Wang 2019 Campaign, which targets copyright infringement related to online transmission of movies and oversees the protection of software and hardware intellectual property related to streaming media and the protection of photographs, was launched on April 26, 2019.

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

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

We could be exposed to liability for the selection of listings that may be accessible through our Internet platforms or through content and materials that our users may post in classifieds, message boards, and 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 and subscription services, which expose us to potential liabilities or claims resulting from:

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

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

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

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

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

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

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

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

We face risks related to natural disasters, terrorist attacks, and health epidemics, such as the recent outbreak of COVID-19, a novel strain of the coronavirus.

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

The COVID-19 emerged as an epidemic in late December 2019 and has spread rapidly to become a worldwide pandemic. In response to the emergence of the COVID-19 virus, the Chinese government implemented several control measures, including extending the Chinese New Year holiday beyond its original ending date, closing schools, limiting travel within China, and encouraging employees of companies to work from home. The COVID-19 outbreak has had during the first quarter of 2020, and may continue during the remainder of 2020 to have, a significant negative impact on the Chinese economy, and on our business. For example, in the first quarter of 2020, our brand advertising customers curtailed their spending on online advertising, which curtailment may continue, and which has had and may continue to have an adverse impact on our results of operations. Moreover, the control measures lowered work efficiency and productivity for many businesses in China, and Changyou’s upgrading of existing games, as well as the development and launch of new games, was somewhat delayed during the first quarter of 2020, which delays may continue. As a result of the deterioration of the Chinese economy, some of our advertising customers may require additional time to pay us or fail to pay us at all, which could require us to record additional allowances for any potential uncollectible amounts. For Sogou’s business, although Sogou believes that one effect during the first quarter of 2020 of measures taken to control the COVID-19 virus has been an increase in Sogou’s user traffic as individuals confined to their homes spent more time online than they would have otherwise, which trend may continue, Sogou’s traffic acquisition costs also increased significantly during the first quarter of 2020, and they may continue at a relatively higher level while control measures for COVID-19 remain in effect, which would have an adverse impact on our results of operations. The extent to which COVID-19 impacts our results during the remainder of 2020 will depend on future developments, including the possibility of a resurgence of the COVID-19 outbreak in China, which remain uncertain and difficult to predict.

We do not have business insurance coverage.

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

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

We generate a portion of our revenues from the sale of advertising for posting on our Internet platforms. Brand advertising revenues represented approximately 9% and 13% of our total revenues for the years ended December 31, 2019 and 2018, respectively. For the years ended December 31, 2019 and 2018, sales to our five largest advertising agencies and advertisers accounted for approximately 28% and 22%, respectively, of our total brand advertising revenues. The growth of our brand advertising revenues relies on increased revenue from the sale of advertising for posting our Internet platforms, which may be affected by many of the following risk factors:

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

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

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

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

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

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

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

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

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

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

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

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

Most of our brand advertising services are distributed by advertising agencies. In 2019, for example, approximately 70% of our brand advertising revenues were derived from advertising agencies. In consideration for these agencies' services, we are required to pay certain percentages of revenues as sales rebates. As the brand advertising market is effectively controlled by a small number of large advertising agencies, such advertising agencies may be in a position to demand higher sales rebates based on increased bargaining power, or to delay in payments to us, which could negatively affect our brand advertising growth and the timing of our collection of payments. During 2019 the biggest five advertising agencies in China contributed approximately 28% of our brand advertising revenues.

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

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

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

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

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

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

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

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

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

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

Risks Related to China's Telecommunications Infrastructure

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Corporate Structure

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

Sohu has made significant expenditures in recent years, and expects to continue to do so through the current fiscal year. Although we hold a significant amount of cash and cash equivalents in the Sohu Group, the amount of cash directly available to Sohu, without including cash and cash equivalents of our subsidiaries Sogou and Changyou, is limited. Of approximately \$305.1 million in cash and cash equivalents that we held in the Sohu Group on a consolidated basis as of December 31, 2019, approximately \$68.2 million was held by Sohu, approximately \$142.5 million was held by Sogou, and approximately \$94.4 million was held by Changyou.

Sohu can obtain access, for use in its business, to cash held or generated by Sogou and Changyou only through dividends paid by Sogou or Changyou, as applicable, to shareholders, or through loans made by Sogou or Changyou to Sohu. In addition, payment of dividends by Sogou is subject to approval of the board of directors of Sogou. In addition, cash held by Mainland China-based subsidiaries and VIEs of Sogou and Changyou can only be available for distribution by Sogou or Changyou as dividends to shareholders after compliance with restrictions and requirements imposed by PRC law, including PRC profit appropriation and PRC withholding tax, that will reduce the amount available for such subsidiaries and VIEs to distribute to Sogou Inc. and Changyou.com Limited for payment of dividends to their shareholders. Further, payments of such dividends by Sogou would reduce the cash and cash equivalents of the Sohu Group as a whole, as non-controlling shareholders of Sogou would be entitled to a pro rata share of such dividends. See “Risks Related to China’s Regulatory Environment -Our Offshore entities may need to rely on dividends and other distributions on equity paid by our Mainland China-based subsidiaries, including the Mainland China-based subsidiaries of Sogou and Changyou, to fund any cash requirements those Offshore entities may have. Our Offshore entities may not be able to obtain cash from distributions because our subsidiaries and VIEs in Mainland China are subject to restrictions imposed by PRC law on paying such dividends or making other payments,” and “- Dividends we receive from our operating subsidiaries located in the PRC are subject to PRC profit appropriation and PRC withholding tax.”

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

Moreover, it could be difficult for Sohu to have sufficient cash available to fund its future expenditures without obtaining debt or equity financing from sources other than within the Sohu Group, which might not be available on acceptable terms, if at all.

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

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

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

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

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

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

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

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

As of December 31, 2019, Sohu had outstanding long-term loans of \$7.7 million to Dr. Charles Zhang and to certain PRC entities owned by Dr. Zhang and/or certain other employees. These long-term loans were used to finance investments in our VIEs Beijing Century High-Tech Investment Co., Ltd. (“High Century”), Beijing Heng Da Yi Tong Information Technology Co., Ltd. (“Heng Da Yi Tong”), Tianjin Jinhu Culture Development Co., Ltd. (“Tianjin Jinhu”), Beijing Sogou Information Service Co., Ltd. (“Sogou Information”), Beijing Gamease Age Digital Technology Co., Ltd. (“Gamease”), and Beijing Guanyou Gamespace Digital Technology Co., Ltd. (“Guanyou Gamespace”), which are used to facilitate our participation in telecommunications, Internet content, online games and certain other businesses in China where foreign ownership is either prohibited or restricted.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to China's Regulatory Environment

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

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

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

- structure;
- level of government involvement;
- level of development;
- level of capital reinvestment;
- growth rate;
- control of foreign exchange; and
- methods of allocating resources.

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

While the Chinese economy has grown significantly over the past 30 years, the growth has been uneven geographically among various sectors of the economy, and during different periods. The Chinese economy may not continue to grow, and if there is growth, such growth may not be steady and uniform; if there is a slowdown, such a slowdown may have a negative effect on our business. The Chinese economy experienced high inflation in 2010 and 2011, and to curb the accelerating inflation the PBOC, China's central bank, raised benchmark interest rates three times in 2011. The level of exports from the PRC also declined significantly recently. According to the National Bureau of Statistics of China, the growth rate of China's gross domestic product, compared to that of the same period in the previous year, slowed from 7.4% in 2014, to 6.9% in 2015, to 6.7% in 2016, to 6.9% in 2017, to 6.6% in 2018, and to 6.1% in 2019. Various macroeconomic measures and monetary policies adopted by the PRC government to guide economic growth and manage inflation and the allocation of resources may not be effective in sustaining the growth rate of the Chinese economy. In addition, such measures, even if they benefit the overall Chinese economy in the long run, may have an adverse effect on us if they reduce the amount of money that our existing or future advertisers devote to online advertising.

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

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

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

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

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

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

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

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

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

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

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

PRC laws, rules, and regulations governing the online lending industry and microcredit businesses are at a relatively early stage, and can be expected to continue to evolve. Sogou has initiated an online lending and microcredit program using its credit risk management. Although Sogou is implementing measures intended to comply with applicable PRC laws and regulations governing its online lending and microcredit program, PRC governmental authorities may promulgate new rules and regulations regulating the online lending industry and microcredit businesses. Moreover, developments in the online lending industry and microcredit businesses may lead to changes in PRC laws, rules, and regulations or in the interpretation and application of existing laws, rules, and regulations that may limit or restrict online lending industry and microcredit businesses. Therefore, it is possible that Sogou's practices would be deemed by PRC governmental authorities or PRC courts to violate existing or any future PRC laws, rules, and regulations. Failure to comply with such laws and regulations could result in Sogou's being subject to, among other things, regulatory warnings, fines, or criminal penalties, and Sogou could also be prohibited from conducting its current online lending business in the future.

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

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

PRC laws and regulations, such as the M&A Rules, which were jointly issued by six PRC regulatory agencies on August 8, 2006 and were amended on June 22, 2009, the Anti-Monopoly Law, Circular 6 and the MOFCOM Security Review Rules, established additional procedures and requirements that are expected to make merger and acquisition activities in China by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a PRC domestic enterprise, or that the approval from the MOFCOM be obtained in circumstances where overseas companies established or controlled by PRC enterprises or residents acquire affiliated domestic companies. PRC laws and regulations also require certain merger and acquisition transactions to be subject to a merger control security review. The MOFCOM Security Review Rules, effective from September 1, 2011, further provide that, when deciding whether a specific merger or acquisition of a domestic enterprise by foreign investors is subject to a security review by the MOFCOM, the principle of substance over form should be applied and foreign investors are prohibited from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements of Offshore transaction. Factors that the MOFCOM considers in its review are whether (i) an important industry is involved, (ii) such transaction involves factors that have had or may have an impact on national economic security and (iii) such transaction will lead to a change in control of a domestic enterprise that holds a well-known PRC trademark or a time-honored PRC brand. If a business of any target company that we plan to acquire falls into the ambit of security review, we may not be able to successfully acquire such company. Complying with the requirements of the relevant regulation to complete any such transaction could be time-consuming, and any required approval process, including approval from the MOFCOM, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may be subject to the PRC government's ongoing crackdown on Internet pornographic content.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We may suffer currency exchange losses if the RMB depreciates relative to the U.S. dollar.

Our reporting currency is the U.S. dollar. However, substantially all of our revenues are denominated in RMB. In July 2005, China reformed its exchange rate regime by establishing a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. The RMB is no longer pegged to the U.S. dollar and the exchange rate will have some flexibility. Hence, considering the floating exchange rate regime, if the RMB depreciates relative to the U.S. dollar, our revenues as expressed in our U.S. dollar financial statements will decline in value. Also, we currently have outstanding loans from overseas banks that are denominated in U.S. dollars. To repay these loans, we will need to first convert our cash denominated in RMB into U.S. dollars. If the RMB depreciates relative to the U.S. dollar, we will have to use a larger amount of cash in RMB for any such loan repayment.

On May 19, 2007, the PBOC announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.3% to 0.5%. While the international reactions to the RMB revaluation and widening of the RMB’s daily trading band have generally been positive, with the increased floating range of the RMB’s value against foreign currencies, the RMB may appreciate or depreciate significantly in value against the U.S. dollar or other foreign currencies in the long term, depending on the fluctuation of the basket of currencies against which it is currently valued. On June 19, 2010, the PBOC announced that it has decided to proceed further with the reform of the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate and that emphasis would be placed on reflecting market supply and demand with reference to a basket of currencies. While so indicating its intention to make the RMB’s exchange rate more flexible, the PBOC ruled out any sharp fluctuations in the currency or a one-off adjustment. On April 16, 2012, the PBOC enlarged the floating band of RMB’s trading prices against the U.S. dollar in the inter-bank spot foreign exchange market from 0.5% to 1% around the middle rate released by the China Foreign Exchange Trade System each day. In February 2014, the center point of the currency’s official trading band hit 6.1146, representing appreciation of more than 11.7% since June 19, 2010. On March 17, 2014, the PBOC announced a policy to further expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market to 2%. Through 2016 the RMB continued its significant depreciation. The center point of the currency’s official trading band was 6.5486 in January 2016, and was 6.9189 in December 2016, which contributed to a decline in our revenues reported in U.S. dollars. In 2018 and 2019, the RMB exchange rate against the U.S. dollar again depreciated significantly, mainly due to changes in political and economic conditions, including trade friction between China and the U.S. The center-point of the currency’s official trading band was 6.4395 and 6.7953, respectively, in January 2018 and 2019, and was 6.8844 and 7.0129, respectively, in December 2018 and 2019, which lead to a decline in our revenues reported in U.S. dollars and an increase in the amount of cash in RMB necessary to meet our repayment obligations for U.S. dollar-denominated Offshore loans. In addition, there are very limited hedging transactions available in China to reduce our exposure to exchange rate fluctuations. While we may decide to enter into hedging transactions in the future, the availability and effectiveness of these hedges may be limited and we may not be able to successfully hedge our exposure, if at all. In addition, our currency exchange losses may be magnified by PRC exchange control regulations that restrict our ability to convert RMB into U.S. dollars.

Risks Related to Our Ordinary Shares and ADSs

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

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

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

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

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

Our ADSs, each representing one ordinary share, have traded on the NASDAQ Global Select Market in place of the common stock of Sohu.com Inc. since the dissolution of Sohu.com Inc. on May 31, 2018. During 2017 the trading price of Sohu.com Inc.'s common stock ranged from a low of \$34.59 per share to a high of \$70.86 per share, and during 2018, the trading price per share of Sohu.com Inc.'s common stock, until May 31, 2018, and the trading price of our ADSs, after May 31, 2018, ranged from a low of \$15.89 per ADS to a high of \$47.98 per ADS. During 2019, the trading price of our ADSs ranged from a low of \$8.79 to a high of \$22.71. On March 31, 2020, the closing price of our ADSs was \$6.23 per ADS.

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

The price for our ADSs may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products and media properties by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions. Further, volatility or a lack of positive performance in our ADS price may adversely affect our ability to retain key employees, all of whom have been granted share options or other share incentive awards.

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

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

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

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

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

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

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

ADS holders will experience dilution as outstanding share options are exercised

ADS holders will experience dilution to the extent that additional ordinary shares are issued upon exercise of outstanding options that we may grant from time to time. As of December 31, 2019, there were outstanding options for the purchase of 128,250 ordinary shares at a nominal price.

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

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

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

Additional sales of our ADSs or ordinary shares in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. As of December 31, 2019, there were 39,268,698 of our ordinary shares outstanding. As of December 31, 2019, there were outstanding options for the purchase of 128,250 ordinary shares at a nominal price. In addition, we may grant or sell additional options, restricted shares or other share-based awards in the future under our share incentive plan to our management, employees and other persons, the settlement and sale of which may further dilute our shares and drive down the price of our ADSs.

We believe that we may be classified as a passive foreign investment company, or PFIC, for the 2019 taxable year, which would likely result in adverse United States federal income tax consequences to U.S. holders of our ADSs or ordinary shares.

We believe that we may have been classified as a PFIC for United States federal income tax purposes for our 2019 taxable year ended November 30, 2019. There can be no assurance that we will not continue to be classified as a PFIC in the current taxable year or in any future taxable year. The determination of whether we would continue to be treated as a PFIC is based in significant part on our operations and the composition of our earnings and assets (including goodwill) for a given taxable year, including the valuation of our assets based on the market price of our ADSs.

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

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

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

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

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

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

Dr. Charles Zhang, our Chairman and Chief Executive Officer, beneficially owns approximately 25.6% of our outstanding ordinary shares and is our largest shareholder. Our executive officers and members of our Board of Directors as a group, including Dr. Zhang, beneficially own approximately 26.2% of our outstanding ordinary shares. Accordingly, these shareholders will have significant influence in determining the outcome of any corporate transaction or other matters submitted to the shareholders for approval, including mergers, consolidations, the sale of all or substantially all of our assets, election of directors and other significant corporate actions. They will also have significant influence in preventing or causing a change in control. In addition, without the consent of these shareholders, we may be prevented from entering into transactions that could be beneficial to us. The interests of these shareholders may differ from the interests of the other shareholders.

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

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

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

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

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

Proceedings instituted by the Securities and Exchange Commission (the “SEC”) against PRC affiliates of the “big four” accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Securities Exchange Act of 1934 (the “Exchange Act”).

Starting in 2011, the PRC affiliates of the “big four” accounting firms, including our independent registered public accounting firm, were affected by a conflict between U.S. and PRC law. Specifically, for certain U.S.-listed companies operating and audited in mainland China, the SEC and the U.S. Public Company Accounting Oversight Board (the “PCAOB”) sought to obtain from the PRC big four affiliate firms access to their audit work papers and related documents. The firms were, however, advised and directed that under PRC law they could not respond directly to the U.S. regulators on those requests, and that requests by foreign regulators for access to such papers in China had to be channeled through the CSRC. On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by these U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. However, it remains unclear what further actions the SEC and the PCAOB will take to address the problem.

In late 2012, the impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and under the Sarbanes-Oxley Act of 2002 against the PRC big four affiliate accounting firms, including our independent registered public accounting firm. A first instance trial of the proceedings in July 2013 in the SEC’s internal administrative court resulted in an adverse judgment against the firms. The administrative law judge proposed penalties on the firms, including a temporary suspension of their right to practice before the SEC, although that proposed penalty did not take effect pending review by the Commissioners of the SEC. On February 6, 2015, before a review by the Commissioners had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepted that future requests by the SEC for the production of documents would normally be made to the CSRC. The firms were to receive matching requests, and were required to abide by a detailed set of procedures with respect to such requests, which in substance required them to facilitate production via the CSRC. If they failed to meet specified criteria during a period of four years starting from the settlement date, the SEC retained authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Under the terms of the settlement, the underlying proceeding against the four China-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. While we cannot predict if the SEC will further challenge the four China-based accounting firms’ compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if such a challenge would result in the SEC imposing penalties such as suspensions of the right to practice. If additional remedial measures are imposed on the Chinese affiliates of the “big four” accounting firms, including our independent registered public accounting firm, we could be unable to timely file future financial statements in compliance with the requirements of the Exchange Act.

In the event that the Chinese affiliates of the “big four” become subject to additional legal challenges by the SEC or the PCAOB, depending upon the final outcome, listed companies in the United States with major PRC operations could find it difficult or impossible to retain auditors in respect of their operations in China. If our independent registered public accounting firm was denied, even temporarily, the ability to practice before the SEC and we were unable to timely find another registered public accounting firm to audit and issue an opinion on our financial statements, our financial statements could be determined not to be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to the delisting of our ADSs and ordinary shares from the Nasdaq Global Select Market or termination of the registration of our ordinary shares under the Exchange Act, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Risks Related to Our Financing Activities

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

Sogou’s American depositary shares (“Sogou ADSs”) are listed and traded on the New York Stock Exchange. Given that Sogou is not a wholly-owned subsidiary of Sohu, it is possible that Sohu’s and Sogou’s interests could diverge in the future, as we may need to consider the interests of shareholders of Sogou other than Sohu. If Sogou’s interests differ from, or are contrary to, our interests, our business operations may be adversely affected, and Sohu may have disagreements with Sogou on certain matters that could also have an adverse effect on our business.

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If we default on loans that we have taken out to fund the operations of our Sohu businesses and our acquisition of the non-controlling interests in our subsidiary Changyou, we could lose valuable assets that we have pledged to secure the loans, which include two buildings in Beijing and our shares in Changyou, as well as other valuable assets.

In order to fund the cash needs of our Sohu businesses, we have entered into loan arrangements with Industrial and Commercial Bank of China Limited (“ICBC”) and China Merchants Bank (“CMB”). Under these loan arrangements, we have pledged one of our Beijing buildings to secure advances from ICBC, and another of our Beijing buildings to secure advances from CMB.

In addition, in order to fund our acquisition of the non-controlling interests in our subsidiary Changyou, we have entered into a separate loan arrangement with ICBC and Industrial and Commercial Bank of China Limited, Tokyo Branch (“ICBC Tokyo”), with a pledge of 98.6% of the outstanding equity interests in Changyou to secure advances from ICBC Tokyo.

If we were to default under any of these loan arrangements, the affected lender or lenders would be entitled, among other remedies, to seize the corresponding pledged assets, all of which have significant value, and could potentially also seize other valuable assets of ours, to cover any shortfalls in amounts due under the loans. See Note 11: “Fair Value Measurements – Other Financial Instruments – Short Term Bank Loans” and “– Long Term Payables” and Note 10: “Intra-Group Loan and Share Pledge Arrangement” to our audited consolidated financial statements, which begin on page F-1 of this report.

Risks Related to Sogou Inc.

Risks Related to Sogou’s Business

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

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

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

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

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

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

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

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

Sogou has extensive collaboration with Tencent, one of its largest shareholders. Sogou Search is the default general search engine in various Tencent products that provide general search offerings, such as Mobile QQ Browser, *qq.com*, and the PC Web directories *daohang.qq.com* and *hao.qq.com*. Approximately 35% of Sogou's total search traffic, measured by page views, was contributed by Tencent's Internet properties in December 2019. Sogou Weixin Search is currently the sole general search engine with access to all content published on Weixin Official Accounts, but it is possible that Tencent will grant such access to other general search engines. We cannot assure you that Sogou will be able to maintain the current level of cooperation with Tencent in the future. If Sogou's collaborative relationship with Tencent is terminated or curtailed due to Tencent's initiating its own general search service or partnering with other search engine companies, or if any of the commercial terms were to be revised or made less favorable to Sogou, or if Tencent does not continue to deliver to Sogou an adequate level of access to its platforms or adequately promote Sogou's products and services, Sogou's business and prospects will be adversely affected.

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

In September 2018, Sogou and Tencent agreed to extend until September 2023 the period during which Sogou Search will be the default general search engine for Tencent's products that provide general search offerings in accordance with Sogou's existing business collaboration arrangements with Tencent. In addition, Sogou and Tencent have agreed to continue from September 2019 until September 2020 Sogou's initiative for the integration into the existing Weixin/WeChat search service of a search function powered by Sogou Search that allows Weixin/WeChat users to access Internet information outside Weixin/WeChat and have agreed that Sogou Search will be the preferred third-party search function to power such a Weixin/WeChat search function for that period provided Sogou Search meets "Tencent's requirements for user experience," and that the arrangement may be extended for additional successive one-year periods through September 2023 if offering Sogou Search will not "harm the user experience." It is difficult for us to predict the potential impact of the integration of Sogou Search to power such a Weixin/WeChat search function measured under the standards of "Tencent's requirements for user experience" and/or "harm the user experience." The potential for growth of Sogou's business through such integration will be limited if Tencent does not make Sogou Search the preferred search function or decides not to extend the arrangement for such integration and a Tencent search function or a search function of one of Sogou's competitors is given priority over Sogou's in Weixin/WeChat.

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

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

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

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

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

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

Sogou has experienced growth in recent years. Sogou's revenues grew from \$908.4 million for the year ended December 31, 2017, to \$1.124 billion for the year ended December 31, 2018, and to US\$1.172 billion for the year ended December 31, 2019. Sogou's 2016 revenues were affected by tightened PRC regulation of the online advertising industry during 2016, which had an adverse impact on the search and search-related advertising market in China in general. The growth in Sogou's revenues during 2018 and 2019 was affected by slower growth in the mobile search market in China in 2018 and 2019, coupled with unfavorable macroeconomic conditions that impacted the online advertising industry in general, and regulatory headwinds in certain sectors such as online games. In addition, although Sogou's traffic acquisition costs as a percentage of revenue moderated during 2019, if Sogou's traffic acquisition costs trend higher in the future, as they did prior to 2019 due to intensifying competition for channel partnerships, it could be difficult for Sogou to sustain expenditures for traffic acquisition at the same level as Sogou's competitors, which could result in slower or flat growth, or even a reduction, in Sogou's user traffic, which would have a negative impact on Sogou's revenues and revenue growth prospects. Sogou may not be able to sustain a rate of growth in future periods similar to that it experienced in the past, and Sogou's revenues may even decline. Accordingly, you should not rely on the results of any prior period as an indication of Sogou's future financial and operating performance.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sogou regularly reviews DAU, MAU, number of advertisers, page views, and other operating metrics to evaluate growth trends, measure its performance, and make strategic decisions. These metrics are calculated using internal company data, have not been validated by an independent third party, and may not be indicative of Sogou's future financial results. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring how Sogou's platforms are used across a large population in China. For example, Sogou may not be able to distinguish individual users who have multiple accounts.

Errors or inaccuracies in Sogou's metrics or data could result in incorrect business decisions and inefficiencies. For instance, if a significant understatement or overstatement of active users were to occur, Sogou might expend resources to implement unnecessary business measures or fail to take required actions to remedy an unfavorable trend. If partners or investors do not perceive Sogou's user, geographic, or other operating metrics to accurately represent Sogou's user base, or if Sogou discovers inaccuracies in its user, geographic, or other operating metrics, its reputation may be harmed.

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

Certain facts, forecasts, and other statistics relating to the industries in which Sogou competes contained in this annual report have been derived from various public data sources and commissioned third-party industry reports. In connection with our preparation of this annual report, Sogou commissioned CVSC TNS Research (“CTR”) to update market research concerning the online search and AI industries in China, and Sogou also referred to market research reports of iResearch and IDC that Sogou had previously commissioned concerning the same industries in the United States. In deriving the market size of these industries, these industry consultants may have adopted different assumptions and estimates for certain metrics. While we generally believe such reports to be reliable, neither we nor Sogou has independently verified the accuracy or completeness of such information. Such reports may not be prepared on a comparable basis or may not be consistent with other sources.

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

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

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

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

From time to time, Sogou has been, and may in the future be, subject to lawsuits brought by its competitors, individuals, or other entities against it. Sogou is currently involved in several lawsuits in PRC courts where its competitors instituted proceedings or asserted counterclaims against it and Sogou instituted proceedings or asserted counterclaims against its competitors. For example, there are various legal proceedings currently pending between Sogou and Baidu in which Sogou alleges that Baidu’s input method infringes certain of Sogou’s patents relating to Sogou Input Method and seeks monetary damages, while Baidu has asserted in counterclaims or in legal proceeding that Baidu has initiated against Sogou that Sogou Input Method infringes certain of Baidu’s patents, and seeks monetary damages. There is also a lawsuit pending against Sogou in which Shanghai Cishu Publications Ltd. has alleged that Sogou used vocabulary content without permission and seeks monetary damages. In addition, Sogou is subject to ongoing unfair competition claims against it brought by Baidu and UCWeb, separately, as to which a PRC lower court has issued initial judgments against Sogou that both Sogou and Baidu have appealed, in which they allege that certain functions of Sogou Input Method unfairly divert users to Sogou, and seek monetary damages and cessation of the alleged unfair competitive practices. There are also two putative class action lawsuits that have been filed against Sogou in the United States, one in a State court in the State of California and one in the United States District Court for the Southern District of New York, that allege violations of U.S. securities laws in connection with Sogou’s IPO in 2017.

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

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

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

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

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

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

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

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

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

The online search industry in China is subject to extensive regulation. If content accessed through Sogou's search services includes information that PRC governmental authorities find illegal or inappropriate, Sogou may be required to curtail or even shut down its search services, and Sogou may be subject to other penalties. Although Sogou seeks to prevent fraudulent or otherwise illegal or inappropriate websites and information from being included in its search results, such measures may not be effective. For example, Sogou suspended part of Sogou's advertising services for 10 days in July 2018 in order to implement remedial measures to ensure compliance with government regulations following a government investigation into certain non-compliant advertisements created by a third party unrelated to Sogou and displayed on Sogou's platform in June 2018. See “Risks Related to China's Regulatory and Economic Environment—Regulation and censorship of information distribution in China may have an adverse effect on our business”; and “Risks Related to China's Regulatory and Economic Environment—The PRC government may prevent us from distributing, and we may be subject to liability for, content that it believes is inappropriate.”

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sogou Risks Related to China's Regulatory and Economic Environment

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

On April 13, 2016, the SAMR and sixteen other PRC government agencies jointly issued a *Notice of Campaign to Crack Down on Illegal Internet Finance Advertisements and Other Financial Activities in the Name of Investment Management*, or the Campaign Notice, pursuant to which a campaign was conducted between April 2016 and January 2017 targeting, among other things, online advertisements for Internet finance and other financial activities posted on online search portals such as Sogou's. The CAOC, issued the *Measures for the Administration of Online Information Search Services*, which became effective on August 1, 2016 and require that providers of online search services verify the credentials of pay-for-click advertisers, specify a maximum percentage that pay-for-click search results may represent of results on a search page, and require that providers of search services conspicuously identify pay-for-click search results as such. The SAMR issued the *Interim Measures for the Administration of Online Advertising* (the "SAMR Interim Measures"), which became effective on September 1, 2016 and treat pay-for-click search results as advertisements subject to PRC laws governing advertisements, require that pay-for-click search results be conspicuously identified on search result pages as advertisements and subject revenues from such advertisements to a 3% PRC tax that is applied to advertising revenues. In order to comply with these regulations, Sogou has established more stringent standards for selecting advertisers for its pay-for-click services and has turned down certain existing advertisers, and has lowered the percentage that pay-for-click search results represent of results on its search pages, which had an adverse impact on Sogou's search and search-related revenues and overall results of operations for 2016 and, along with the tax on advertising, are likely to continue to have such an impact. We cannot assure you that PRC governmental authorities will not issue new laws or regulations specifically regulating sponsored search services, which could further impact Sogou's revenues.

Sogou's efforts to develop an online lending and microcredit program could be limited by PRC regulation of the microcredit industry

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

Although Sogou is implementing measures intended to comply with applicable PRC laws and regulations regarding the online lending industry and microcredit businesses, due to the lack of clear interpretation and rules regarding the implementation of such laws and regulations, the measures it takes may not be sufficient to ensure such compliance. In addition, as PRC regulations governing the online lending industry and microcredit businesses are evolving and further regulations regarding certain aspects of the online lending industry and microcredit companies may be implemented, Sogou could be required to make changes to its existing practices. Failure to comply with such laws and regulations could result in its being subject to, among other things, regulatory warnings, fines, or criminal penalties, and Sogou could also be prohibited from conducting its current online lending business in the future. See “Government Regulation and Legal Uncertainties—Specific Statutes and Regulations—Regulation of Other Services—Regulation of Online Lending and Microcredit Services.”

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

In addition, the *Provisions Applicable to Private Lending Cases*, which were issued by the Supreme People’s Court effective September 1, 2015, (i) prohibit loans with interest rates exceeding 36% per annum, and provide that any excess paid must be returned to the borrower and (ii) provide that loans with interest rates between 24% and 36% per annum are generally permissible as long as they do not damage the interests of the state, the community, or any third parties other than the borrower. Accordingly, if Sogou makes or facilitates any loans that PRC governmental authorities or PRC courts calculate as having interest rates exceeding 36%, it may be required to return the excess and could be subject to fines or even criminal liability, and Sogou may not be able to collect interest rates between 24% and 36% per annum on loans with such interest rates that become delinquent if a PRC court determines that such interest rates damaged the state, the community, or any such third parties.

Risks Related to Changyou.com Limited

Risks Relating to Changyou’s Business and Industry

Overall Risks

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

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

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Changyou's past successes in its online games business with PC games may not provide a meaningful basis for you to evaluate its current business and prospects, as a substantial number of game players have migrated from personal computers to mobile devices to access online games and the relative popularity of PC games continues to decline. In response to such rapid migration, Changyou has devoted and Changyou expects to continue to devote substantial resources to the development of its mobile games as a critical component of its business strategy. However, Changyou's mobile games strategy has not been proven, and presents very different challenges from those presented in the past by its operation of PC games and Web games. Despite the early success of Changyou's mobile game TLBB 3D after Changyou introduced it in late 2014 and of Changyou's mobile game Legacy TLBB Mobile after Changyou launched it in May 2017, the popularity of, and the revenues generated from, TLBB 3D and Legacy TLBB Mobile continued to decline from 2018 through 2019. We cannot be certain that Changyou will be successful in its efforts to launch additional mobile games that generate sufficient revenues and income to sustain or grow Changyou's mobile game business.

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

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

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

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

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

- greater financial and technical resources;
- more aggressive and effective strategies for hiring talent for game development, which may make it difficult for Changyou to retain its existing employees and attract new employees, which are necessary for Changyou to be able to grow its business;

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- substantially greater financial resources and more effective methods for acquiring exclusive license rights to the titles, characters, themes and story lines of popular works in order to adapt online games from such works (which has become increasingly important for new online games to be successful);
- more aggressive and effective marketing strategies for promoting their online games and penetrating the mobile game market; and
- more capability for developing and releasing new software for mobile devices to attract a growing number of game players that access Internet products and services through mobile devices.

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

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

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

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

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

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

Changyou's revenues grew significantly in a relatively short period of time prior to 2014, but its revenue growth stalled in 2014 and 2015, and its revenues decreased in 2016. Primarily due to the commercial success of TLBB, Changyou's revenues grew from \$617.2 million for the year ended December 31, 2012 to \$724.6 million for the year ended December 31, 2013. However, Changyou's revenues increased only slightly to \$733.3 million and to \$761.6 million for the years ended December 31, 2014 and then decreased to \$719.1 million and to \$456.8 million, respectively, for the years ended December 31, 2015 and 2016. Although Changyou's revenues increased from 2016 to \$488.8 million for the year ended December 31, 2017, largely due to the early success of its mobile game Legacy TLBB Mobile, they remained below Changyou's revenues for 2013, 2014, and 2015, and its revenues decreased to \$415.6 million for the year ended December 31, 2018. While Changyou's revenues for the year ended December 31, 2019 increased to \$455.4 million as a result of improved performance of some of its older games and the successful launch of new games, Changyou is not likely to experience rates of revenue growth in the future similar to those that it experienced prior to 2014 and in 2019. Changyou suffered a net loss attributable to Changyou.com Limited of \$3.4 million for the year ended December 31, 2014. Changyou's net income attributable to Changyou.com Limited was \$212.8 million for the year ended December 31, 2015, but decreased to \$144.9 million for the year ended December 31, 2016, to \$108.8 million for the year ended December 31, 2017 and to \$84.3 million for the year ended December 31, 2018. Although Changyou's net income attributable to Changyou.com Limited increased to \$144.2 million for the year ended December 31, 2019, Changyou may experience declines in its revenues or suffer net losses in the future due to a number of factors, including, among other things, expected continued declines in TLBB's, Legacy TLBB Mobile's and TLBB 3D's revenues; the uncertain level of popularity of Changyou's future games; uncertainty as to Changyou's ability to develop and launch high-quality mobile games that are commercially successful; the relatively higher game development and distribution costs generally associated with mobile games; the need to expend greater amounts in order to develop or acquire new games, technologies, assets, and businesses; and uncertainty as to Changyou's ability to integrate such newly acquired games, technologies, assets and businesses. Accordingly, you should not rely on the results of any prior period as an indication of Changyou's future financial and operating performance.

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

Changyou has made acquisitions of, and may potentially acquire in the future, technologies, businesses or assets that are complementary to its business and/or enter into strategic alliances in order to leverage its position in the China market and expand its business domestically and internationally. Such acquisitions or strategic alliances may expose Changyou to potential risks, including risks associated with the integration of new technologies, businesses and personnel including its continued reliance on the management teams of the acquisition targets to operate the acquired businesses, unforeseen or hidden liabilities, the diversion of management attention and resources from its existing business, and the inability to generate sufficient revenues to offset the costs and expenses of acquisitions or strategic alliances. Any difficulties encountered in the acquisition and strategic alliance process may have an adverse effect on Changyou's ability to manage its business. In addition, acquired businesses may not perform to Changyou's expectations for various reasons, including the loss of key personnel or key clients, and Changyou's strategic focus may change. As a result, Changyou may not realize the benefits it anticipated. If Changyou fails to integrate acquired technologies, businesses and assets or realize the expected benefits, Changyou may not receive a return on its investment and its transaction costs for such acquisitions. The benefits of an acquisition or investment may also take considerable time to develop, and we cannot be certain that any particular acquisition or investment will produce the intended benefits, which could adversely affect its business and operating results. Acquisitions could result in contingent liabilities or amortization expenses related to intangible assets or write-offs of goodwill and/or intangible assets, and/or result in impairment losses related to assets of acquired businesses, which could adversely affect Changyou's results of operations. For example, in 2011, Changyou acquired the entities that operated Changyou's cinema advertising business; in December 2013 Changyou acquired RaidCall with the expectation of generating benefits from synergies with Changyou's online game business; in November 2013 Changyou acquired Beijing Doyo Internet Technology Co., Ltd. ("Doyo") with the expectation of generating benefits from synergies with its online advertising business; and in July 2014 Changyou acquired MoboTap, which operates the Dolphin Browser, with the expectation of generating benefits from synergies with Changyou's platform channel business. In 2014 Changyou recognized a \$33.8 million impairment loss for goodwill and a \$15.3 million impairment loss for acquired intangible assets related to RaidCall, and Changyou ceased RaidCall's operations in March 2019; in 2015 Changyou sold Doyo and recognized a \$1.9 million impairment loss for goodwill; in 2015 Changyou recognized a \$29.6 million impairment loss for goodwill and an \$8.9 million impairment loss for acquired intangible assets relating to the MoboTap business; and in 2017 Changyou recognized a further \$83.5 million impairment loss for goodwill and a \$3.4 million impairment loss for intangible assets relating to the MoboTap business, as a result of its management's conclusion that the expected synergies would not materialize; in 2018 Changyou recognized a \$16.4 million impairment loss for goodwill relating to the 17173.com Website and Changyou sold MoboTap; and in 2019 Changyou ceased operation of its cinema advertising business, as the business had generated significant net losses in 2017 and 2018 and Changyou's efforts to eliminate the losses were unsuccessful, and recognized a \$17.0 million impairment loss related to the assets of the business.

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

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

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

The Internet industry in China is characterized by high demand and intense competition for talent, particularly for game developers and related technical personnel, and Changyou's success in the implementation of its growth strategies depends on Changyou's ability to successfully manage, and make timely adjustments to, its hiring needs. The number of Changyou's employees decreased by 13.0% in 2017, by 13.7% in 2018, and by 14.8% in 2019, as Changyou emphasized the development of mobile games and laid off a number of employees who had been focused primarily on international markets and the platform channel business. These layoffs could have an adverse effect on Changyou's remaining employees' morale and their loyalty to Changyou, and cause Changyou to lose employees whose talent and experience are important for its business, and could also have a negative impact on its reputation as an employer and its ability to attract qualified employees in the future. Laid-off employees could also make claims against Changyou for additional compensation, causing Changyou to incur additional expense.

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

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

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

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

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

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

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

Risk Related to Online Games

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

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

- whether the online game industry, particularly in China and the rest of the Asia-Pacific region, continues to grow and the rate of any such growth;
- the availability and popularity of other forms of entertainment, particularly games on console systems, which are already popular in developed countries and may gain popularity in China;
- growth in users of the Internet and broadband and penetration in China and other markets in which Changyou offers its games, and the rate of any such growth;
- whether recent declines in the use of personal computers and growth in users of mobile devices such as smart phones and tablets in general, and for purposes of accessing online games in particular, continue or accelerate in China and other markets in which Changyou offers its games;
- changes in consumer demographics and public tastes and preferences; and
- general economic conditions in China, particularly economic conditions adversely affecting discretionary consumer spending, such as the slowdown in China's economic growth that occurred between the first quarter of 2010 and the third quarter of 2012 and from 2014 through 2019.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Further, even if Changyou develops or acquires license rights to a mobile game that is successful, the game's lifespan may be short, as even successful mobile games tend to have less sustained user loyalty than do successful PC games. For example, the revenues generated from Changyou's mobile game Legacy TLBB Mobile, which was launched in May 2017, declined sequentially from 2018 through 2019, which is typical for a mobile game. In addition, although a relatively large number of the mobile games available at any given time may be low-quality games that attract fewer game players than do high-quality games, such games may on an aggregate level have the effect of attracting away a significant number of game players who would otherwise play high-quality mobile games. In view of the uncertain lifespans of mobile games and the large quantity of mobile games competing for game players, it is necessary for Changyou to make considerable investments in order to have a number of mobile games, and particularly mobile games that have the potential to become high-quality hit games, in its pipeline.

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

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

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

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

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

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

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

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

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

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

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

- have an adverse impact on the way Changyou designs its games and game features, which may make the games less attractive to game players;
- have an adverse impact on Changyou's ability to achieve an acceptable level of revenues and profit from its mobile games;
- make it harder to access Changyou's mobile games and cause a decrease in its player base;
- increase the cost of the development and operation of Changyou's mobile games; and
- require substantial management attention and effort in monitoring the development of, and ensuring Changyou's compliance with, existing and future PRC laws and regulations affecting the mobile games business.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- difficulties and significant costs in protecting Changyou's intellectual property in overseas markets;
- difficulties in retaining and maintaining local management and key development and technical personnel who are experienced and knowledgeable about, and can effectively operate Changyou's games in, particular markets;
- uncertainties relating to Changyou's ability to develop its games and/or expansion packs catering to particular overseas markets;
- uncertainties relating to Changyou's ability to renew its license and joint operation agreements with licensees and joint operators upon their expiration;
- for Changyou's direct operation of its games overseas, interruptions in the operation of the games due to cross-border Internet connection or other system failures;
- significant costs for translation of its games into the local languages of, or customization of its games for, the overseas markets in which Changyou plans to license or jointly operate its games;
- limited choices of third-party Internet platforms to distribute Changyou's mobile games in certain overseas markets;
- difficulty for Changyou's management to exercise timely and effective supervision and administration of local management and employees in general, and their interactions with local third-party Internet platforms or other service providers in particular, in order to identify and prevent any sloppy, dishonest or illegal activities, which could harm Changyou's business and reputation or subject Changyou to penalties;
- significant marketing costs to promote Changyou's games in certain overseas markets where third-party Internet platforms do not include marketing services as part of the revenue-sharing arrangements;

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- different game player preferences in certain overseas markets;
- difficulties and significant costs relating to compliance with the different legal requirements and commercial terms, such as game export regulatory procedures, taxes and other restrictions and expenses, in the overseas markets in which Changyou licenses or directly or jointly operates its games;
- exposure to different regulatory systems governing the protection of intellectual property and the regulation of online games, the Internet and the export of technology;
- costs for compliance with different legal requirements and commercial terms in overseas markets;
- difficulties in verifying revenues generated from Changyou's games by its licensees for purposes of determining royalties payable to Changyou;
- difficulties and delays in contract enforcement and collection of receivables through the use of foreign legal systems;
- changes in the political, regulatory or economic conditions, or public policy, affecting online games in particular foreign countries or regions;
- the risk that regulatory authorities in foreign countries or administrative regions may impose withholding taxes, or place restrictions on repatriation of Changyou's profits; and
- fluctuations in currency exchange rates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changyou relies for its revenues on the spending of its game players, which in turn depends on the players’ level of disposable income, perceived future earnings capabilities and willingness to spend. The real estate market in the PRC and the level of exports from the PRC have both experienced significant declines recently and, according to the National Bureau of Statistics of China, the growth rate of China’s gross domestic product, compared to that of the previous year, went from 7.4% in 2014, to 6.9% in 2015, to 6.7% in 2016, to 6.9% in 2017, to 6.6% in 2018, and to 6.2% in 2019. Such growth may also slow in the future, which could in turn result in a reduction in spending by Changyou’s game players.

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

Risks Related to the Platform Channel Business

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

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

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

Changyou's online advertising revenues of \$13.7 million for the year ended December 31, 2019, which were mainly derived from the operation of the 17173.com Website, represented 3.0% of Changyou's total revenues for the year, and represented a decline of \$6.0 million, or 30%, from its online advertising revenues for the year ended December 31, 2018. Changyou's ability to avoid further declines in, or grow, its online advertising revenues may be adversely affected by any of the following risk factors:

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

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

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

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

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

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

Most of the online advertising services of the 17173.com Website are distributed by, and most of the online advertising revenues of the 17173.com Website are derived from, advertising agencies. For example, in 2019 Changyou engaged four advertising agencies, which contributed approximately 99.4% of the online advertising revenues of the 17173.com Website. In consideration for these agencies' services, Changyou is required to pay certain percentages of revenues as sales rebates. If the online advertising market is consolidated and effectively controlled by a small number of large advertising agencies, such advertising agencies may be in a position to demand higher sales rebates based on increased bargaining power, which could negatively affect Changyou's online advertising growth, as Changyou books its online advertising revenue net of its sales rebates to advertising agencies.

Risks Related to Doing Business in China

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

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

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

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

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

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

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

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

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

Changyou's online game revenues are collected through the online sale of game points and sale of its prepaid cards, which are considered to be the “virtual currency” as such term is defined in the *Notice on Strengthening the Administration of Online Game Virtual Currency*, or the Virtual Currency Notice, which was jointly issued by the MCT and the MOFCOM in 2009. PRC laws and regulations, including the Virtual Currency Notice, have provided various restrictions on virtual currency and imposed various requirements and obligations on online game operators with respect to the virtual currency used in their games, including that (i) the total amount of virtual currency issued by online game operators and the amount purchased by individual users in the PRC is subject to limits, and online game operators are required to report the total amount of their issued virtual currency on a quarterly basis and are prohibited from issuing disproportionate amounts of virtual currency in order to generate revenues; (ii) virtual currency may only be provided to users in exchange for payment in RMB and may only be used to pay for virtual goods and services of the issuer of the currency, and online game operators are required to keep transaction data records for no less than 180 days; (iii) online game operators are prohibited from providing lucky draws or lotteries that are conducted on the condition that participants contribute cash or virtual currency in exchange for game props or virtual currencies; (iv) online game operators are prohibited from providing virtual currency trading services to minors; and (v) companies involved with virtual currency in the PRC must be either issuers or trading platforms, and may not operate simultaneously as issuers and as trading platforms. On December 1, 2016, the MCT issued *Notice of Ministry of Culture on Regulating Online Game Operation Strengthening Interim and Ex-post Supervision*, or the Online Game Operation Notice, which became effective on May 1, 2017. The Online Game Operation Notice stipulates that online game operators may not allow online game virtual currency to be exchanged for real currency or physical items, except that, when online game operators cease offering their online game products and services to users, the operators may repay the users with real currency or other actual physical or intangible assets for unused virtual currency. Changyou must tailor its business model carefully, including designing and operating its databases to maintain users' information for the minimum required period, in order to comply with the requirements of current PRC laws and regulations, including the Virtual Currency Notice and the Online Game Operation Notice, in a manner that in many cases can be expected to result in relatively lower sales of its game coins and an adverse impact on its online game revenues. Although the MCT Approval Scope Notice provides that the MCT is no longer responsible for regulating the online game industry, as of the date of this annual report the Virtual Currency Notice and the Online Game Operation Notice have not been abolished, and their validity and future enforceability remain uncertain.

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

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

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

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

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

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

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

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

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

In the course of playing Changyou’s games, game players can acquire and accumulate virtual assets, such as game player experience, skills and weaponry. Such virtual assets can be highly valued by game players and in some cases are traded among game players for real money or assets. In practice, virtual assets can be lost for various reasons, such as data loss caused by delay of network service by a network crash, or by hacking activities. There are currently no PRC laws or regulations governing property rights with respect to virtual assets. As a result, it is unclear who the legal owner of virtual assets is and whether the ownership of virtual assets is protected by law. In addition, it is unclear under PRC law and regulations whether an operator of online games such as Changyou would have any liability (whether in contract, tort or otherwise) for loss of such virtual assets by game players. Based on several judgments regarding the liabilities of online game operators for loss of virtual assets by game players, the courts have generally required the online game operators to provide well-developed security systems to protect such virtual assets owned by game players. In the event of a loss of virtual assets, Changyou may be sued by game players and may be held liable for damages.

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

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

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

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

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

BUSINESS OVERVIEW

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

Through the operation of Sohu, Sogou and Changyou, we generate online advertising revenues, including brand advertising revenues and search and search-related advertising revenues; online games revenues; and other revenues. Online advertising and online games are our core businesses. For the year ended December 31, 2019, total revenues generated by Sohu, Sogou and Changyou were approximately \$1.85 billion, including total brand advertising revenues of \$174.9 million, total search and search-related advertising revenues of \$1.07 billion, total online game revenues of \$440.9 million, and total other revenues of \$156.8 million.

Sohu: total revenues generated by Sohu were \$218.2 million.

- \$161.1 million in brand advertising revenues, of which \$94.5 million was from Sohu Media Portal, \$34.5 million was from Sohu Video, and \$32.1 million was from Focus; and
- \$57.1 million in other revenues, mainly attributable to revenues from paid subscription services, interactive broadcasting services, and sub-licensing of purchased video content to third parties.

Sogou: total revenues generated by Sogou were \$1.17 billion.

- \$1.07 billion in search and search-related advertising revenues; and
- \$99.1 million in other revenues, attributable to Sogou’s offering of IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, as well as Sogou’s offering of other products and services, including smart hardware products and online lending and microcredit services.

Changyou: total revenues generated by Changyou were \$455.4 million (excluding revenues generated from Changyou’s discontinued cinema advertising business).

- \$440.9 million in online game revenues, of which \$267.8 million was from PC games, \$172.7 million was from mobile games, and \$0.4 million was from games other than PC games and mobile games;

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- \$13.7 million in brand advertising revenues, mainly attributable to Changyou's 17173.com Website; and,
- \$0.8 million in other revenues attributable to Changyou's IVAS business.

Sohu's Business

Brand Advertising Business

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

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

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

Other Sohu Business

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

Sogou's Business

Search and Search-related Business

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

Revenues generated by the search and search-related business are classified as search and search-related advertising revenues in our consolidated statements of comprehensive income.

Other Sogou Business

Sogou also offers IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, and offers other products and services, including smart hardware products and online lending and microcredit services. Revenues generated by Sogou from other business are classified as other revenues in our consolidated statements of comprehensive income.

Initial Public Offering of Sogou

On November 13, 2017, Sogou completed its IPO on the NYSE, trading under the symbol "SOGO."

Proceeds to Sogou from the IPO were approximately \$622.1 million, after deducting underwriting discounts and commissions and offering expenses. Following the completion of Sogou's IPO, pursuant to the Voting Agreement, we have the right to appoint a majority of Sogou's Board of Directors, and we continue to consolidate Sogou in our financial statements and provide for noncontrolling interests reflecting ordinary shares in Sogou held by shareholders other than us. In the fourth quarter of 2017, we recognized a one-time credit to additional paid-in capital of \$278.4 million in shareholders' equity in our consolidated balance sheets to reflect the increase in the value of our equity in Sogou that resulted from the completion of Sogou's IPO.

Sogou's Share Structure

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

As of December 31, 2019, Sogou had a combined total of 388,731,140 Sogou Class A and Class B Ordinary Shares issued and outstanding, consisting of:

- (i) Sohu.com Limited: 127,200,000 Sogou Class B Ordinary Shares held by Sohu for its own account, and 3,717,250 Sogou Class A Ordinary Shares held by Sohu for the purpose of issuance upon the exercise of outstanding share-based awards and future share-based awards;
- (ii) Tencent: 151,557,875 Sogou Class B Ordinary Shares;
- (iii) Photon, an investment vehicle of the Sohu Group's Chairman and Chief Executive Officer Charles Zhang: 24,686,863 Sogou Class A Ordinary Shares; and
- (iv) Shareholders other than Sohu, Tencent, and Photon: 81,569,152 Sogou Class A Ordinary Shares, including Sogou Class A Ordinary Shares represented by Sogou ADSs.

The totals of Sogou outstanding shares listed above include 5,520,000 Sogou Class A Ordinary Shares that are outstanding for legal purposes, but have been determined to be Sogou treasury stock for accounting purposes. See Note 19 to our audited consolidated financial statements, which begin on page F-1 of this annual report.

Voting Agreement between Sohu, Tencent and Sogou

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

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

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

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

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

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

Voting Agreement between Sohu, Photon and Sogou Management

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

Changyou's Business

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

Online Game Business

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

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PC Games

PC games are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used. Changyou's dominant game is TLBB, a PC based client-end game. For the year ended December 31, 2019, revenues from TLBB were \$215.2 million, accounting for approximately 49% of Changyou's online game revenues, approximately 47% of Changyou's total revenues and approximately 12% of the Sohu Group's total revenues.

Mobile Games

Mobile games are played on mobile devices and require an Internet connection. In the second quarter of 2017, Changyou launched a mobile game, Legacy TLBB Mobile, which is operated by Tencent under license from Changyou. For the year ended December 31, 2019, revenues from Legacy TLBB Mobile were \$101.1 million, accounting for approximately 23% of Changyou's online game revenues, approximately 22% of Changyou's total revenues, and approximately 5% of the Sohu Group's total revenues.

Platform Channel Business

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

17173.com Website

The 17173.com Website provides news, electronic forums, online videos, mobile game distribution services, and other online game information services to game players. All revenues generated by the 17173.com Website are classified as brand advertising revenues.

RaidCall

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

Cinema Advertising Business (Discontinued)

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

Changyou's Share Structure

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

As of December 31, 2019, Changyou had a combined total of 107,263,420 Changyou Class A and Class B Ordinary Shares issued and outstanding, consisting of:

- (i) Sohu.com Limited.: 1,500,000 Changyou Class A Ordinary Shares and 70,250,000 Changyou Class B Ordinary Shares; and
- (ii) Public shareholders: 35,513,420 Changyou Class A Ordinary Shares represented by ADSs.

As of December 31, 2019, we held approximately 67% of the combined total of Changyou's outstanding ordinary shares, and controlled approximately 95% of the total voting power in Changyou. As a result of the completion of the Changyou Merger on April 17, 2020, as of the date of this report, we hold 100% of the combined total of Changyou's outstanding ordinary shares and 100% of the total voting power in Changyou. As Changyou's controlling shareholder, we consolidate Changyou in our consolidated financial statements and, prior to the completion of the Changyou Merger on April 17, 2020, also provided for noncontrolling interests reflecting ordinary shares in Changyou held by shareholders other than us ("Changyou noncontrolling shareholders").

PRODUCTS AND SERVICES

Sohu's Business

Brand Advertising Business

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

Sources

Sohu Media Portal

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

Sohu Video

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

Focus

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

Business Model

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

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

Fixed Price model

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

CPM model

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

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CPC model

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

Other Sohu Business

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

Sogou's Business

Search and Search-related Business

Products and Services for Users

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

Sogou Search

Sogou Search makes information easily accessible for Chinese Internet users. Through Sogou Search, Sogou enables its users to conveniently find relevant, high-quality, and comprehensive information anytime, anywhere. Sogou Search offers users general and vertical search services through its website *sogou.com* and its mobile search application. In addition, Sogou Search is the default general search engine for popular Internet portals such as *qq.com* and *sohu.com*, and popular browsers such as the Mobile QQ Browser and the Sogou Browser. Sogou Search was the second largest search engine in China with an 18.3% market share by mobile queries in December 2019, according to CTR.

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

Sogou Input Method

Sogou Input Method, the first cloud-based Chinese language input software, was launched in 2006 and has become an indispensable Chinese language input software tool for PC and mobile users. Sogou Input Method had achieved a penetration rate of 99% among PC Internet users in China in December 2019, according to iResearch. It was the most widely used PC software in China by DAU and the number one Chinese language input software for PC users in terms of MAU in December 2019, according to iResearch, with 230 million PC MAU. Sogou Mobile Keyboard, the mobile application of Sogou Input Method, had achieved a penetration rate of over 66% among mobile users of third-party Chinese language input applications in December 2019, according to iResearch. It was the third most widely used mobile application in China by DAU and the number one Chinese language input application for mobile users in terms of MAU in December 2019, according to iResearch, with 617 million mobile MAU. Sogou's core AI technologies, including voice, translation and conversation, have driven product innovation for Sogou Mobile Keyboard by providing more intelligent user interactions and expressions. Sogou Mobile Keyboard processed as many as up to 802 million voice inputs in the fourth quarter of 2019, handled millions of translation requests per day, and provided many AI-enabled functions such as SmartShare, which generates a diverse range of automated personalized response options for user chats. Sogou Mobile Keyboard possesses a large library of language data, with over 120 billion Chinese character inputs per day that Sogou's users have generated across a wide variety of Internet use cases, such as social media, news, entertainment, shopping, travel, and financial services. Most recently, Sogou launched an AI assistant named "Smart Wangzai," which recommends to users an array of emoticons and expressions in chats.

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Recommendation Service

With large user bases for both Sogou Search and Sogou Mobile Keyboard, Sogou has gradually built up its recommendation service. The service consists of feed that leverages Sogou's various search related assets and recommendations within Sogou Mobile Keyboard. Through Sogou Search and Sogou Browser, Sogou provides personalized feed containing up-to-the-minute information and content tailored to users' demographics and interests. Sogou's feed service leverages its AI and big data capabilities and complements its search and other offerings. Sogou has also enhanced content and service distribution capabilities for Sogou Mobile Keyboard, which is becoming another driver for its recommendation service. Sogou intends to tap into additional uses for recommendation, better fulfilling users' various needs for information discovery while they are typing.

Other Products

Sogou Browser

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

Sogou Web Directory

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

Sogou Translation

Sogou Translation incorporates neural machine translation technology and a massive linguistic database to deliver language translation. It is web-based and also available as a mobile application. In addition to written text translation, the Sogou Translation mobile application supports speech, Optical Character Recognition, and augmented reality translation.

Monetization

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

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

Other Sogou Business

Sogou also offers IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, and offers other products and services including smart hardware products and online lending and microcredit services. Revenues generated by Sogou from the other business are classified as other revenues in our consolidated statements of comprehensive income.

Changyou's Business

Online Game Business

Business Model

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

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

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

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

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

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

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

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

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

Self-Operated Games

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

Licensed-Out Games

Changyou also authorizes third parties to operate its online games. In 2016 and 2018, Changyou entered into an agreement with Tencent pursuant to which Changyou granted an exclusive license to Tencent to distribute and operate within China its mobile game Legacy TLBB Mobile and Xuan Yuan Jian, which were launched in May 2017 and October 2018, respectively. Changyou has also licensed other third-party operators to distribute and operate within China certain of its other mobile games, including Legend of Sword and Fairy 5 and The Legend of Heroes: Trails of Stars. In addition, Changyou licenses its PC game TLBB and mobile games Legacy TLBB Mobile, and TLBB 3D to third-party operators in selected overseas markets outside of China, including Hong Kong, Macau, Taiwan, Singapore, Malaysia, Thailand, Vietnam and South Korea.

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

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

Platform Channel Business

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

17173.com Website

The 17173.com Website provides news, electronic forums, online videos, mobile game distribution services, and other online game information services to game players. All revenues generated by the 17173.com Website are classified as brand advertising revenues.

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RaidCall

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

Cinema Advertising Business

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

INTELLECTUAL PROPERTY AND PROPRIETARY RIGHTS

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

We have been issued 1,293 patents in China and 66 patents in countries and regions outside of China covering inventions, utility models, and designs; we have 1,532 patent applications currently pending in China and 79 patent applications currently pending in countries and regions outside of China; we have submitted 85 international patent applications through the procedures under the Patent Cooperation Treaty, or PCT; and we intend to apply for more patents to protect our core technologies and intellectual property.

We have registered three service marks with the U.S. Patent and Trademark Office, consisting of Sohu.com, registered on August 1, 2000; Sohu.com (stylized), registered on August 1, 2000; and Sohu, registered on June 13, 2000. We have registered 4,419 trademarks with the Trademark Office of the State Administration for Industry and Commerce in China, including the mark "SOHU.com," and such marks relating to our products as Sohu.com logos, Sohu Fox logos, GoodFeel logos, Go2Map, Sogou logos, Sohu Focus, ChangYou.com, cyou.com, Blade Online, 17173 and their corresponding Chinese version marks; and we are in the process of applying for the registration of 699 other trademarks. We are the registered owner of 491 registered trademarks and have also applied for 483 trademarks in countries and regions outside of China. In addition, we are in the process of applying for recognition of certain of our marks as famous Beijing trademarks and well-known Chinese trademarks. We also filed registration of trademarks relating to our subsidiary companies' names and Changyou's online games and other businesses in various countries and regions, such as the United States, European Union, Turkey, Japan, South Korea, Malaysia, Indonesia, Vietnam, Thailand, Brazil, Taiwan and Hong Kong. Our rights to these marks could be affected adversely if any of our applications are rejected. It is possible that our competitors will adopt product or service names similar to ours, thereby impeding our ability to distinguish our brand and possibly leading to customer confusion. In addition, Changyou has the license rights to use the trademarks, such as TLBB, TLBB logos and TLBB 3D, for its mobile games TLBB 3D and Legacy TLBB Mobile and for its PC game TLBB under its existing license agreements with the holder of the intellectual property rights with respect to the popular Chinese martial arts novel Tian Long Ba Bu written by Louis Cha. After the expiration of their terms Changyou may not be able to renew these license agreements with commercial terms that are favorable to Changyou, if at all, and Changyou's inability to renew these license agreements could cause Changyou to lose the right to use the trademarks related to those games to the extent that they relate to Tian Long Ba Bu. See "Risk Factors—Risks Related to Changyou.com Limited—Risks Relating to Changyou's Business and Industry—Overall Risks—Changyou may need to incur significant expenses to enforce its proprietary rights, and if it is unable to protect such rights, its competitive position and financial performance could be harmed" and "—Changyou may not have exclusive rights to trademarks, designs and technologies that are crucial to its business" in Item 3.

We are the registered owner of 863 software copyrights and 485 copyrights for works in China, each of which we have registered with the State Copyright Bureau of China and its local branches. In addition to the above, we have also registered the copyrights for 20 works in countries and regions outside of China.

We own the rights to 458 domain names that we use in connection with the operation of our business, including the Sohu, Sogou, and Changyou websites.

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

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

TECHNOLOGY INFRASTRUCTURE

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

Content and Services provided by Sohu

As of December 31, 2019, Sohu maintained approximately 13,400 servers in China. To fully support the operation of Sohu's content and services, Sohu established these data centers primarily through China Mobile, China United Network Communication Group Company Limited ("China Unicom"), and China Telecom Corporation ("China Telecom"), which are the three largest Internet connection service providers in China, to support most of Sohu's core services. In addition, Sohu has established branch nodes in different provinces throughout China through different telecommunication operators in order to establish national coverage and provide fast and stable access to Sohu's Internet platforms properties to users across China. In addition, Sohu has developed cooperation with several smaller private Internet service providers.

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

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

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

Content and Services provided by Sogou

As of December 31, 2019, Sogou owned approximately 27,552 servers located in eight Internet data centers in China. Sogou has also obtained what it believes is a sufficient amount of connectivity bandwidth to meet the current and anticipated needs of its operations, and has established a large-scale Graphics Processing Unit ("GPU") service cluster to provide computing power for its AI technologies.

Online Games provided by Changyou

Changyou supports its operations with a network of reliable and secure physical and cloud-based servers that have fully supported its operations for many years. As of December 31, 2019, Changyou maintained for its online game business approximately 2,500 physical servers that are located in Internet data centers in 8 major cities in China, and 3,000 cloud-based servers that are spread across mainland China, Hong Kong, other Asia-pacific regions, Europe and North America. In order to enhance Changyou's game players' experience and to improve connectivity, Changyou has located its physical game servers in a number of regions throughout China. This allows its players to connect to the nearest servers that are located in their region without exchanging data across the national backbone network. Furthermore, to ensure high quality services for its game players, Changyou works with leading domestic cloud technology firms to provide efficient and stable game services using cloud-based resources.

MARKETING

Marketing for Sohu's Business

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

Marketing for Sogou's Business

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

While Sogou has benefitted significantly from word-of-mouth marketing, it has also launched marketing campaigns designed to further promote its brand, products, and technologies. In 2019, Sogou focused on marketing its technology through industry-specific applications. This was designed to demonstrate Sogou's technological advantages and enhance Sogou's brand image as a leading AI-based solution provider. For example, Sogou has expanded the application of its AI Vocational Avatar technology in various sectors, including AI News Anchors in news broadcasting, AI Virtual Judge in legal services, and AI Customer Service Avatar in financial services. Sogou's proprietary AI Vocational Avatar served as a hostess at various industry summits and its AI Simultaneous Interpretation solution supported a number of conferences in such areas as technology, finance, and sports.

Marketing for Changyou's Business

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

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

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

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

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

COMPETITION

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

Competition for Sohu's Business

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

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

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

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

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

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

Competition for Sogou's Business

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

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

Competition for Changyou's Business

Online Game Business

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

- online game developers and/or operators in China that are publicly traded in the United States and in Hong Kong, including IGG Inc., Kingsoft Corporation Limited, NetEase, Inc., and Tencent;

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- other companies in China devoted to game development and/or operation that are publicly traded in China, such as 37 Interactive Entertainment (Shanghai) Technology Co., Ltd., Giant Network Group Co., Ltd., Kalends Inc., Perfect World Co., Ltd., YOOZOO GAMES Co., Ltd., and Zhejiang Century Huatong Group Co., Ltd. (formerly known as Shanda Games Limited); and
- international competitors.

Platform Channel Business

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

- Duowan.com, operated by YY Inc.; and
- Game.sina.com.cn, operated by Sina Corporation.

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

FACILITIES

Sohu

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

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

As of December 31, 2019, we leased office space in Beijing of approximately 2,413 square meters. We also leased office space of approximately 10,145 square meters in other cities in the PRC.

Sogou

As of December 31, 2019, Sogou leased approximately 7,081 square meters of office space in Beijing, in addition to office space that Sogou leased from Sohu. Sogou also leased office space of approximately 11,663 square meters in other cities in the PRC.

Changyou

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

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

As of December 31, 2019, Changyou leased office space of approximately 5,082 square meters in other cities in the PRC and in other countries.

GOVERNMENT REGULATION AND LEGAL UNCERTAINTIES

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

Overview

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

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

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

Specific Statutes and Regulations

Requirements for Establishment of WFOEs

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

Each of our WFOEs established before September 3, 2016 was established with proper approval, and we have not established any WFOEs since September 3, 2016.

Requirements for Obtaining Business Licenses

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

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

Regulation of Value-added Telecommunications Services

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

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

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

On August 8, 2014, the MIIT issued to Sohu Internet a Value-Added Telecommunication Services Operating License, which were renewed on July 23, 2019, that authorize the provision of Internet data center services, Internet content distribution services, and Internet access services, all of which are classified as value-added telecommunication services. On January 30, 2015, the MIIT issued to Guangzhou Qianjun a Value-Added Telecommunications Services Operating License, which was renewed on November 23, 2019, that authorizes the provision of Internet information services, which are also classified as value-added telecommunication services. On June 2, 2016, the MIIT issued to Sogou Information a Value-Added Telecommunications Services Operating License, which was renewed on November 28, 2018, that authorizes the provision of Internet data center services and Internet access services.

Regulation of Foreign Direct Investment in Value-Added Telecommunications Companies

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

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

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

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

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

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

Regulation of the Provision of Internet Content

Internet Information Services

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

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

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

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

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

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

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

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Online News Dissemination and Online News Search Services

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

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

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

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

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

Internet Publishing

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

On December 22, 2010, Sohu Internet obtained an Internet publishing license issued by the SAPPRFT, which was renewed on January 1, 2017. Sogou Information plans to apply for an Internet publishing license. For the details of the Internet publishing licenses held by Changyou’s VIEs, see “Specific Statutes and Regulations — Regulation of Online Game Services –Online Games and Cultural Products.”

Online Audiovisual Transmission Through the Public Internet

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

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

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

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

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

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

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

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

Protection of Minors

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

Private Network and Targeted Communication Audiovisual Program Services

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

Online Cultural Products

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

- the production, duplication, importation, release or broadcasting of Internet cultural products;

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

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

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

On September 2, 2016, the SAPPRFT issued the *Notice on Strengthening the Management of Live Online Social Video Services* (the "Live Online Notice"), which requires interactive broadcasting service providers to procure a permit for the Network Transmission of Audiovisual Programs. Sohu Internet and Guangzhou Qianjun currently hold permits for the Network Transmission of Audiovisual Programs. The Live Online Notice also stipulates that a service provider must make a filing with the local SAPPRFT branch at least five days before making any live broadcast of any significant political, military, economic, social, cultural or sports activities and at least 48 hours before making any live broadcast of other cultural or sports activities. On November 4, 2016, the CAOC issued the Provisions on the Administration of Online Live Social Video Services (the "Live Social Video Provisions") effective December 1, 2016. The Live Social Video Provisions provide that business entities such as us that offer interactive broadcasting services on their Internet platforms have the primary responsibility for monitoring content disseminated by interactive broadcasting hosts and viewers through such services, and must allocate sufficient staff in line with the scale of such services and establish and maintain adequate internal policies and procedures for, among other things, content review, information security management, emergency management and technical support. The Live Social Video Provisions also require that Internet providers verify the real-name identity of interactive broadcasting hosts and viewers before allowing them to establish user accounts with the Internet providers and take appropriate remedial actions, such as issuing warnings, removing posted content, or terminating the user's account, with respect to interactive broadcasting content or activity that is prohibited by the Live Social Video Provisions. Internet providers are subject to administrative penalties and other sanctions for noncompliance with the Live Social Video Provisions. On August 1, 2018, the MIIT and several other governmental authorities issued a *Notice on Strengthening the Administration of Live Online Social Video Services*, which stipulates that providers of Internet access services and APP stores that distributing online interactive broadcasting services are required to obtain permits from specified governmental agencies in order to provide their services.

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

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

Mobile Internet Applications Information Services

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

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Internet Map Services

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

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

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

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

Internet Medical, Health and Pharmaceuticals Information Dissemination

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

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

Sohu Internet, Guangzhou Qianjun, and Sogou Information received renewed approval from the SAMR, on June 13, 2019, November 23, 2018, and October 31, 2017, respectively, to disseminate pharmaceuticals information over the Internet.

Regulation of Online Advertising Services

Brand Advertising Services

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

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

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

Search and search-related Services

On October 23, 2015, the MCT issued a *Notice on Further Strengthening and Improving the Administration of Content of Online Music* (the “MCT Further Notice”) which became effective on January 1, 2016. The MCT Further Notice provides that providing direct links to online music will constitute engaging in the online music business, and that therefore an Online Culture Operating Permit is required for providing such search services. Sogou Information held an Online Culture Operating Permit pursuant to regulations that were in effect before the MCT Further Notice became effective. The permit was renewed on November 3, 2017 pursuant to the MCT Further Notice.

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

Regulation of Online Game Services

Online Games and Cultural Products

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

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

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

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

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

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On December 1, 2016, the MCT issued the Online Game Operation Notice, which became effective on May 1, 2017. The Online Game Operation Notice includes clarification of products and services that will be considered to be within the scope of the operation of online games, enhanced standards for the issuance of and payment for virtual items used in online games and enhanced protection of online games users, and announces more stringent supervision of the operation of online games and penalties for violations by online game operators of regulations with respect to the operation of online games. The Online Game Operation Notice stipulates that game operators are prohibited from providing lucky draws or lotteries that are conducted on the condition that participants contribute cash or virtual currency in exchange for virtual items and services; must timely publish the name, properties, description, amount, and probability of winning for such lucky draws or lotteries on either the Website of the game or the Web page on which such lucky draws or lotteries are provided; must require real-name registration of game players who wish to enter such lucky draws or lotteries; and must publish the results of such lucky draws or lotteries on the Website of or other conspicuous location in the game; and must maintain all relevant records for at least 90 days. The Online Game Operation Notice also stipulates that online game operators must require real-name registration of online game players and may sell game points and virtual items only to real-name registered game players, must set limits on the maximum amount of game points for a particular game that game players may purchase in a single transaction, must require confirmation of transaction information by game players placing orders and maintain all relevant records for at least 180 days. Changyou filed its games TLBB, BO, BH2, and certain of its other existing games with the MCT. If Changyou fails to maintain any of its permits, approvals, or registrations; make any necessary filings; apply for and obtain any required new permits, approvals, or registrations; make any new filings on a timely basis; or comply with the requirements under the Online Game Operation Notice and other laws and regulations, it may be subject to various penalties, including fines and a requirement that it discontinue or limit its operations. Although pursuant to the MCT Approval Scope Notice the MCT is no longer responsible for regulating the online-game industry, as of the date of this annual report the Virtual Currency Notice and the Online Game Operation Notice have not been abolished and their validity and future enforceability remain uncertain.

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

The *Notice Regarding Improving and Strengthening the Administration of Online Game Content*, or the Online Game Content Notice, issued by the MCT in November 2009, calls for online game operators to improve and adapt their game models by (i) mitigating the predominance of the "upgrade by monster fighting" model, (ii) limiting the use of the "player kill" model (where one player's character attempts to kill another player's character), (iii) limiting in-game marriages among game players, and (iv) improving their compliance with legal requirements for the registration of minors and game time-limits. Although the MCT Approval Scope Notice provides that the MCT is no longer responsible for regulating the online-game industry, as of the date of this annual report the Online Game Content Notice has not been abolished and its validity and future enforceability remain uncertain.

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

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

Registration of Software Copyrights

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

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Regulation of Internet Content

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

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

Protection of Minors

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

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

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

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

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

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

Information Security and Censorship

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

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

In April, 2009, the MCT issued a *Public Announcement on Regulating Applications for the Examination of the Content of Imported Online Games* (the "Imported Online Games Announcement"). The Imported Online Games Announcement emphasizes that enterprises operating imported online games must have the content of those games examined and approved by the MCT. However, while the MCT Approval Scope Notice provides that the MCT is no longer responsible for regulating the online game industry, as of the date of this annual report the Imported Online Games Announcement has not been abolished and its validity and future enforceability remain uncertain.

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

Virtual Currency

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

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

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

On December 1, 2016, the MCT issued the Online Game Operation Notice, which became effective on May 1, 2017. The Online Game Operation Notice standardizes rules regarding the issuance of virtual items used for online games. The Online Game Operation Notice provides that the issuance and exchange of virtual items issued by online game operators must be administered in accordance with the regulations applicable to virtual currency; that online game operators may not allow online game virtual currency to be exchanged for real currency or physical items, except that, when online game operators cease offering their online game products and services to users, the operators may repay the users with real currency or other actual physical or intangible assets for unused virtual currency; requires that, when online game operators allow users to exchange small-value physical items for virtual items, the content and value of such physical items must comply with applicable laws and regulations; and stipulates that online game operators are prohibited from providing lucky draws or lotteries that are conducted on the condition that participants contribute cash or virtual currencies in exchange for virtual items and services, must publish the results of such lucky draws or lotteries on the Website of or other conspicuous location in the game and must maintain all relevant records for at least 90 days.

Although pursuant to the MCT Approval Scope Notice the MCT is no longer responsible for regulating the online-game industry, as of the date of this annual report the Internet Cafés Notice, the Virtual Currency Notice, the Virtual Currency Guidelines, and the Online Game Operation Notice have not been abolished and their validity and future enforceability remain uncertain.

Import and Export of Software Technology

China imposes controls on the import and export of technology and software products. Under the *Regulations on Administration of Import and Export of Technologies* promulgated by the State Council, which were amended on March 2, 2019, the term “technology import and export” is defined to include, among other things, the transfer or licensing of patents and know-how, and the provision of services related to technology. Depending on the nature of the relevant technology, the import and export of technology require either approval by or registration with the relevant PRC governmental authorities. Under the *Software Export Management and Statistics Measures* promulgated in October 2001, if a company is classified as a software enterprise and has a minimum of RMB1 million (or approximately \$158,000) in registered capital, it may engage in an export business after being registered with the relevant PRC governmental authorities. All contracts which relate to the export of software products, transfer of technology or provision of related services must be filed with the relevant PRC governmental authorities. The *Measures for the Administration of Registration of Technology Import and Export Contracts*, issued by the MOFCOM in February 2009, specify registration requirements related to the import and export of technology.

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

Regulation of Other Services

Real Estate Services

On June 30, 2019, the National Development and Reform Commission (the “NDRC”) and the MOFCOM issued the *Special Administrative Measures for Admittance of Foreign Investment (Restricted List) (2019 Edition)* (the “2019 Restricted List”), which became effective on July 30, 2019. The 2019 Restricted List removed from the category of industries where foreign investment is restricted real estate agency and brokerage services, which had been included in the restricted category in the previous Foreign Investment Industrial Guidance Catalogue issued in 2011. The 2019 Restricted List loosened existing restrictions on foreign ownership of real estate agency and brokerage services in China, and as a result we may conduct real estate agency and brokerage services directly.

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

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

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

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

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

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

Online Payment Services

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

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

Lottery Sales

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

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

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

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

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

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

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

Production of Radio and Telecommunications Equipment

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

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

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

Regulation of Online Lending and Microcredit Services

Online Lending and Microcredit Services

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

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

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

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

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

Loans and Interest Rates

The PRC Contract Law recognizes the validity of loan agreements between natural persons, provides that a loan agreement becomes effective when an individual lender provides a loan under the agreement to an individual borrower, and requires interest rates charged under a loan agreement to comply with applicable PRC laws and regulations. *The Provisions on Several Issues Concerning Laws Applicable to Trials of Private Lending Cases* (the “Private Lending Judicial Interpretations”) issued by the Supreme People’s Court in August 2015 and effective in September 2015 specify that loan agreements for loans with annual interest rates below 24% are valid and enforceable. With respect to a loan with an annual interest rate between 24% and 36%, if the interest on the loan has already been paid to the lender and such payment has not caused damage to the interests of the state, the community, or any third parties, the Private Lending Judicial Interpretations indicate that courts will be likely to dismiss a borrower’s demand for return of the interest payments. If the annual interest rate of a private loan is higher than 36%, the portion of the interest exceeding the maximum interest rate is invalid.

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Circular 141 stipulates that with respect to cash loan businesses, the aggregate borrowing costs charged to borrowers in the form of interest and various fees must not exceed the limits on interest rates applicable to private lending set forth in the Private Lending Judicial Interpretations.

The Pilot Guidance stipulates that microcredit companies may set interest ceilings and floors for their loans. However, an interest ceiling must not exceed the permitted maximum interest specified by the relevant governmental authorities, and an interest floor must not be set below 0.9 times the benchmark lending rate for loans published by the PBOC.

Miscellaneous

Laws and Regulations Related to International Connections for Computer Information Networks

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

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

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

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

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

Laws and Regulations Related to Intellectual Property Protection

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

Copyright

On September 7, 1990, the Standing Committee of the National People's Congress promulgated *the Copyright Law*, which took effect on June 1, 1991 and was amended in 2001 and in 2010. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center. The amended Copyright Law also requires registration of the pledge of a copyright.

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

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

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

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Since 2005, the NCA, together with certain other PRC governmental authorities, have jointly launched annual campaigns, which normally last for three to four months every year, specifically aiming to crack down on Internet copyright infringement and piracy in China. According to the *Notice of 2010 Campaign to Crack Down on Internet Infringement and Piracy* promulgated by the NCA, the MPS and the MIIT on July 19, 2010, one of the main targets, among others, of the 2010 campaign was Internet audio and video programs. From the time the 2010 campaign commenced in late July, the local branches of the NCA focused on popular movies and television series, newly published books, online games and animation, music and software and illegal uploading or transmission of a third party's works without proper license or permission, sales of pirated audio/video and software through e-commerce platforms, providing search links, information storage, Web hosting or Internet access services for third parties engaging in copyright infringement or piracy and infringement by the use of mobile media. In serious cases, the operating permits of the Websites engaging in illegal activities may be revoked, and such Websites may be ordered to shut down. On April 26, 2019, the NCA, the CAOC, the MIIT, and the MPS jointly announced the Jian Wang 2019 Campaign, which targets copyright infringement related to online transmission of movies and oversees the protection of software and hardware intellectual property related to streaming media and the protection of photographs.

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

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

On December 26, 2009, the Standing Committee of the National People's Congress adopted the *Torts Liability Law*, which became effective on July 1, 2010. Under this new law, both Internet users and Internet service providers may be liable for the wrongful acts of users who infringe the lawful rights of other parties. If an Internet user utilizes Internet services to commit a tortious act, the party whose rights are infringed may request the Internet service provider to take measures, such as removing or blocking the content, or disabling the links thereto, to prevent or stop the infringement. If the Internet service provider does not take necessary measures after receiving such a notice, it will be jointly liable for any further damages suffered by the rights holder. Furthermore, if an Internet service provider fails to take necessary measures when it knows that an Internet user utilizes its Internet services to infringe the lawful rights and interests of other parties, it will be jointly liable with the Internet user for damages resulting from the infringement.

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

Patent Law

On March 12, 1984, the Standing Committee of the National People's Congress promulgated the *Patent Law*, which was amended in 1992, 2000 and 2008. On June 15, 2001, the State Council promulgated the *Implementation Regulation for the Patent Law*, which was lately amended in January 9, 2010. According to these laws and regulations, the State Intellectual Property Office is responsible for administering patents in the PRC. The Chinese patent system adopts a "first to file" principle, which means that where more than one person files a patent application for the same invention, a patent will be granted to the person who filed the application first. To be patentable, invention or utility models must meet three conditions: novelty, inventiveness and practical applicability. A patent is valid for 20 years in the case of an invention and 10 years in the case of utility models and designs. A third-party user must obtain consent or a proper license from the patent owner to use the patent. Otherwise, third-party use constitutes an infringement of patent rights.

Trademark Law

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

Laws and Regulations Related to Encryption Software

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

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

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

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

Laws and Regulations Related to Consumer Protection and Privacy Protection

Consumer Protection

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

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

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

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

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

Privacy Protection

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

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

On December 28, 2012, the Standing Committee of the National People's Congress enacted the *Decision to Enhance the Protection of Network Information* ("Information Protection Decision"), to further enhance the protection of User Personal Information in electronic form. The Information Protection Decision provides that ICPs must expressly inform their users of the purpose, manner and scope of the ICPs' collection and use of User Personal Information, publish the ICPs' standards for their collection and use of User Personal Information, and collect and use User Personal Information only with the consent of the users and only within the scope of such consent. The Information Protection Decision also mandates that ICPs and their employees must keep strictly confidential User Personal Information that they collect, and that ICPs must take such technical and other measures as are necessary to safeguard the information against disclosure.

On July 16, 2013, the MIIT issued the *Order for the Protection of Telecommunication and Internet User Personal Information* (the "Order"). Most of the requirements under the Order that are relevant to ICP operators are consistent with the requirements already established under the MIIT provisions discussed above, except that under the Order the requirements are often more strict and have a wider scope. If an ICP operator wishes to collect or use personal information, it may do so only if such collection is necessary for the services it provides. Further, it must disclose to its users the purpose, method and scope of any such collection or use, and must obtain consent from the users whose information is being collected or used. ICP operators are also required to establish and publish their protocols relating to personal information collection or use, keep any collected information strictly confidential, and take technological and other measures to maintain the security of such information. ICP operators are required to cease any collection or use of the user personal information, and de-register the relevant user account, when a given user stops using the relevant Internet service. ICP operators are further prohibited from divulging, distorting or destroying any such personal information, or selling or providing such information unlawfully to other parties. In addition, if an ICP operator appoints an agent to undertake any marketing or technical services that involve the collection or use of personal information, the ICP operator is still required to supervise and manage the protection of the information. The Order states, in broad terms, that violators may face warnings, fines, and disclosure to the public and, in the most severe cases, criminal liability.

On August 21, 2014, the supreme people's court promulgated the *Provisions of the Supreme People's Court on Application of Laws to Cases Involving Civil Disputes over Infringement upon Personal Rights and Interests by Using Information Networks*, pursuant to which if an ICP operator discloses genetic information, medical records, health examination data, criminal record, home address, private events and or other personal information of a natural person online, causing damage to the person, the People's Court should support a claim by the infringed party for recovery of damages from the infringing ICP operator.

On January 5, 2015, the SAMR promulgated the Measures on Punishment for Infringement of Consumer Rights, pursuant to which business operators collecting and using personal information of consumers must comply with the principles of legitimacy, propriety and necessity, specify the purpose, method and scope of collection and use of the information, and obtain the consent of the consumers whose personal information is to be collected. Business operators may not: (i) collect or use personal information of consumers without their consent; (ii) unlawfully divulge, sell or provide personal information of consumers to others; (iii) send commercial information to consumers without their consent or request, or when a consumer has explicitly declined to receive such information.

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On August 29, 2015, the Standing Committee of the National People's Congress issued Amendment (IX) to the Criminal Law of the People's Republic of China ("Amendment (IX)"), which strengthens the protection of personal information. Pursuant to Amendment (IX), network service providers and others who unlawfully sell or otherwise provide personal information and cause serious adverse consequences may be sentenced to prison for up to seven years. In addition, network service providers who disseminate such user information and cause serious adverse consequences, and who do not rectify the problem after they receive notice of such non-compliance from relevant regulatory authorities may be sentenced to prison for up to three years, and may also be subject to public surveillance and fines. On October 21, 2019, the Supreme People's Court of the PRC and the Supreme People's Procurator of the PRC issued the *Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning the Application of Law in Criminal Cases Involving Illegal Use of Information Networks and Assistance in Criminal Activities Committed through Information Networks*, which clarifies the types of network service providers and the standards for judging whether the consequences of divulging the personal information are serious and adverse.

On May 8, 2017, the Supreme People's Court of the PRC and the Supreme People's Procurator of the PRC issued the *Interpretation of the Supreme People's Court and the Supreme People's Procurator on Several Issues Concerning the Applicable Law for Criminal Cases with Respect to Infringement of Citizen's Personal Information*, which defines "personal information," "the provision of personal information," and "the illegal collection of personal information."

The SAMR (formerly the AQSIQ and SAC) issued the *Information Security Technology – Personal Information Security Specification*, which came into effect on May 1, 2018. The specification includes a recommendation for the nationwide standards for protection and processing of private personal information, and provides and clarifies the definitions and data processing, disclosure and protection requirements regarding personal information. On April 10, 2019, the MPS and the Beijing Network Industry Association issued the *Guidelines for Protection of the Security of Personal Information on the Internet*, which provides guidelines and recommends procedures concerning the protection of personal information applicable to enterprises providing services via the Internet as well as organizations and individuals who control and process personal information in private and non-networked environments. On June 1, 2019, the National Information Security Standardization Technical Committee issued the *Internet Security Practice Guidelines—Specification of Information Necessary for Basic Business Functions of APPs*, which provides further guidelines for the use and collection of personal information by network operators, and specifies the types of personal information deemed to be necessary for the operation of online services for areas such as online payment, short videos, Internet news information, and real estate transactions.

On January 23, 2019, the OCLGCA, the MIIT, the MPS, and the SAMR jointly issued the Public Announcement Concerning the Illegal Collection of Personal Information by APPs, which emphasizes that APP operators must comply strictly with the Internet Security Law with in connection with their collection and use of personal information. On March 13, 2019, the SAMR issued the *Notice on the Launch of Special Enforcement Actions to Protect Consumers and Crack Down on Violations of Personal Information of Consumers* and the *Announcement of the Implementation of App Security Certifications*, and on October 31, 2019, the SAMR and the CAOC issued the *Notice of a Special Campaign to Rectify the Infringement of Legal Rights and Interests of APP Users* so as to further protect the rights of the APP users in and to their personal information and clarify the requirements for APP security certification. In addition, a number of relevant governmental authorities and industry associations have published a series of guidelines and standards, such as the *Guidelines for Self-Assessment of Illegal Collection and Use of Personal Information by APPs* issued by the Special Working Group Supervising the Illegal Collection and Use of Personal Information on March 3, 2019, and the *Methods for Identification of the Illegal Collection and Use of Personal Information by APPs* issued by the CAOC and three other PRC government authorities on December 30, 2019, pursuant to which APP operators are encouraged to conduct self-inspection and self-rectification to enhance the protection of personal information.

On August 22, 2019, the CAOC issued the *Provisions on the Protection of the Personal Information of Minors on the Internet*, effective on August 22, 2019, to regulate activities regarding the collection, use, and disclosure of minors' personal information on the Internet.

Our current security measures and those of the third parties with whom we transact business may not be adequate for the protection of user personal information. In addition, we do not have control over the security measures of our third-party online payment vendors. Security breaches of our system and the online payment systems that we use could expose us to litigation and liability for failing to secure confidential customer information and could harm our reputation, ability to attract customers and ability to encourage customers to purchase virtual items.

Laws and Regulations Related to Security and Censorship

The principal pieces of PRC legislation concerning information security and censorship are:

- *The Law of the People's Republic of China on the Preservation of State Secrets* (1988, as amended in 2010) and related Implementing Rules (2014);
- *The Law of the People's Republic of China Regarding Anti-spy* (2014);
- *Rules of the People's Republic of China for Protecting the Security of Computer Information Systems* (1994, as amended in 2011);
- *Administrative Regulations for the Protection of Secrecy on Railway Computer Information Systems Connected to International Networks* (1999);

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- *Regulations for the Protection of State Secrets for Computer Information Systems on the Internet* (2000);
- *Notice issued by the Ministry of Public Security of the People's Republic of China Regarding Issues Relating to the Implementation of the Administrative Measure for the Security Protection of International Connections to Computer Information Networks* (2000); and
- *The Decision of the Standing Committee of the National People's Congress Regarding the Safeguarding of Internet Security* (2000) which has been amended in 2009.

These pieces of legislation specifically prohibit the use of Internet infrastructure where it results in a breach of public security, the provision of socially destabilizing content or the divulgence of State secrets, as follows:

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

Under the aforementioned legislation, it is mandatory for Internet companies in the PRC to complete security filing procedures with the local public security bureau and for them provide regular updates to the local public security bureau regarding information security and censorship systems for their Websites. In this regard, on October 1, 2004, the *Administrative Rules on the Filing of Commercial Websites* (“Commercial Websites Filing Rules”) were promulgated by the Beijing Administration of Market Regulation (the “Beijing AMR”) to replace the *Detailed Implementing Rules for the Measures for the Administration of Commercial Website Filings for the Record* promulgated by the Beijing AMR on September 1, 2000. The Commercial Websites Filing Rules state that operators of commercial Websites must comply with the following requirements:

- filing with the Beijing AMR and obtain electronic registration marks for the Websites;
- placing the registration marks on the Websites’ homepages; and
- registering the Website names with the Beijing AMR.

On November 7, 2016, the Standing Committee of the National People’s Congress issued the *Internet Security Law* (the “Internet Security Law”), which took effect on June 1, 2017. The Internet Security Law requires providers of services over Internet networks to keep user information that they have collected in strict confidence and to establish improved systems for the protection of user information. Such service providers must provide notice of the purpose, methods and scope of their collection and use of user information, and obtain the consent of each person whose personal information will be collected. Providers of services over Internet networks may not collect any personal information that is not related to the services they provide, or disclose or tamper with personal information that they have collected, unless such information is encoded to prevent identification of individuals whose information is so disclosed or tampered with. Service providers who do not comply with the Internet Security Law may be subject to fines, suspension of their businesses, shutdown of their websites, and revocation of their business licenses.

Sohu Internet and Changyou have successfully registered the Sohu.com Website, the Changyou.com Website and the cy.com Website with the Beijing AMR and the electronic registration marks for the Websites are prominently placed on the homepages of the Sohu.com Website and the Changyou.com Website and the cy.com Website. Sogou Information has successfully registered the sogou.com Website with the Beijing AMR.

In addition, the State Security Bureau has issued regulations authorizing the blocking of access to any site it deems to be leaking State secrets or failing to comply with legislation regarding the protection of State secrets in the distribution of information online. Specifically, Internet companies in China with message boards, chat rooms or similar services, such as Sohu, must apply for the approval of the State Secrets Bureau prior to operating such services.

Amendment (IX) provides, among other things discussed elsewhere in this report, that network service providers who do not comply with laws and regulations regarding the safe management of information on their networks and fail to correct their conduct after they receive notice of such non-compliance from relevant regulatory authorities, with results such as the dissemination of a substantial amount of illegal information or serious loss of evidence in criminal cases, may be convicted of the crime of failing to fulfill their obligations for the safe management of information on the Internet. In addition, entities and individuals are prohibited from offering such technical and other support for Internet access, online data storage, and communication transmission while knowing that recipients of any such support are conducting criminal activities through the Internet. The *Interpretation of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues Concerning the Application of Law in of Criminal Cases Involving Illegal Use of Information Networks and Assistance in Criminal Activities Committed through Information Networks*, issued on October 21, 2019, further clarifies standards for conviction of the crimes of failing to fulfill obligations for the safe management of information on the Internet and assisting in criminal activities related to information networks.

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Accordingly, we have established an internal security committee and adopted security maintenance measures, employed a full-time supervisor and exchanged information on a regular basis with the local public security bureau with regard to sensitive or censored information and Websites.

Internet Content and Anti-Pornography

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

In addition, the PRC government has issued several regulations concerning the installation of filter software to filter out unhealthy and vulgar content from the Internet. In April 1, 2009, the Ministry of Education, the MIIT and certain other PRC ministries and agencies issued a notice requiring that, by the end of May 2009, all computer terminals connected with the Internet at all elementary and secondary schools be able to include and operate Green Dam-Youth Escort, which is software aimed at filtering out unhealthy and vulgar content in text and graphics from the Internet and which, according to the Website for the software, may be used to control time spent on the Internet, prohibit access to computer games, and filter out unhealthy Websites. The MIIT further expanded the scope of required use of this filter software by issuing a notice on May 19, 2009 requiring that, effective as of July 1, 2009, all computers manufactured and sold in China have the latest available version of Green Dam-Youth Escort preinstalled when they leave the factory and that all imported computers have the latest available version of Green Dam-Youth Escort preinstalled before being sold in China. Green-Dam Youth Escort is to be preinstalled on the hard drive of the computer or in the form of a CD accompanying the computer and is also to be included in the backup partition and system restore CD. However, on June 30, 2009, the MIIT postponed the implementation of this requirement regarding pre-installation of Green Dam-Youth Escort.

On December 4, 2009, the MIIT and three other PRC government authorities jointly issued the *Incentives Measures for Report of Pornographic, Obscene and Vulgar Messages on Internet and Mobile Media* (“Anti-Pornography Notice”), to crack down on online pornography. Pursuant to the Anti-Pornography Notice, rewards of up to RMB10,000 will be provided to Internet users who report Websites that feature pornography, and a committee has been established to review such reports to determine an appropriate award. During a PRC anti-pornography campaign, which continued during 2014, many Websites (including mobile Websites) that contained pornography were closed down. In addition, China Mobile announced a temporary suspension of billing for Wireless Application Protocol (“WAP”) services, as a means of fighting against Websites providing pornographic content.

On April 13, 2014, the National Working Group on Anti-Pornography and three other PRC government authorities jointly issued the *Proclamation of Special Action Regarding Crackdown on Online Pornographic Content* (the “Anti-Pornography Proclamation”). Under the Anti-Pornography Proclamation, Internet service providers must immediately remove texts, images, video, advertisements and other information that contain pornographic content. The relevant government authority may order enterprises or individuals who flagrantly produce or disseminate pornographic content to stop conducting business, and may revoke relevant administrative permits. Moreover, an enterprise or individual who provides telecom operation services, network access services, advertising services or payment services to facilitate dissemination of pornographic content may have criminal or civil penalties imposed under the PRC Criminal Law and other relevant laws and regulations.

Laws and Regulations Related to Unfair Competition

Pursuant to the *Unfair Competition Law of the PRC* (the “Unfair Competition Law”) adopted by the Standing Committee of the National People’s Congress on November 4, 2017 and effective on April 23, 2019, a business operator is prohibited from taking any of the following actions:

- unauthorized use of marks that are the same as or similar to the names, packaging, or decoration of another party’s products;
- unauthorized use of another party’s organizational name or the name of an individual;
- unauthorized use of another party’s domain name, website name, or webpage; and
- other actions causing a third party to mistakenly believe that another party’s product is that of the business operator.

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The Unfair Competition Law forbids business operators to pay bribes in order to gain an opportunity or competitive advantage in a business transaction or to misappropriate the trade secrets of another. “Trade secrets,” as defined in the Unfair Competition Law, refers to technical information, operating information, and other commercial information with commercial value that has not been released to the public, and is subject to appropriate measures to protect its confidentiality.

The Unfair Competition Law also stipulates that, without the consent of the affected party, the operator of an Internet business operator may not insert links into the products and services of another Internet business operator in order to re-direct user traffic; may not mislead or compel users to modify, terminate, or un-install any Internet products or services of another Internet business operator; and may not take actions in bad faith to cause an Internet product or service of another Internet business operator to be unusable by users of the other business operator’s properties.

An amendment of the Unfair Competition Law that became effective on January 1, 2018 increases the maximum amount of administrative penalties that may be imposed for violations. An additional amendment of the Unfair Competition Law that became effective on April 23 2019 increases the amount of administrative penalties that may be imposed for malicious misappropriation of trade secrets.

In addition, the Supreme People’s Court has promulgated an *Interpretation of Several Issues Relating to the Application of Law in Civil Trials of Unfair Competition Cases*, which became effective as of February 1, 2007. This interpretation provides guidance on how to conduct trials involving unfair competition, protect the legal rights and interests of business operators, and maintain orderly market competition.

Regulation of M&A and Overseas Listings

On August 8, 2006, six PRC regulatory agencies, including the MOFCOM, the State Assets Supervision and Administration Commission, the State Administration of Taxation (“SAT”), the SAMR, the China Securities Regulatory Commission (the “CSRC”), and the SAFE, jointly issued the *Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* (“M&A Rule”), which became effective on September 8, 2006 and amended on June 22, 2009. The M&A Rule includes provisions that purport to require that an Offshore special purpose vehicle formed for purposes of the overseas listing of equity interests in PRC companies and controlled directly or indirectly by PRC companies or individuals obtain the approval of the CSRC prior to the listing and trading of such special purpose vehicle’s securities on an overseas stock exchange.

On September 21, 2006, the CSRC published on its official Website procedures regarding its approval of overseas listings by special purpose vehicles. The CSRC approval procedures require the filing of a number of documents with the CSRC. The application of this PRC regulation remains unclear, with no consensus currently existing among leading PRC law firms regarding the scope of the applicability of the CSRC approval requirement.

The M&A Rules also establish procedures and requirements that could make some acquisitions of Chinese companies by foreign investors more time-consuming and complex, including requirements in some instances that the MOFCOM be notified in advance of any change-of-control transaction in which a foreign investor takes control of a Chinese domestic enterprise.

In February 2011, the General Office of the State Council promulgated Circular 6, which established a security review system for mergers and acquisitions of domestic enterprises by foreign investors. Under Circular 6, a security review is required for mergers and acquisitions by foreign investors having “national defense and security” concerns and mergers and acquisitions by which foreign investors may acquire “de facto control” of domestic enterprises with “national security” concerns. In August 2011, the MOFCOM promulgated the *Rules on Implementation of Security Review System* (“MOFCOM Security Review Rules”), to replace the *Interim Provisions of the Ministry of Commerce on Matters Relating to the Implementation of the Security Review System for Mergers and Acquisitions of Domestic Enterprises by Foreign Investors* promulgated by the MOFCOM in March 2011. The MOFCOM Security Review Rules, which came into effect on September 1, 2011, provide that the MOFCOM will look into the substance and actual impact of a transaction and prohibit foreign investors from bypassing the security review requirement by structuring transactions through proxies, trusts, indirect investments, leases, loans, control through contractual arrangements or Offshore transactions.

On October 23, 2019, the SAFE issued the *Notice of the State Administration of Foreign Exchange to Further the Facilitation of Cross-border Trade and Investment*, which cancelled restrictions on the use by foreign-invested companies that are not investment companies of their capital funds for equity investments.

Laws and Regulations Related to Antitrust

On August 30, 2007, the Standing Committee of the National People’s Congress of the PRC adopted the PRC Anti-Monopoly Law (“AML”), which took effect on August 1, 2008. Pursuant to the AML, monopolistic conduct, including entering into monopoly agreements, abuse of dominant market position and concentration of undertakings that have the effect of eliminating or restricting competition, is prohibited. To further implement the Antitrust Law and clarify certain issues, the State Council, the MOFCOM, the NDRC, and the SAMR issued several regulations and rules, including the *Provisions on Thresholds for Prior Notification of Concentrations of Undertakings* issued by the State Council on August 3, 2008 and amended on September 18, 2018, the *Interim Regulations on the Prohibition of Monopolistic Agreements* issued by the SAMR on June 26, 2019, the *Interim Regulations on the Prohibition of Conduct Constituting an Abuse of a Dominant Market Position* issued by the SAMR on June 26, 2019, the *Regulations on the Prevention of Conduct Constituting an Abuse of Administrative Powers to Eliminate or Restrict Competition* issued by the SAMR on June 26, 2019, the *Declaration Rules for Concentrations of Undertakings* issued by the MOFCOM on January 5, 2009, amended on June 6, 2014, and re-issued by the SAMR on September 29, 2018, the *Assessment Rules for Concentration of Undertakings* issued by the MOFCOM on November 24, 2009, and the *Provisional Measures on the Investigation and Handling of Concentrations Between Business Operators which Were Not Notified in Accordance with the Law* issued by the MOFCOM on December 30, 2011.

Taken together these various laws and regulations provide for the following:

Monopoly Agreement: competing business operators may not enter into monopoly agreements that eliminate or restrict competition, such as by boycotting transactions, fixing or changing the price of commodities, limiting the output of commodities, fixing the price of commodities for resale to third parties, unless such agreements satisfy the exemptions under the Antitrust Law, such as improving technologies or increasing the efficiency and competitiveness of small and medium-sized enterprises. Sanctions for violations include an order to cease the relevant activities, confiscation of illegal gains and fines (from 1% to 10% of sales revenue from the previous year, or RMB 500,000 if the intended monopoly agreement has not been performed).

Abuse of Dominant Market Position: a business operator with a dominant market position may not abuse its dominant market position to conduct acts such as selling commodities at unfairly high prices or buying commodities at unfairly low prices, selling products at prices below cost without any justifiable cause, and refusing to trade with a trading party without any justifiable cause. Dominant market position refers to a market position held by a business operator having the capacity to control the price, quantity or other trading conditions of commodities in the relevant market, or to hinder or affect any other business operator to enter the relevant market, which will be determined based on the market share of the relevant business operator, capacity of a business operator to control the sales market, the degree of dependence of other business operators upon the business operator in question in transactions, and the degree of difficulty for other business operators to enter into the relevant market. Sanctions for violation of the prohibition on the abuse of dominant market position include an order to cease the relevant activities, confiscation of illegal gains and fines (from 1% to 10% of sales revenue from the previous year).

Concentration of Enterprises: pursuant to the AML, where a concentration of enterprises reaches the declaration threshold stipulated by the State Council, a declaration must be lodged in advance with the antitrust authority under the State Council. Otherwise, the concentration cannot be effected. Concentration refers to (1) a merger of enterprises; (2) acquiring control over other enterprises by an enterprise through acquiring equities or assets; or (3) acquiring control over, or the possibility of exercising decisive influence on, an enterprise by contract or by any other means. Under the Provisions on Thresholds for Prior Notification of Concentrations of Undertakings, the thresholds for prior notification of concentration of enterprises are the following:

- the combined worldwide turnover of all of the subject enterprises in the preceding financial year is more than RMB10.00 billion, and the nationwide turnover within China of each of at least two of the subject enterprises in the preceding financial year is more than RMB400.0 million; or
- the combined nationwide turnover within China of all the subject enterprises in the preceding financial year is more than RMB2.00 billion, and the nationwide turnover within China of each of at least two of the subject enterprises in the preceding financial year is more than RMB400.0 million.

If business operators fail to comply with these mandatory declaration provisions, the antitrust authority is empowered to terminate and/or unwind the transaction, dispose of relevant assets, shares or businesses and impose fines up to RMB500,000.

Regulation of Foreign Currency Exchange and Dividend Distribution

The principal regulations governing foreign currency exchange in China are the *Foreign Exchange Administration Regulations* (“FX Regulations”), which were last amended in August 2008. Under the FX Regulations, the RMB is freely convertible for current account items, including the distribution of dividends, interest payments, trade and service-related foreign exchange transactions, but not for capital account items, such as direct investments, loans, repatriation of investments and investments in securities outside of China, unless the prior approval of the SAFE is obtained and prior registration with the SAFE is made. Dividends paid by a PRC subsidiary to its overseas shareholder are deemed income of the shareholder and are taxable in the PRC. Pursuant to the *Administration Rules of the Settlement, Sale and Payment of Foreign Exchange*, foreign-invested enterprises in the PRC may purchase or remit foreign currency, subject to a cap approved by the SAFE, for settlement of current account transactions without the approval of the SAFE. Foreign currency transactions under the capital account are still subject to limitations and require approvals from, or registration with, the SAFE and other relevant PRC governmental authorities.

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In July 2014, the SAFE promulgated the *Circular on Issues Concerning Foreign Exchange Administration Over the Overseas Investment and Financing and Roundtrip Investment by Domestic Residents Via Special Purpose Vehicles* (“Circular 37”) which replaced *Relevant Issues Concerning Foreign Exchange Control on Domestic Residents’ Corporate Financing and Roundtrip Investment through Offshore Special Purpose Vehicles* (“Circular 75”). Circular 37 requires PRC residents, including PRC institutions and individuals, to register with the local SAFE branch in connection with their direct establishment or indirect control of an Offshore entity, referred to in Circular 37 as a “special purpose vehicle,” for the purpose of holding domestic or Offshore assets or interests. PRC residents must also file amendments to their registrations in the event of any significant changes with respect to the special purpose vehicle, such as increase or decrease of capital contributed by PRC individuals, share transfer or exchange, merger, division or other material event. Under these regulations, PRC residents’ failure to comply with specified registration procedures may result in restrictions being imposed on the foreign exchange activities of the relevant PRC entity, including the payment of dividends and other distributions to its Offshore parent, as well as restrictions on capital inflows from the Offshore entity to the PRC entity, including restrictions on the ability to contribute additional capital to the PRC entity. Further, failure to comply with the various SAFE registration requirements could result in liability under PRC law for evasion of foreign exchange regulations.

Under Circular 37, if a non-listed special purpose vehicle uses its own equity to grant equity incentives to any directors, supervisors, senior management or any other employees directly employed by a domestic enterprise which is directly or indirectly controlled by such special purpose vehicle, or with which such an employee has established an employment relationship, related PRC residents and individuals may, prior to exercising their rights, apply to the SAFE for foreign exchange registration formalities for such special purpose vehicle. However, in practice, different local SAFE branches may have different views and procedures on the interpretation and implementation of the SAFE regulations, and since Circular 37 was the first regulation to regulate the foreign exchange registration of a non-listed special purpose vehicle’s equity incentives granted to PRC residents, there remains uncertainty with respect to its implementation.

On December 25, 2006, the PBOC issued the *Administration Measures on Individual Foreign Exchange Control*, and related *Implementation Rules* were issued by the SAFE on January 5, 2007 and amended on May 29, 2016. Both became effective on February 1, 2007. Under these regulations, all foreign exchange transactions involving an employee share incentive plan, share option plan, or similar plan participated in by individuals in the PRC may be conducted only with approval from the SAFE or its authorized branch. Under the *Notice of Issues Related to the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Listed Company* (“Offshore Share Incentives Rules”), which was issued by the SAFE on February 15, 2012, PRC citizens who are granted share options, restricted share units or restricted shares by an overseas publicly listed company are required to register with the SAFE or its authorized branch and to comply with a series of other requirements. In November 2011, the SAFE approved our application to designate our PRC subsidiary Sohu Media to handle the registrations and other procedures required by the Offshore Share Incentives Rules. In February 2012, the SAFE approved Changyou’s application to designate its PRC subsidiary AmazGame to handle the registrations and other procedures required by the Offshore Share Incentive Rules. If we, Changyou or the PRC employees of Changyou and us who hold options, restricted share units or restricted shares fail to comply with these registration or other procedural requirements, we, Changyou and/or such employees may be subject to fines and other legal sanctions. Sogou has applied for registration of its 2017 Share Incentive Plan with the SAFE, and Sogou is in the process of applying for such registration of its 2010 Share Incentive Plan. If its 2017 Share Incentive Plan and 2010 Share Incentive Plan are not accepted for registration by the SAFE, Sogou may not be able to grant further share-based awards to its PRC employees, Sogou and those who have received awards may be subject to fines and legal sanctions, and Sogou’s ability to contribute additional capital to its PRC subsidiaries and its PRC subsidiaries’ ability to distribute dividends to it may be limited.

The principal law and regulations governing distribution of dividends of foreign holding companies were the *Foreign Investment Enterprise Law* (1986), which was amended in October 2000 and October, 2016, and the *Administrative Rules under the Foreign Investment Enterprise Law* (2001), which were amended in February, 2014. This law and the related regulations were replaced by the *Foreign Investment Law* and the *Implementing Regulations of the Foreign Investment Law*, respectively, which both became effective on January 1, 2020. Under the new law and regulations, requirements for the distribution of dividends of newly-established foreign investment enterprises will be consistent with those that apply to domestic companies, which are included in the *Company Law of the PRC*. Under the *Company Law of the PRC*, newly-established foreign investment enterprises are required to set aside 10% of their after-tax profits each year to fund statutory common reserves until such reserves equal 50% of the amount of registered capital.

Furthermore, under the *CIT Law*, which became effective on January 1, 2008 and was amended on February 24, 2017, the maximum rate for withholding tax imposed on dividend payments from PRC foreign -invested companies to their overseas investors that are not regarded as “resident” for tax purposes is 20%. The rate was reduced to 10% under the *Implementing Regulations for the CIT Law* issued by the State Council. However, a lower withholding tax rate of 5% might be applied if there is a tax treaty between China and the jurisdiction of the foreign holding companies, such as is the case with Hong Kong, and certain requirements specified by PRC tax authorities are satisfied.

Laws and Regulations Related to Employment and Labor Protection

On June 29, 2007, the National People’s Congress promulgated the *Employment Contract Law of PRC* (“Employment Contract Law”), which became effective as of January 1, 2008 and was amended on December 28, 2012. The *Employment Contract Law* requires employers to provide written contracts to their employees, restricts the use of temporary workers and aims to give employees long-term job security.

Pursuant to the *Employment Contract Law*, employment contracts lawfully concluded prior to the implementation of the *Employment Contract Law* and continuing as of the date of its implementation shall continue to be performed. Where an employment relationship was established prior to the implementation of the *Employment Contract Law* but no written employment contract was concluded, a contract must be concluded within one month after its implementation.

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On September 18, 2008, the State Council promulgated the *Implementing Regulations for the PRC Employment Contract Law* which came into effect immediately. These regulations interpret and supplement the provisions of the Employment Contract Law.

We have modified our standard employment contract to comply with the requirements of the Employment Contract Law and its implementing regulations. We have entered into written employment contracts with all of our employees.

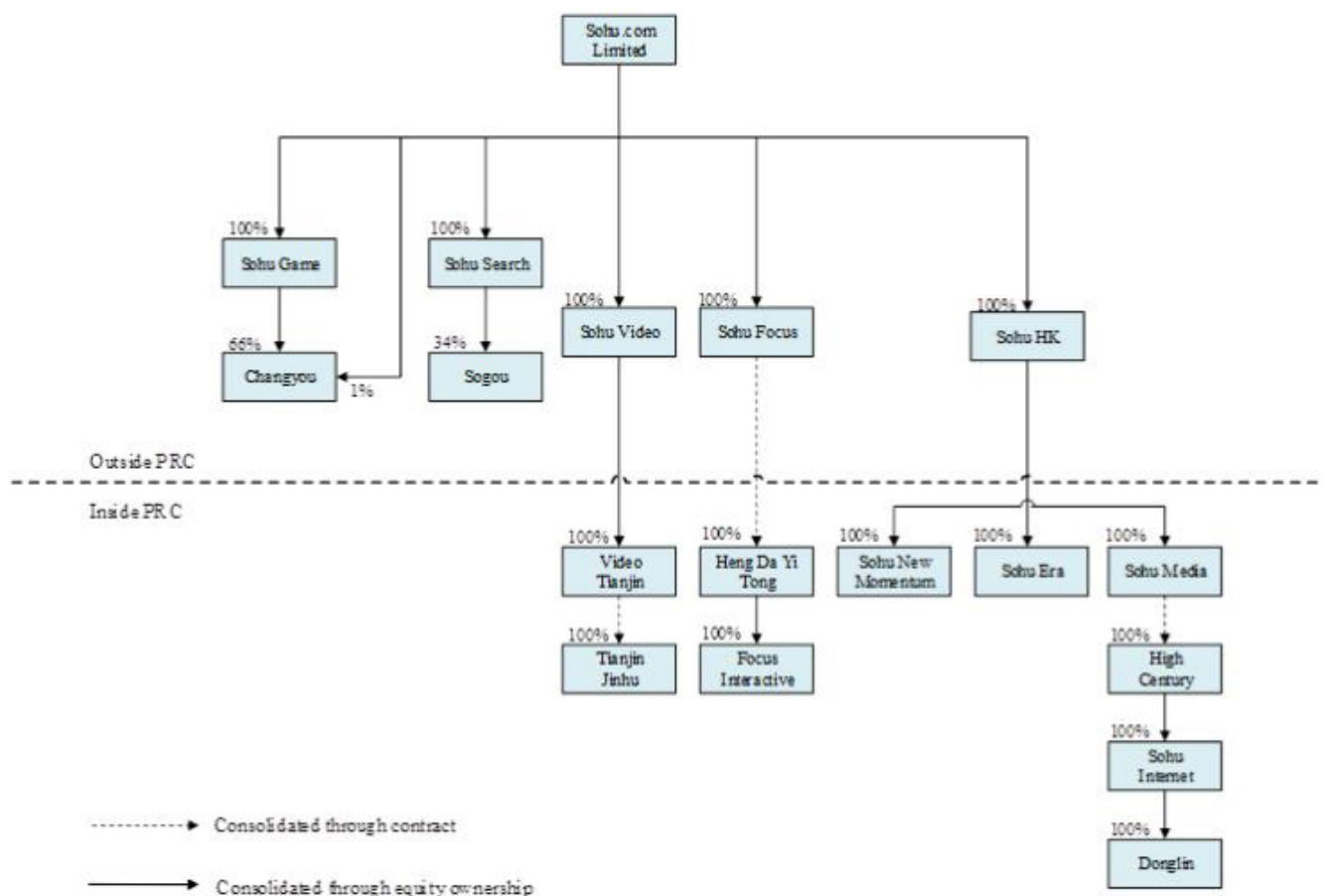
Conclusion

In the opinion of Haiwen, our principal PRC Subsidiaries and principal VIEs are approved to engage in the specific online services (categorized and addressed in the above sections) as described in the respective scopes indicated in the corresponding licenses and/or permits issued to the respective companies.

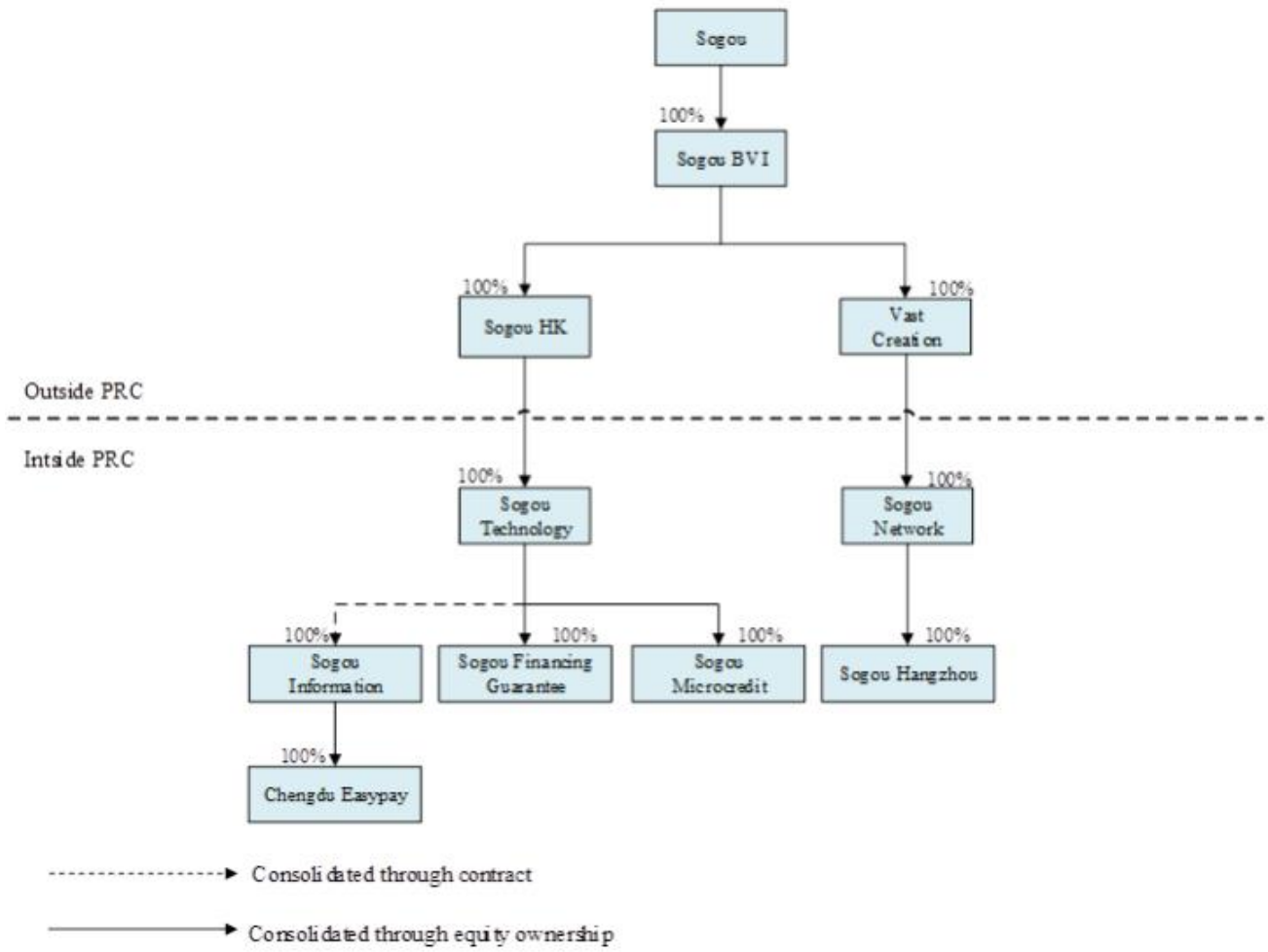
ORGANIZATIONAL STRUCTURE

The charts below present the principal consolidated entities of Sohu.com Limited, not including our consolidated Sogou entities and Changyou entities, and our principal consolidated Sogou entities and Changyou entities as of December 31, 2019. Certain intermediate holding companies that are not significant to the Sohu Group have been eliminated. As a result of the completion of the Changyou Merger on April 17, 2020, as of the date of this report, the Sohu Group holds 100% of the combined total of Changyou's outstanding ordinary shares.

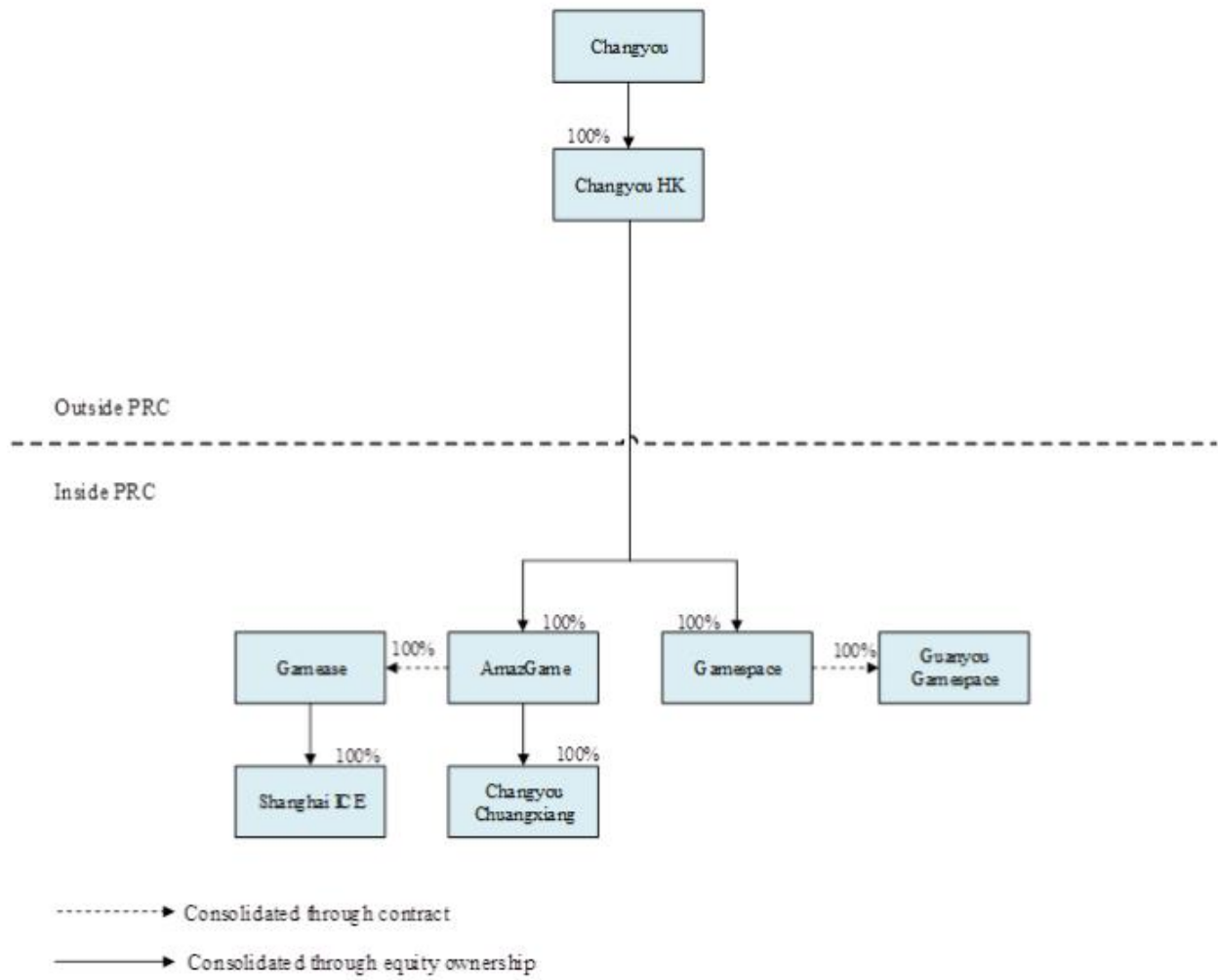
Sohu Organizational Chart



Sogou Organizational Chart



Changyou Organizational Chart



Principal Subsidiaries

The following are our principal subsidiaries:

For Sohu's Business

- Sohu.com (Hong Kong) Ltd., or Sohu HK, established in 2000;
- Beijing Sohu New Era Information Technology Co., Ltd., or Sohu Era, established in 2003;
- Sohu.com (Search) Limited, or Sohu Search, established in 2005;
- Beijing Sohu New Media Information Technology Co., Ltd., or Sohu Media, established in 2006;
- Sohu.com (Game) Limited, or Sohu Game, established in 2008;
- Beijing Sohu New Momentum Information Technology Co., Ltd., or Sohu New Momentum, established in 2010;
- Fox Video Limited, or Sohu Video, established in 2011;
- Fox Information Technology (Tianjin) Limited, or Video Tianjin, established in 2011; and
- Sohu Focus Limited, or Sohu Focus, established in 2013.

For Sogou's Business

- Sogou Inc., or Sogou, established in 2005;
- Sogou (BVI) Limited, or Sogou BVI, established in 2005;
- Beijing Sogou Technology Development Co., Ltd., or Sogou Technology, established in 2006;
- Sogou Hong Kong Limited, or Sogou HK, established in 2007;
- Vast Creation Advertising Media Services Limited, or Vast Creation, established in 2004 and acquired by Sogou in 2011;
- Beijing Sogou Network Technology Co., Ltd., or Sogou Network, established in 2012;
- Sogou (Shantou) Internet Microcredit Co., Ltd., or Sogou Microcredit, established in 2017;
- Sogou (Hangzhou) Intelligent Technology Co., Ltd., or Sogou Hangzhou, established in 2018; and
- Shantou Ying Zhong Bai Fu Financing Guarantee Co., Ltd., or Sogou Financing Guarantee, established in 2019.

For Changyou's Business

- Changyou.com Limited, or Changyou, established in 2007;
- Changyou.com (HK) Limited, or Changyou HK, established in 2007;
- Beijing AmazGame Age Internet Technology Co., Ltd., or AmazGame, established in 2007;
- Beijing Changyou Gamespace Software Technology Co., Ltd., or Gamespace, established in 2009; and
- Beijing Changyou Chuangxiang Software Technology Co., Ltd., or Changyou Chuangxiang, established in 2016.

Principal Variable Interest Entities

The following are our principal VIEs, which we established or acquired in China to perform value-added telecommunications services because of PRC restrictions on direct foreign investment in and operation of value-added telecommunications businesses, which restrictions are discussed in “Government Regulation and Legal Uncertainties-Specific Statutes and Regulations-Regulation of Foreign Direct Investment in Value-Added Telecommunications Companies.” We entered into contractual arrangements between our VIEs and our PRC Subsidiaries that govern a substantial portion of our operations, including those of the brand advertising business, the search and search-related business, the online game business and the others business. These entities are consolidated in Sohu’s consolidated financial statements, and noncontrolling interest is recognized when applicable.

For Sohu’s Business

- Beijing Century High-Tech Investment Co., Ltd., or High Century, a PRC company that was incorporated in 2001. As of December 31, 2019, Dr. Charles Zhang, our Chairman of the Board and Chief Executive Officer, and Wei Li, one of our employees, held 80% and 20% interests, respectively, in this entity;
- Beijing Heng Da Yi Tong Information Technology Co., Ltd., or Heng Da Yi Tong, a PRC company that was incorporated in 2002. As of December 31, 2019, Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity;
- Beijing Sohu Internet Information Service Co., Ltd., or Sohu Internet, a PRC company that was incorporated in 2003. As of December 31, 2019, High Century held a 100% interest in this entity;
- Beijing Sohu Donglin Advertising Co., Ltd., or Donglin, a PRC company that was incorporated in 2010. As of December 31, 2019, Sohu Internet held a 100% interest in this entity;
- Tianjin Jinhua Culture Development Co., Ltd, or Tianjin Jinhua, a PRC company that was incorporated in 2011. As of December 31, 2019, Xiufeng Deng and Xuemei Zhang, both of whom are our employees, each held a 50% interest in this entity; and
- Beijing Focus Interactive Information Service Co., Ltd., or Focus Interactive, a PRC company that was incorporated in July 2014. As of December 31, 2019, Heng Da Yi Tong held a 100% interest in this entity.

For Sogou’s Business

- Beijing Sogou Information Service Co., Ltd., or Sogou Information, a PRC company that was incorporated in 2005. As of December 31, 2019, Xiaochuan Wang, Sogou’s Chief Executive Officer, High Century and Tencent held 10%, 45% and 45% interests, respectively, in this entity; and
- Chengdu Easypay Technology Co., Ltd., or Chengdu Easypay, a PRC company that was incorporated in 2015. As of December 31, 2019, Sogou Information and Beijing Shi Ji Si Su Technology Co., Ltd., a subsidiary of Sogou Information, held 9% and 91% interests, respectively, in this entity.

For Changyou’s Business

- Beijing Gamease Age Digital Technology Co., Ltd., or Gamease, a PRC company that was incorporated in 2007. As of December 31, 2019, High Century held a 100% interest in this entity;
- Shanghai ICE Information Technology Co., Ltd., or Shanghai ICE, a PRC company that was acquired by Changyou in 2010. As of December 31, 2019, Gamease held a 100% interest in this entity; and
- Beijing Guanyou Gamespace Digital Technology Co., Ltd., or Guanyou Gamespace, a PRC company that was incorporated in 2010. As of December 31, 2019, Beijing Changyou Star Digital Technology Co., Ltd (“Changyou Star”) held a 100% interest in this entity.

We have extended interest-free loans to the individual shareholders of the VIEs to fund their capital investment in the VIEs. The loans are secured by pledges of the shareholders’ equity interests in the VIEs, and can only be repaid by the shareholders by surrender of those equity interests to us. We have also entered into a series of agreements with the individual shareholders to transfer their equity interests in the VIEs to us when required to do so.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section entitled "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes included elsewhere in this annual report. The discussion in this section contains forward-looking statements that involve risks and uncertainties. As a result of various factors, including those set forth under "Item 3. Key Information—Risk Factors" and elsewhere in this annual report on Form 20-F, our actual future results may be materially different from what we expect.

OVERVIEW

We are a leading Chinese online media, search and game service group providing comprehensive online products and services on PCs and mobile devices in China. Our businesses are conducted by the Sohu Group, which consists of Sohu, Sogou and Changyou. Sohu is a leading Chinese language online media content and services provider. Sogou is an innovator in search and a leader in China's Internet industry. With a mission to make it easy to communicate and get information, Sogou has grown to become the second largest search engine by mobile queries, according to CTR, and the fourth largest Internet company by MAU in China, according to iResearch. Changyou is a leading online game developer and operator in China as measured by the popularity of its PC game TLBB and its mobile game Legacy TLBB Mobile, and engages primarily in the development, operation and licensing of online games for PCs and mobile devices.

Through the operation of Sohu, Sogou and Changyou, we generate online advertising revenues, including brand advertising revenues and search and search-related advertising revenues; online games revenues; and other revenues. Online advertising and online games are our core businesses. Most of our operations are conducted through our China-based subsidiaries and VIEs.

For the year ended December 31, 2019, our total revenues were approximately \$1.85 billion, representing an increase of 2% compared to 2018, and our gross margin increased from 46% to 47%. Our online advertising business generated revenues of \$1.25 billion, with a 1% annual decrease, representing 68% of total revenues. Our online game business generated revenues of \$440.9 million, with a 13% annual increase, representing 24% of total revenues. In 2019, our net loss from continuing operations before deducting the noncontrolling interest was \$9.4 million, compared to a net loss from continuing operations of \$22.5 million in 2018. In 2019, our net loss from continuing operations after deducting the non-controlling interest was \$126.6 million, compared to a net loss from continuing operations of \$129.8 million in 2018. Diluted net loss from continuing operations per share attributable to Sohu.com Limited was \$3.25 in 2019, compared to a diluted net loss from continuing operations per share attributable to Sohu.com Limited of \$3.36 in 2018.

Factors and Trends Affecting our Business

With the accelerated shift in user activities from PCs to mobile devices and an increase in the number of Internet users, the use of various kinds of mobile Internet services continued to increase. At Sohu, we focused our efforts on developing a portfolio of leading mobile products across our business lines that we believed our users would like.

Smartphones have reshaped the online media business in China, as in-stream feeds have become a mainstream format through which users have become accustomed to receiving personalized information. To ensure we remain as a premier destination for our audience, we invested extensively in content and technology for Sohu Media Portal. We continually refined the design of our key product Sohu News APP, and introduced innovative features to meet users' appetites. We improved the algorithm used by the recommendation engine of Sohu News APP to enhance the user experience. We also introduced social features into our products to improve interactions between users and stickiness. Our advertising revenues from large brand advertisers decreased through 2019, as we faced challenges competing for their budgets in a weakened macroeconomic environment in China. In response, we are actively hosting various events to attract attention and interest from both users and advertisers. Further, we are also upgrading our advertising systems to improve their effectiveness, with the goal of enhancing monetization, and increasing small and medium enterprise ("SME") customers' allocations of their advertising budgets to us.

Online video services remained one of the most popular Internet applications, and continued to gain viewers from television stations. Due to intensified competition among major players, the price of content, especially the prices of premium TV programs, went up sharply in the past few years. This caused industry-wide financial losses. For Sohu Video, we have changed our content procurement strategy and stopped buying expensive new TV programs. We now concentrate on self-developed content and other short-form video program categories, which are much less expensive than TV content. We have also integrated various social functions into our products to help users build and find their own unique social communities. Leveraging our exclusive original content, we also actively explore opportunities with subscription services that we believe will become an important revenue source in addition to traditional advertising revenues. As a result of these measures, the operating loss of Sohu Video in 2019 decreased by 32% year-on-year. We expect the loss will continue to narrow in the year of 2020.

Growth in the online search market in China slowed in 2019, driven by a shift in the allocation of advertising budgets, the already high penetration of mobile devices, and slower growth of mobile search traffic. Changes in the macroeconomic and regulatory environment in China have also affected, and may continue to affect, the online search industry. As of the end of 2019, Sogou continued to be China's second-largest search engine by mobile queries. In December 2019, Sogou Search had an 18.3% market share in China based on mobile queries, according to CTR. Sogou strengthened its competitive advantages in search as it continued to build its content and service ecosystem during 2019. It has also continued to leverage the robust ecosystem it has built and shares with Tencent. Sogou Search is the default search engine for a range of Tencent products that offer general search functions. Sogou Search also continues to be the preferred search engine on Weixin/WeChat for third-party search services to access external Internet content. Sogou intends to extend this partnership year to year until 2023 as part of the overall framework agreement that Sogou and Tencent entered into in September 2018. In addition, Sogou has made significant breakthroughs in language-centered AI technology, including speech, computer vision, machine translation, dialogue, and question answering ("Q&A"). Sogou has further leveraged these AI capabilities to enhance the search experience for users. It has also integrated these AI capabilities into industry-leading solutions and expanded their use in multiple sectors. In addition, Sogou will continue to invest in companies with valuable content, data, and technology, and look to build strategic partnerships through equity investments that help to solidify its competitive edge and drive the long-term growth of its search business.

For Changyou's online game business, both PC games and mobile games revenues experienced increases during the year of 2019. In 2019, Changyou reviewed its previous experience in mobile game development, streamlined its game development processes, and set higher standards in terms of the overall quality of games within the pipeline. It also continued to adjust the in-game environment of and optimize the operational strategy for its existing games. Going forward, Changyou plans to continue to improve its capabilities in game design, game technology, and graphic quality, enhance project management over the development process, and improve development efficiencies, as well as to further invest in talent acquisition and development. While Changyou expects that MMORPG mobile games will continue to be its strategic focus, it also plans to develop casual games and strategy games. For the three months ended December 31, 2019, the PC games and mobile games that Changyou operates had approximately 5.9 million total average monthly active accounts and approximately 2.1 million total active paying accounts.

The outbreak of COVID-19, which emerged in December 2019 and has rapidly spread to become a worldwide pandemic, has had, and may continue to have, a significant negative impact on the Chinese economy, and on the worldwide economy as a whole, and, in particular, on advertiser spending in the China market in which we operate, which is likely to have an adverse impact on our future business and results of operations.

CRITICAL ACCOUNTING POLICIES AND MANAGEMENT ESTIMATES

Our discussion and analysis of our financial condition and results of operations relates to our consolidated financial statements, which have been prepared in accordance with United States of America generally accepted accounting principles ("U.S. GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an on-going basis, we evaluate our estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Identified below are the accounting policies that reflect our most significant estimates and judgments, and those that we believe are the most critical to fully understanding and evaluating our consolidated financial statements.

Basis of Consolidation and Recognition of Noncontrolling Interest

Our consolidated financial statements include the accounts of Sohu and its subsidiaries and consolidated VIEs. All intra-Group transactions are eliminated.

VIE Consolidation

Our VIEs are wholly or partially owned by certain employees as nominee shareholders. For our consolidated VIEs, management made evaluations of the relationships between us and our VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, we control the shareholders' voting interests in these VIEs. As a result of such evaluation, management concluded that we are the primary beneficiary of our consolidated VIEs.

Noncontrolling Interest Recognition

Noncontrolling interests are recognized to reflect the portion of the equity of subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholders. The noncontrolling interests in our consolidated financial statements consist primarily of noncontrolling interests for Sogou, and, prior to the completion of the Changyou Merger on April 17, 2020, Changyou.

Noncontrolling Interest for Sogou

Prior to the completion of Sogou's IPO in November 2017, Sohu controlled the election of a majority of the Board of Directors of Sogou pursuant to a shareholders' agreement that expired upon the completion of the IPO. Following the completion of Sogou's IPO, pursuant to the Voting Agreement and Sogou's Amended and Restated Articles of Association, Sohu still has the right to appoint a majority of Sogou's Board of Directors.

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As Sogou's controlling shareholder, we consolidate Sogou in our consolidated financial statements, and recognize noncontrolling interest reflecting economic interests in Sogou held by shareholders other than us (the "Sogou noncontrolling shareholders"). Sogou's net income /(loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in our consolidated statements of comprehensive income.

Noncontrolling Interest Recognition before Sogou's IPO

Based on the principles of allocation of Sogou's profit and loss set forth below, Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity/(deficit) and adjustments for share-based compensation expense in relation to those share-based awards that were unvested and vested but not yet settled and the Sogou noncontrolling shareholders' investments in Sogou Pre-IPO Series A Preferred Shares, Sogou Pre-IPO Series B Preferred Shares, Sogou Pre-IPO Class A Ordinary Shares, and Sogou Pre-IPO Class B Ordinary Shares, were accounted for as a noncontrolling interest classified as permanent equity in our consolidated balance sheets, as we had the power to reject a redemption requested by the noncontrolling shareholders. These treatments were based on the terms governing investment, and on the terms of the classes of Sogou shares held, by the noncontrolling shareholders in Sogou before Sogou's IPO.

Principles of Allocation of Sogou's Profit and Loss—By virtue of the terms of the Sogou Pre-IPO Preferred Shares, Pre-IPO Class A Ordinary Shares, and Pre-IPO Class B Ordinary Shares, Sogou's losses were allocated in the following order before Sogou's IPO:

- (i) net losses were allocated to holders of the Sogou Pre-IPO Class A Ordinary Shares and the holder of the Sogou Pre-IPO Class B Ordinary Shares until their basis in Sogou decreased to zero;
- (ii) additional net losses were allocated to holders of the Sogou Pre-IPO Series A Preferred Shares until their basis in Sogou decreased to zero;
- (iii) additional net losses were allocated to the holder of the Sogou Pre-IPO Series B Preferred Shares until its basis in Sogou decreased to zero; and
- (iv) further net losses were allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Net income from Sogou was allocated in the following order before Sogou's IPO:

- (i) net income was allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou until their basis in Sogou increased to zero;
- (ii) additional net income was allocated to the holder of the Sogou Pre-IPO Series B Preferred Shares to bring its basis back;
- (iii) additional net income was allocated to holders of the Sogou Pre-IPO Series A Preferred Shares to bring their basis back;
- (iv) further net income was allocated to holders of the Sogou Pre-IPO Class A Ordinary Shares and the holder of the Sogou Pre-IPO Class B Ordinary Shares to bring their basis back; and
- (v) further net income was allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Noncontrolling Interest Recognition after Sogou's IPO

Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, based on their share of the economic interest in Sogou, along with changes in shareholders' equity and adjustment for share-based compensation expense in relation to share-based awards that are unvested and vested but not yet settled and adjustment for changes in our ownership percentage in Sogou, are recorded as noncontrolling interest in our consolidated balance sheets.

Noncontrolling Interest for Changyou

As Changyou's controlling shareholder, we consolidate Changyou in our consolidated financial statements and, prior to the completion of the Changyou Merger on April 17, 2020, also recognized noncontrolling interest reflecting the economic interest in Changyou held by Changyou noncontrolling shareholders. Changyou's net income /(loss) attributable to the Changyou noncontrolling shareholders is recorded as noncontrolling interest in our consolidated statements of comprehensive income, based on their share of the economic interest in Changyou. Changyou's cumulative results of operations attributable to the Changyou noncontrolling shareholders, along with changes in shareholders' equity, adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and adjustment for changes in our ownership in Changyou, are recorded as noncontrolling interest in our consolidated balance sheets.

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Segment Reporting

Our Group's segments are business units that offer different services and are reviewed separately by the chief operating decision maker (the "CODM"), or the decision making group, in deciding how to allocate resources and in assessing performance. The CODM is our Chief Executive Officer.

Revenue Recognition

Impact of Adoption of ASC 606

On January 1, 2018, we adopted ASC 606, applying the modified retrospective method to contracts that were not completed as of January 1, 2018. The adoption of ASC 606 did not have a material impact on our accumulated deficit as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under ASC 605.

Under ASC 605, advertising-for-advertising barter transactions for which the fair value of the advertising services was not determinable were recorded at the carrying amount of the advertising surrendered since we did not settle such barter transactions with the counterparties in cash. As ASC 605 has been superseded by ASC 606 on this subject, advertising-for-advertising barter transactions is to be recorded at the fair value of the advertising received by reference to the fair value of advertising services provided to other customers.

Under ASC 606, revenues are recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. The recognition of revenues involves certain management judgments, including estimated lives of virtual items purchased by game players, the estimation of the fair value of an advertising-for-advertising barter transaction, allocation of upfront license fees for licensed-out games between license and post-sale services, and the volume sales rebates. We do not believe that significant management judgements are involved in revenue recognition, but the amount and timing of our revenues could be different for any period if management made different judgments or utilized different estimates.

The following table presents our revenues disaggregated by products and services:

	Year Ended December 31, 2017 (in thousands)			
	Sohu	Sogou	Changyou	Total
Brand advertising:				
Sohu Media Portal	\$152,015	0	0	152,015
Sohu Video	79,756	0	0	79,756
Focus	57,245	0	0	57,245
17173.com Website	0	0	25,096	25,096
Search and search related advertising	0	801,199	0	801,199
Online games:				
PC games	0	0	239,149	239,149
Mobile games	0	0	208,355	208,355
Other games	0	0	2,029	2,029
Others	83,758	106,807	14,180	204,745
Total	<u>\$372,774</u>	<u>908,006</u>	<u>488,809</u>	<u>1,769,589</u>

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	Year Ended December 31, 2018 (in thousands)			
	Sohu	Sogou	Changyou	Total
Brand advertising:				
Sohu Media Portal	\$127,348	0	0	127,348
Sohu Video	53,756	0	0	53,756
Focus	31,144	0	0	31,144
17173.com Website	0	0	19,697	19,697
Search and search related advertising	0	1,022,456	0	1,022,456
Online games:				
PC games	0	0	236,743	236,743
Mobile games	0	0	151,737	151,737
Other games	0	0	1,308	1,308
Others	61,975	100,589	6,074	168,638
Total	<u>\$274,223</u>	<u>1,123,045</u>	<u>415,559</u>	<u>1,812,827</u>

	Year Ended December 31, 2019 (in thousands)			
	Sohu	Sogou	Changyou	Total
Brand advertising:				
Sohu Media Portal	\$ 94,497	0	0	94,497
Sohu Video	34,529	0	0	34,529
Focus	32,120	0	0	32,120
17173.com Website	0	0	13,715	13,715
Search and search related advertising	0	1,072,860	0	1,072,860
Online games:				
PC games	0	0	267,752	267,752
Mobile games	0	0	172,718	172,718
Other games	0	0	432	432
Others	57,080	98,981	763	156,824
Total	<u>\$218,226</u>	<u>1,171,841</u>	<u>455,380</u>	<u>1,845,447</u>

As noted above, in accordance with the modified retrospective method upon adoption of ASC 606, amounts for 2017 were not adjusted.

Online Advertising Revenues

Online advertising revenues include revenues from brand advertising services as well as search and search-related advertising services. Certain customers may receive sales rebates, which are accounted for as variable consideration. We estimate annual expected revenue volume from each agent with reference to its historical results. Sales rebates will reduce revenues recognized. We recognize revenue for the amount of fees we receive from our advertisers, after deducting sales rebates and net of value-added tax (“VAT”). We believe that there will not be significant changes to our estimates of variable consideration.

Brand Advertising Revenues

Revenue Recognition of Multiple Performance Obligations

Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenues to each performance obligation based on its relative standalone selling price. We generally determine the standalone selling price of each distinct performance obligation based on the prices charged to customers when sold on a standalone basis. Where a standalone selling price is not directly observable, we generally estimate the selling price based on the prices at which performance obligations of a similar nature and geography are charged to customers. Most of such contracts have all performance obligations completed within the same quarter.

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Pricing Model

Through mobile devices and PCs, we provide advertisement placements to our advertisers on different Internet platforms and in different formats, which include banners, links, logos, buttons, full screen, pre-roll, mid-roll, post-roll video screens, pause video screens, loading page ads, news feed ads, in-feed video infomercial ads, and other formats.

Currently we have three main types of pricing models, consisting of the Fixed Price model, the CPM model, and the CPC model.

(i) Fixed Price model

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

(ii) CPM model

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

(iii) CPC model

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

Search and Search-related Advertising Revenues

Search and search-related services consist primarily of search and search-related advertising services offered by Sogou.

Pay-for-click Services

Pay for click services enable advertisers' promotional links to be displayed on Sogou search result pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. For pay for click services, Sogou introduces Internet users to its advertisers through auction-based systems and charges advertisers on a per-click basis when the users click on the displayed links. The performance obligation of pay-for-click services is satisfied at the point in time when users click on the displayed links, and revenue for pay-for-click services is recognized on a per-click basis.

Other Online Advertising Services

Other online advertising services mainly consist of displaying advertisers' promotional links on Sogou's Internet properties. For time-based advertising services, Sogou's performance obligation is satisfied over time when the advertising links are displayed over the contract periods, and therefore revenue is normally recognized on a straight-line basis over the contracted display period. For performance-based advertising services, for example, advertisers are charged based on the times that users download from the displayed links, Sogou's performance obligation is satisfied at the point in time when the promised performance is completed and the revenue is recognized upon the completion of the promised performance.

Sogou's online advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. Sogou is the principal in such arrangement because its promise to advertisers is to provide the advertising services itself rather than to arrange for the advertising services to be provided by third parties on their Internet properties. Payments made to operators of third-party Internet properties are included in the traffic acquisition costs.

Online Game Revenues

Changyou's online game revenues are generated primarily from its self-operated and licensed-out PC games and mobile games. Prior to the sale of the MoboTap business in 2018, Changyou also generated a small amount of revenues from online card and board games. All of Changyou's games are operated under the item-based revenue model, where the basic game play functions are free of charge and players are charged for purchases of in-game virtual items, including those with a predetermined expiration time and perpetual virtual items.

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Changyou is the principal of its self-operated games. Changyou hosts the games on its own servers and is responsible for the sale and marketing of the games as well as customer service. Accordingly, revenues are recorded gross of revenue sharing-payments to third-party developers and/or mobile APP stores, but net of VAT and discounts to game card distributors where applicable. Changyou obtains revenues from the sale of in-game virtual items. Revenues are recognized over time for virtual items with estimated lives and upon use for items that are consumed immediately. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues would be impacted.

PC Games

Proceeds from Changyou's self-operated PC games are collected from players and third-party game card distributors through sales of Changyou's game points on its online payment platform and prepaid game cards.

Changyou's self-operated PC games are either developed in house or licensed from third-party developers. For licensed PC games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are recorded in Changyou's cost of revenues.

Mobile Games

Self-operated Mobile Games

For self-operated mobile games, Changyou sells game points to its game players via third-party mobile APP stores. The mobile APP stores in turn pay Changyou proceeds after deducting their share of pre-agreed revenue-sharing amounts.

Changyou's self-operated mobile games are either developed in house or licensed from or jointly developed with third-party developers. For licensed and jointly developed mobile games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to mobile application stores and third-party developers are included in Changyou's cost of revenues.

Licensed Out Mobile Games

Changyou also authorizes third parties to operate its mobile games. Licensed out games include mobile games developed in house, such as Changyou's mobile game Legacy TLBB Mobile, and mobile games jointly developed with third-party developers. Changyou receives monthly revenue-based royalty payments from the third-party licensee operators. Changyou receives additional up-front license fees from certain third-party licensee operators who are entitled to an exclusive right to operate Changyou's games in specified geographic areas. Since Changyou is obligated to provide post-sale services ("PCS"), the initial license fees are allocated between the license and PCS based on relative standalone selling prices. The amount allocated to the license is recognized as revenue upon the commencement of the license period, given that Changyou's intellectual property rights subject to the license are considered to be functional and the licensee has the right to use such intellectual property rights as they exist at the point when the license is granted, and the amount allocated to PCS is recognized as revenue ratably over the license period. Monthly revenue-based royalty payments are recognized when the relevant services are delivered, provided that collectability is reasonably assured. Changyou views the third-party licensee operators as Changyou's customers and recognizes revenues on a net basis, as Changyou does not have the primary responsibility for fulfillment and acceptability of the game services. Changyou remits to the third-party developers a pre-agreed percentage of revenues and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are included in Changyou's cost of revenues or product development expenses.

Other Revenues

Sohu

Other revenues attributable to Sohu consist primarily of revenues from paid subscription services, interactive broadcasting services, and sub-licensing of purchased video content to third parties.

Sogou

Other revenues attributable to Sogou are IVAS revenues, which are mainly from the operation of Web games and mobile games developed by third parties, and revenues from other products and services including smart hardware products and online lending and microcredit services. Other revenues are generally recognized when Sogou's performance obligations under the applicable agreements have been satisfied, except for interest revenues from Sogou's online lending and microcredit services, which are recognized using the effective interest method.

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Changyou

Other revenues attributable to Changyou are primarily from IVAS.

As of August 12, 2019, we ceased consolidating Changyou's cinema advertising business in our consolidated financial statements and, accordingly, the financial results of the cinema advertising business are excluded from our results from continuing operations and are presented in separate line items as discontinued operations in the consolidated financial statements, and retrospective adjustments to our historical audited consolidated financial statements have been made in order to provide a consistent basis of comparison.

Revenues generated from Changyou's IVAS were derived primarily from software applications for PCs and mobile devices offered by RaidCall, which ceased operations in March 2019. Prior to March 2018, IVAS revenues also included revenues generated from the Dolphin Browser operated by MoboTap. Revenues from IVAS are recognized during the period the services are rendered or items are consumed under the gross method, as Changyou is the principal obligor for provision of the services.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenue recognized prior to invoicing, when we have satisfied our performance obligations and have the unconditional right to payment. The allowance for doubtful accounts and authorized credits is estimated based upon our assessment of various factors, including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect our customers' ability to pay. Contract assets as of December 31, 2019 were not material. The allowance for doubtful accounts and authorized credits was \$16.2 million and \$15.1 million, respectively, as of December 31, 2019 and December 31, 2018.

Receipts in advance and deferred revenue relate to unsatisfied performance obligations at the end of the period and primarily consist of fees received from game players in the online game business and from advertisers in the search and search-related advertising business. Due to the generally short-term duration of the contracts, the majority of the performance obligations are satisfied in the following reporting period. The amount of revenue recognized that was included in the receipts in advance and deferred revenue balance at the beginning of the period was \$110.2 million for the year ended December 31, 2019.

There was no significant change in the contract assets and contract liability balances during 2019.

Revenue recognized in 2019 from performance obligations related to prior years was not material.

Practical Expedients

We have used the following practical expedients as allowed under ASC 606:

(i) The transaction price allocated to performance obligations that are unsatisfied, or partially unsatisfied, has not been disclosed as substantially all of our contracts have a duration of one year or less.

(ii) Payment terms and conditions vary by contract type, although terms generally include a requirement of prepayment or payment within one year or less. In instances where the timing of revenue recognition differs from the timing of invoicing, we have determined that our contracts generally do not include a significant financing component.

(iii) We applied the portfolio approach in determining the commencement date of consumption and the estimated lives of virtual items for the recognition of games revenue given that the effect of applying a portfolio approach to a group game players' behaviors would not differ materially from considering each one of them individually.

(iv) We generally expense sales commissions when incurred, because the amortization period would be one year or less. These costs are recorded within sales and marketing expenses.

Cost of Revenues

Cost of Online Advertising Revenues

Cost of online advertising revenues includes cost of revenues from brand advertising services as well as cost of revenues from search and search-related services.

Cost of Brand Advertising Revenues

Cost of brand advertising revenues mainly consists of content and license costs, salary and benefits expenses, and bandwidth service costs. For self-developed video content, production costs incurred in excess of the amount of revenue contracted for are expensed as incurred.

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Cost of Search and Search-related Advertising Revenues

Cost of search and search-related advertising revenues mainly consists of traffic acquisition costs, bandwidth service costs, depreciation expenses, salary and benefits expenses, and share-based compensation expense. Traffic acquisition costs represent the most significant portion of cost of revenues. Traffic acquisition costs consist primarily of payments to third parties that direct search queries of the users to Internet properties of Sogou or distribute Sogou advertisers' promotional links through such third parties' Internet properties. The traffic acquisition costs for such arrangements consist primarily of fees that Sogou pays to the third parties based on an agreed-upon unit price and revenue-sharing payments that Sogou makes to such third parties based on an agreed-upon percentage of revenues generated from users' clicks.

Cost of Online Game Revenues

Cost of online game revenues mainly consists of revenue-sharing payments, salary and benefits expenses, bandwidth service costs, content and license costs, tax surcharges, depreciation and amortization expenses, and other direct costs.

Cost of Other Revenues

Cost of other revenues mainly consists of revenue-sharing payments related to the IVAS business, costs of smart hardware products, revenue-sharing payments related to interactive broadcasting services, and content and license costs related to paid subscription services.

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, content and license costs, technical service fees, facilities expenses, and depreciation and amortization expenses. These expenses are incurred for the enhancement and maintenance of our Internet platforms as well as for our products and services. The development costs of online games are expensed as incurred, including the development costs of online games prior to the establishment of technological feasibility and maintenance costs after the online games are available for marketing.

Sales and Marketing Expenses

Sales and marketing expenses mainly consist of advertising and promotional expenses, salary and benefits expenses, travel and entertainment expenses, and facilities expenses. Advertising and promotional expenses generally represent the expenses of promotions to create or stimulate a positive image of us or a desire to subscribe for our products and services. Advertising and promotional expenses are expensed as incurred.

General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses, bad debts, professional fees, depreciation and amortization expenses, travel and entertainment expenses, and facilities expenses.

Share-based Compensation Expense

Sohu (excluding Fox Video Limited), Sogou, Changyou, and Fox Video Limited ("Sohu Video") have incentive plans for the granting of share-based awards, including share options and restricted share units, to members of the boards of directors, management and other key employees.

For share-based awards for which a grant date has occurred, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates. For share-based awards for which the service inception date precedes the grant date, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income beginning on the service inception date and is re-measured on each subsequent reporting date before the grant date, based on the estimated fair value of the related share-based awards. Share-based compensation expense is charged to the shareholders' equity or noncontrolling interest section in the consolidated balance sheets. The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. If factors change or different assumptions are used, our share-based compensation expense could be materially different for any period. Moreover, the estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards.

Sohu (excluding Sohu Video), Sogou, and Changyou Share-based Awards

Sohu (excluding Sohu Video) Share-based Awards

In determining the fair value of share options granted by Sohu (excluding Sohu Video) as share-based awards, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied. In determining the fair value of restricted share units granted, the public market price of the underlying shares on the grant dates was applied.

Upon the dissolution of Sohu.com Inc. on May 31, 2018, we assumed all then existing obligations of Sohu.com Inc. with respect to equity incentive awards that had been granted under Sohu.com Inc.'s Amended and Restated 2010 Stock Incentive Plan (the "Sohu 2010 Stock Incentive Plan") and remained outstanding, and such awards were converted into the right to receive upon exercise or settlement our ordinary shares under the Sohu 2018 Share Incentive Plan rather than shares of the common stock of Sohu.com Inc., subject to the other terms of such outstanding awards. Options for the purchase of our ordinary shares, including options converted from those contractually granted under the Sohu 2010 Stock Incentive Plan, are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets.

Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Sohu and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimate of the awards' fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair value at the grant date.

Sogou Share-based Awards

In determining the fair value of share options granted by Sogou as share-based awards, a binomial valuation model was applied. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions regarding a number of complex and subjective variables, including risk-free interest rates, exercise multiples, expected forfeiture rates, expected share price volatility rates, and expected dividends. Before the completion of Sogou's IPO, the fair values of the ordinary shares were assessed using the income approach/discounted cash flow method or based on the mid-point of the estimated IPO price range, in each case with a discount for lack of marketability, given that the shares underlying the awards were not publicly traded at the time of grant.

After the completion of Sogou's IPO, the fair values of the ordinary shares were determined based on the trading price of Sogou' ADSs in the public market.

Before Sogou's adoption of ASU 2018-07 "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" effective for fiscal years beginning after December 15, 2018, share-based compensation expense for share options granted to non-employees was measured at fair value at the earlier of the performance commitment date or the date service was completed and recognized over the period during which the service was provided. Sogou applied the guidance in ASC 505-50 to measure share options granted to non-employees based on the then-current fair value at each reporting date until the service had been provided and the performance targets had been met. After Sogou's adoption of ASU 2018-07, share-based compensation expense for share options granted to non-employees is recognized in accordance with the requirements of ASC 718 for employee share-based compensation awards.

Changyou Share-based Awards

In determining the fair value of ordinary shares and restricted share units granted by Changyou as share-based awards in 2008, the income approach /discounted cash flow method with a discount for lack of marketability was applied, given that the shares underlying the awards were not publicly traded at the time of grant. Changyou's 2008 Share Incentive Plan expired in August 2018 and is no longer available for granting new share-based awards. In determining the fair value of restricted share units granted after Changyou's IPO, the public market price of the underlying shares on the grant dates was applied.

Options for the purchase of Changyou Class A ordinary shares contractually granted under the Changyou 2014 Share Incentive Plan and the Changyou 2019 Share Incentive Plan are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets. Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Changyou and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimates of the awards' fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair values at the grant date. In determining the fair values of Changyou share options granted, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

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Compensation Expense Recognition

For options and restricted share units granted with respect to Sohu (excluding Sohu Video) shares and Changyou shares, compensation expense is recognized on an accelerated basis upon the requisite service period and certain subjective performance targets being met. For share options granted with respect to Sogou shares, compensation expense is recognized over the estimated period during which the service period requirement and performance target will be met, which is usually within one year, or, after the performance target of Sogou's completion of an IPO was met upon the completion of Sogou's IPO on November 13, 2017, on an accelerated basis over the requisite service period, or, for options with only service period requirement, on an accelerated basis over the requisite service period. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses, compensation expense is recognized by Sogou on an accelerated basis over the requisite service period, and the fair value of the share-based compensation is re-measured at each reporting date until the service has been provided. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and no compensation expense is recorded for the number of awards so estimated.

Sohu Video Share-based Awards

On January 4, 2012, Sohu Video, the holding entity of Sohu's video division, adopted a 2011 Share Incentive Plan (the "Video 2011 Share Incentive Plan") which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video (representing approximately 10% of the outstanding Sohu Video shares on a fully-diluted basis) to management and key employees of the video division and to Sohu management. As of December 31, 2019, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made, of which options for the purchase of 4,972,800 ordinary shares were vested.

For purposes of ASC 718-10-25, as of December 31, 2019, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. Therefore, the fair value of the awards was not determinable and could not be accounted for. In accordance with ASC 718-10-55, our management determined that the service inception date with respect to vested option awards for the purchase of 4,972,800 shares had preceded the grant date. Therefore, we recognized compensation expense for these vested Sohu Video share-based awards and re-measured, and will re-measure, the compensation expense on each subsequent reporting date based on the then-current fair values of these vested awards until the grant date is established.

Taxation

PRC Corporate Income Tax

Recognition

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Deferred income taxes are determined based on the differences between the accounting basis and the tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Deferred tax assets are reduced by a valuation allowance, if based on available evidence, it is considered that it is more likely than not that some portion of or all of the deferred tax assets will not be realized. In making such determination, we consider factors including future reversals of existing taxable temporary differences, future profitability, and tax planning strategies. If events were to occur in the future that would allow us to realize more of our deferred tax assets than the presently recorded net amount, an adjustment would be made to the deferred tax assets that would increase income for the period when those events occurred. If events were to occur in the future that would require us to realize less of our deferred tax assets than the presently recorded net amount, an adjustment would be made to the valuation allowance against deferred tax assets that would decrease income for the period when those events occurred. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities.

Our deferred tax assets are related to net operating losses and temporary differences between accounting basis and tax basis for our China-based subsidiaries and VIEs, which are subject to corporate income tax in the PRC under the CIT law.

Applicable Income Tax Rate

Principal Entities Qualified as HNTEs

The CIT Law generally applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to HNTEs. Under this preferential tax treatment, HNTEs can enjoy an income tax rate of 15%, but need to re-apply every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate.

As of December 31, 2019, the following principal entities were qualified as HNTEs and were entitled to an income tax rate of 15%.

For Sohu's Business

- Sohu New Momentum. Sohu New Momentum re-applied for HNTE qualification and received approval in December 2019. Sohu New Momentum is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.

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- Sohu Internet and Video Tianjin. Sohu Internet and Video Tianjin qualified as HNTEs for the years 2018 through 2020, and will need to re-apply for HNTE qualification in 2021.
- Sohu Media. Sohu Media qualified as an HNTE for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.

For Sogou's Business

- Sogou Network. Sogou Network re-applied for HNTE qualification and received approval in December 2019. Sogou Network is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Sogou Information. Sogou Information qualified as an HNTE for the years 2018 through 2020, and will need to re-apply for HNTE qualification in 2021.
- Sogou Technology. Sogou Technology qualified as an HNTE for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.

For Changyou's Business

- Gamespace. Gamespace re-applied for HNTE qualification and received approval in October 2019. Gamespace is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Changyou Chuangxiang. Changyou Chuangxiang applied for HNTE qualification and received approval in October 2019. Changyou Chuangxiang is entitled to enjoy the beneficial tax rate as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Gamease and AmazGame. Gamease and AmazGame qualified as HNTEs for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.

Principal Entities Qualified as Software Enterprises and KNSEs

The CIT Law and its implementing regulations provide that a "Software Enterprise" is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. An entity that qualifies as a "KNSE" is entitled to a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of a Software Enterprise or a KNSE must perform a self-assessment each year to ensure they meet the criteria for qualification and file required supporting documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to the tax authorities' assessment each year as to whether they are entitled to use the relevant preferential CIT treatments. If at any time during the preferential tax treatment years an enterprise uses the preferential CIT rates but the relevant authorities determine that it fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise's Software Enterprise/KNSE status.

For Changyou's Business

- AmazGame. In 2019, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2018. Also in 2019, AmazGame was qualified as a KNSE after the relevant government authorities' assessment and became entitled to a preferential income tax rate of 10% for 2018. AmazGame will follow the same process in 2020 for KNSE status for 2019.
- Changyou Chuangxiang. In 2019, Changyou Chuangxiang completed a self-assessment, filed required supporting documents, was qualified as a Software Enterprise, and became entitled to the second year of an income tax exemption for 2018. Changyou Chuangxiang will follow the same process in 2020 to entitle it to the third year of an income tax exemption for 2019.

PRC Withholding Tax on Dividends

The CIT Law imposes a 10% withholding income tax on dividends distributed by foreign invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the "Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income," if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to a withholding tax rate of 10%.

PRC Value Added Tax

On May 1, 2016, the transition from the imposition of PRC business tax to the imposition of VAT was expanded to all industries in China, and all of our revenues have been subject to VAT since that date. To record VAT payable, we adopted the net presentation method, which presents the difference between the output VAT (at rates of 6% or 17% for the year ended December 31, 2017 and for the period from January 1, 2018 to April 30, 2018, at rates of 6% or 16% for the period from May 1, 2018 to March 31, 2019, and at rates of 6% or 13% after April 1, 2019) and the available input VAT amount (at the rate applicable to the supplier).

U.S. Corporate Income Tax

Sohu.com Inc., which was formerly the top-tier publicly-traded parent company of the Sohu Group, was dissolved and liquidated on May 31, 2018. Sohu.com Inc. was a Delaware corporation that was subject to U.S. federal corporate income tax on its taxable income at a rate of 21% for taxable years beginning after December 31, 2017 and of up to 35% for prior tax years. U.S. federal tax legislation signed into law on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act (the “U.S. TCJA”), significantly modified the U.S. Internal Revenue Code by, among other things, reducing the maximum statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a partial territorial tax system with a one-time transition tax (the “Toll Charge”) on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings. See Note 16 to our audited consolidated financial statements beginning on page F-1 of this report.

Certain activities conducted in the PRC resulted in U.S. corporate income taxes being imposed on Sohu.com Inc. when its subsidiaries that were controlled foreign corporations (“CFCs”) generated income that was subject to Subpart F of the U.S. Internal Revenue Code (“Subpart F”). Generally, passive income, such as rents, royalties, interest, dividends, and gains from disposal of the Sohu Group’s investments, were among the types of income that were subject to taxation under Subpart F. Any income taxable under Subpart F was taxable in the U.S. at the applicable federal corporate income tax rate. Subpart F income also included certain income from intra-Group transactions between Sohu.com Inc.’s non-U.S. subsidiaries and VIEs and Changyou’s non-U.S. subsidiaries and VIEs or Sogou’s non-U.S. subsidiaries and VIEs, or where Sohu.com Inc.’s non-U.S. subsidiaries or VIEs made an “investment in U.S. property,” such as holding the stock in, or making a loan to, a U.S. corporation. Under a provision of the U.S. tax code commonly referred to as the CFC look-through rule, Sohu.com Inc. did not have to treat dividends received by its CFC subsidiaries as Subpart F income includible in Sohu.com Inc.’s taxable income in the U.S.

To the extent that portions of Sohu.com Inc.’s U.S. taxable income, such as Subpart F income or global intangible low-taxed income (“GILTI”), as applicable, had been determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may have been entitled to claim foreign tax credits to offset its U.S. income tax liabilities. Following the enactment of the U.S. TCJA, if dividends that Sohu.com Inc. received from its subsidiaries after January 1, 2018 were determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. would generally not have been required to pay U.S. corporate income tax on those dividends. Liabilities for U.S. corporate income tax were accrued in our consolidated statements of comprehensive income and estimated tax payments were made when required by U.S. law.

Treatment of Toll Charge Related to the U.S. TCJA

Beginning in the fourth quarter of 2017, the Sohu Group had recognized a provisional amount of income tax expense for the Toll Charge of \$219 million, which represented management’s estimate of the amount of the Toll Charge that would have been payable by Sohu.com Inc. based on the deemed repatriation to the United States of its share of previously deferred earnings of certain of its non-U.S. subsidiaries, offset by a reduction of \$4 million in liability for deferred U.S. income tax, as a result of the U.S. TCJA. The Sohu Group included the provisional amount of the Toll Charge of \$219 million in its interim financial statements through the quarter ended September 30, 2018, in reliance on SAB 118.

For the fourth quarter of 2018, the Sohu Group’s management re-evaluated the impact on the Sohu Group of the Toll Charge under the U.S. TCJA. Management determined that it was more likely than not, based on the technical merits, that the tax position that the Sohu Group had no Toll Charge liability would be sustained. The Group recognized a tax benefit in the amount of \$77 million, which was the largest amount that management determined to be greater than 50% likely to be realized upon settlement with the U.S. IRS. As a result, as of December 31, 2018, the Sohu Group had an unrecognized tax benefit in the amount of \$142 million, which represented the difference between the tax benefit recognized in the fourth quarter of 2018 and management’s previous estimate of the Toll Charge. The estimate remained unchanged as of December 31, 2019. In addition, the Sohu Group accrued \$2 million and \$8 million, respectively, in interest on the unrecognized tax benefit for the years of 2018 and 2019.

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The tax benefit recognized and the unrecognized tax benefit in relation to the Toll Charge may be subject to further adjustment in subsequent periods based on facts and circumstances that arose after December 31, 2019, such as any IRS assessments upon audit and management's further judgment and estimates.

Uncertain Tax Positions

We are subject to various taxes in different jurisdictions, but primarily the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to our income and transactions. In order to assess uncertain tax positions, we apply a more likely than not threshold and a two-step approach for tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

Net Income /(Loss) per Share

Basic net income /(loss) per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net income /(loss) per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potential ordinary shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income /(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income /(loss) per share.

Additionally, for purposes of calculating the numerator of diluted net income /(loss) per share, the net income /(loss) attributable to Sohu is calculated as discussed below. The adjustment will not be made if there is an anti-dilutive effect.

Sogou's net income /(loss) attributable to Sohu

Before Sogou's IPO

Before Sogou's IPO, Sogou's net income /(loss) attributable to Sohu was determined using the percentage that the weighted average number of Sogou shares held by Sohu represented of the weighted average number of Sogou Pre-IPO Preferred Shares and Sogou Pre-IPO Ordinary Shares outstanding, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and was not determined by allocating Sogou's net income /(loss) to Sohu using the methodology for the calculation of net income /(loss) attributable to the Sogou noncontrolling shareholders.

After Sogou's IPO

After Sogou's IPO, Sogou's net income /(loss) attributable to Sohu is determined using the percentage that the weighted average number of Sogou shares held by Sohu represents of the weighted average number of Sogou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Sogou, which is used for the calculation of basic net income per share.

In the calculation of Sohu's diluted net income /(loss) per share, assuming a dilutive effect, the percentage of Sohu's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested Sogou share options with the performance targets achieved as well as vested but unexercised Sogou share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of Sohu's diluted income /(loss) per share. As a result, Sogou's net income /(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income /(loss) per share.

Changyou's net income /(loss) attributable to Sohu

Prior to the completion of the Changyou Merger on April 17, 2020, Changyou's net income /(loss) attributable to Sohu is determined using the percentage that the weighted average number of Changyou shares held by Sohu represents of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

In the calculation of Sohu's diluted net income /(loss) per share, assuming a dilutive effect, all of Changyou's existing unvested restricted share units and share options, and vested restricted share units and share options that have not yet been settled, are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu in Changyou to decrease. As a result, Changyou's net income /(loss) attributable to Sohu on a diluted basis decreased accordingly. Assuming an anti-dilutive effect, all of these Changyou restricted share units and share options are excluded from the calculation of Sohu's diluted net income /(loss) per share. As a result, Changyou's net income /(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income /(loss) per share.

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Fair Value of Financial Instruments

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1 – observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – include other inputs that are directly or indirectly observable in the market place.

Level 3 – unobservable inputs which are supported by little or no market activity.

Our financial instruments consist primarily of cash equivalents, restricted cash, short-term investments, accounts receivable, financing receivables, prepaid and other current assets, long-term investments, restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term bank loans and long-term accounts payable.

Cash Equivalents

Our cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash.

Short-term Investments

For investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, we elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive income.

Accounts Receivable, Net

The carrying value of accounts receivable is reduced by an allowance that reflects our best estimate of the amounts that will not be collected. We make estimations of the collectability of accounts receivable. Many factors are considered in estimating the general allowance, including reviewing delinquent accounts receivable, performing an aging analysis and a customer credit analysis, and analyzing historical bad debt records and current economic trends.

Financing Receivables, Net

Financing receivables consist primarily of small consumer loans that Sogou makes to individual borrowers. Sogou funds such loans either through its own capital or through a trust which was jointly established by Sogou and a third-party investor, and is administered by a third-party trust company. As the trust only invests in loans facilitated by Sogou, Sogou has power to direct the activities of the trust. Sogou also has the obligation to absorb losses and the right to receive benefits from the trust that could potentially be significant to the trust. As a result, Sogou is considered the primary beneficiary of the trust and the trust is considered a consolidated VIE under ASC 810.

The financing receivables are recorded at the principal amount and interest accrued, net of allowance for credit losses that reflects Sogou's best estimate of the amounts that will not be collected. Interest on loans is accrued based on the contractual interest rates of the loans when earned. The loan periods granted by Sogou to the borrowers related to the small consumer loans are generally within one year. The allowance for credit losses is determined at a level believed to be reasonable to absorb probable losses inherent in the loan portfolio as of each balance sheet date. The allowance is provided based on an assessment performed on a portfolio basis and is estimated on a quarterly basis or more often as necessary based on the delinquency rate, the aging of the amount due and other relevant factors.

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are initially recognized on the date a foreign exchange forward contract is entered into and are subsequently measured at fair value.

Restricted Time Deposits

Restricted time deposits are valued based on the prevailing interest rates in the market using the discounted cash flow method.

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Equity Investments

Investments in entities are recorded as equity investments under long-term investments. For investments in common stock or in-substance common stock of entities over which we can exercise significant influence but do not own a majority equity interest or control, the equity method is applied, and we adjust the carrying amount of an investment and recognize investment income or loss for our share of the earnings or loss of the investee after the date of investment. For those equity investments accounted for other than under the equity method or those that result in consolidation, the fair value method is applied. However, for equity investments that do not have readily determinable fair values, we choose to account for them at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. If this measurement alternative is elected, changes in the carrying value of the equity investment will be required to be made whenever there are observable price changes in transactions for identical or similar investments of the same issuer. The implementation guidance notes that an entity should make a “reasonable effort” to identify price changes that are known or that can reasonably be known.

We assess investments for impairment by considering factors including, but not limited to, current economic and market conditions, operating performance of the companies, including current earnings trends and undiscounted cash flows, and other company-specific information, such as recent financing rounds. The fair value determination, particularly for investments in privately-held companies whose revenue model is still unclear, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments. If the assessment indicates that an impairment exists, we estimate the fair value of the investment and write down the asset to its fair value, taking the corresponding charge to the consolidated statements of comprehensive income/(loss).

Long-Lived Assets

Long-lived assets include fixed assets and intangible assets.

Fixed Assets

Fixed assets mainly comprise office buildings, leasehold improvements, building improvements, vehicles, office furniture and computer equipment and hardware. Fixed assets are recorded at cost less accumulated depreciation with no residual value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Fixed Assets	Estimated Useful Lives (years)
Office buildings	36-47
Leasehold improvements	Lesser of term of the lease or the estimated useful lives of the assets
Vehicles	4-10
Office furniture	5
Computer equipment and hardware	2-5

Expenditure for maintenance and repairs is expensed as incurred.

The gain or loss on the disposal of fixed assets is the difference between the net sales proceeds and the carrying value of the relevant assets and is recognized in operating expenses in the consolidated statements of comprehensive income.

Intangible Assets

Intangible assets mainly comprise purchased video content, operating rights for licensed games, domain names and trademarks, computer software, and developed technologies. Intangible assets are recorded at cost less accumulated amortization with no residual value. Amortization of intangible assets other than purchased video content is computed using the straight-line method over their estimated useful lives. Amortization of purchased video content is computed based on the trend in viewership accumulation over the shorter of the applicable license period or two years.

The estimated useful lives of our intangible assets are listed below:

Intangible Assets	Estimated Useful Lives (years)
Purchased video content	1 month to 2 years
Computer software	1-5
Developed technologies	3-10
Domain names and trademarks	4-30
Operating rights for licensed games	over the contract terms

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Sohu Video enters into nonmonetary transactions to exchange online broadcasting rights for purchased video content with other online video broadcasting companies. Under ASC 845, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain the acquired nonmonetary asset, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if the fair value of the asset received is more reliable than the fair value of the asset surrendered. We record these nonmonetary exchanges at the fair values of the online broadcasting rights for purchased video content and recognize any net gain or loss from such exchange transactions.

Impairment of Long-lived Assets Other Than Purchased Video Content

In accordance with ASC 360-10-35, we review the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows independent of other assets. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of the long-lived assets is not recoverable, the carrying amount of such assets is reduced to fair value. The estimation of future cash flows requires significant management judgment based on our historical results and anticipated results and is subject to many factors. The discount rate that is commensurate with the risk inherent in our business model is determined by our management.

Impairment of Purchased Video Content

Purchased video content is stated at the lower of cost less accumulated amortization, or net realizable value (“NRV”).

In accordance with ASC 920-350-35, if management’s expectations of the programming usefulness of a program, series, package, or program segment are revised downward, it may be necessary to write down unamortized cost to estimated NRV. A write-down from unamortized cost to a lower estimated NRV establishes a new cost basis. Accordingly, we measure the video content’s impairment loss by comparing the content’s carrying value to its NRV. An impairment loss will be recorded if the carrying value of video content is higher than its NRV. The impairment to be recognized is measured by the amount by which the carrying value of video content exceeds its NRV.

Lease

We adopted ASU No. 2016-02, Leases (Topic 842), at the beginning of the first quarter of 2019 using the modified retrospective method, and did not restate comparable periods. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with our historical accounting under Topic 840.

We elected the package of practical expedients permitted under the transition guidance, which allowed us to carry forward the historical lease classification, the assessment on whether an existing or expired contract contains a lease, and the treatment of initial direct costs. We also elected to keep leases with an initial term of 12 months or less off the balance sheet.

Under the new lease guidance, we determine if an arrangement is or contains a lease at inception. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of remaining lease payments over the lease terms. We only consider payments that are fixed and determinable at the time of lease commencement. The adoption of the new lease guidance resulted in recognition of \$25.3 million of right-of-use assets and \$22.9 million of lease liabilities as of January 1, 2019. The adoption did not impact the beginning retained earnings, or prior year consolidated statements of comprehensive income and consolidated statements of cash flows.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of our acquisitions of interests in our subsidiaries and consolidated VIEs. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we report in our financial statements provisional amounts for the items for which the accounting is incomplete. If a measurement period adjustment is identified, we recognize the adjustment as part of the acquisition accounting. We increase or decrease the provisional amounts of identifiable assets or liabilities by means of increases or decreases in goodwill for measurement period adjustments.

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In accordance with ASC 350, we do not amortize goodwill, but test it for impairment. We test goodwill for impairment at the reporting unit level on an annual basis as of October 1, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. Under ASC 350-20-35, we have the option to choose whether we will apply a qualitative assessment first and then a quantitative assessment, if necessary, or to apply a quantitative assessment directly. For reporting units applying a qualitative assessment first, we start the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of the reporting unit with its carrying value. For reporting units directly applying the quantitative assessment, we perform the two-step goodwill impairment test by quantitatively comparing the fair values of those reporting units to their carrying amounts, including goodwill. After performing the assessment, if the carrying amounts of the reporting units are higher than their fair value, we perform the second step of the quantitative goodwill impairment test by comparing the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill, and if the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. We estimate fair value using the income approach and the market approach. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates, control premium, comparable companies' multipliers, and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Comprehensive Income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on our consolidated balance sheets, includes a cumulative foreign currency translation adjustment, and change in unrealized gains/(losses) on equity securities classified as available-for-sale before the adoption of ASU 2016-01.

Functional Currency and Foreign Currency Translation

An entity's functional currency is the currency of the primary economic environment in which it operates, normally that is the currency of the environment in which the entity primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and intra-Group transactions and arrangements. The functional currency of Sohu.com Limited, and its predecessor Sohu.com Inc., is the U.S. dollar. The functional currency of our subsidiaries in the U.S., the Cayman Islands, the British Virgin Islands and Hong Kong is the U.S. dollar. The functional currencies of our subsidiaries and VIEs in other countries are the national currencies of those countries, rather than the U.S. dollar.

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency re-measurement are included in the consolidated statements of comprehensive income.

Financial statements of entities with a functional currency other than the U.S. dollar are translated into U.S. dollars, which is the reporting currency. Assets and liabilities are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average of the exchange rates in effect during the reporting period. Shareholders' equity accounts are translated using the historical exchange rates at the date the entry to shareholders' equity was recorded, except for the change in retained earnings during the year, which is translated using the historical exchange rates used to translate each period's income statement. Differences resulting from translating a foreign currency to the reporting currency are recorded in accumulated other comprehensive income in the consolidated balance sheets.

RESULTS OF OPERATIONS

Unless indicated otherwise, results of operations data for all periods presented relate to our continuing operations only, and exclude results from Changyou's cinema advertising business, which ceased operations in August 2019. The historical results of Changyou's cinema advertising business are reported as "discontinued operations."

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Revenues

The following table presents our revenues by revenue source and by proportion for the periods indicated (in thousands, except percentages):

	Year ended December 31,									
	2017		2018		2019		2018 VS 2017		2019 VS 2018	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Incremental ratio	Amount	Incremental ratio
Revenues:										
Online advertising:										
Brand advertising	\$ 314,112	18%	\$ 231,945	13%	\$ 174,861	10%	\$ (82,167)	(26)%	\$(57,084)	(25)%
Search and search-related advertising	801,199	45%	1,022,456	56%	1,072,860	58%	221,257	28%	50,404	5%
Subtotal of online advertising revenues	1,115,311	63%	1,254,401	69%	1,247,721	68%	139,090	12%	(6,680)	(1)%
Online games	449,533	25%	389,788	22%	440,902	24%	(59,745)	(13)%	51,114	13%
Others	204,745	12%	168,638	9%	156,824	8%	(36,107)	(18)%	(11,814)	(7)%
Total revenues	<u>\$1,769,589</u>	100%	<u>\$1,812,827</u>	100%	<u>\$1,845,447</u>	100%	<u>\$ 43,238</u>	<u>2%</u>	<u>\$ 32,620</u>	<u>2%</u>

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Online Advertising Revenues

Online advertising revenues were \$1.25 billion for 2019, compared to \$1.25 billion and \$1.12 billion, respectively, for 2018 and 2017.

Brand Advertising Revenues, Generated by Sohu and Changyou

Brand advertising revenues were \$174.9 million for 2019, compared to \$231.9 million and \$314.1 million, respectively, for 2018 and 2017. The year-on-year reduction in brand advertising revenues from 2018 to 2019 resulted mainly from reductions in the revenues of Sohu Media and Sohu Video. The year-on-year reduction in brand advertising revenues from 2017 to 2018 resulted mainly from reductions in the revenues of Sohu Media, Sohu Video, and Focus.

Sohu

- Sohu Media Portal

Revenues from Sohu Media Portal were \$94.5 million for 2019, compared to \$127.3 million and \$152.0 million, respectively, for 2018 and 2017. In 2019, the slowdown in the growth of the economy in China shrank the budgets of brand advertisers in general, and advertising by SMEs was also adversely affected. The number of advertisers for Sohu Media Portal was 2,757 for 2019, compared to 4,074 and 6,680, respectively, for 2018 and 2017. The average amount spent per advertiser was approximately \$34,000 for 2019, compared to \$31,000 and \$23,000, respectively, for 2018 and 2017.

- Sohu Video

Revenues from Sohu Video were \$34.5 million for 2019, compared to \$53.8 million and \$79.7 million, respectively, for 2018 and 2017. The changes were mainly attributable to reductions in the number of advertisers. The number of advertisers on Sohu Video was 127, 200 and 324, respectively, for 2019, 2018 and 2017. The average amount spent per advertiser was approximately \$272,000, \$269,000 and \$246,000, respectively, for 2019, 2018 and 2017.

- Focus

Revenues from Focus were \$32.1 million for 2019, compared to \$31.1 million and \$57.3 million, respectively, for 2018 and 2017. Revenues generated from the Fixed Price model were \$29.1 million for 2019, compared to \$27.5 million and \$39.8 million, respectively, for 2018 and 2017. The number of advertisers under the Fixed Price model was 1,113, 1,282 and 1,599, respectively, for 2019, 2018 and 2017. The average amount spent per advertiser was approximately \$26,157, \$21,449 and \$24,880, respectively, for 2019, 2018 and 2017.

Changyou

- 17173.com Website

Revenues from the 17173.com Website were \$13.7 million for 2019, compared to \$19.7 million and \$25.1 million, respectively, for 2018 and 2017. The decreases were primarily a result of fewer Web games, PC games and mobile games being marketed on the 17173.com Website. The number of advertisers on the 17173.com Website was 82, 126 and 170, respectively, for 2019, 2018 and 2017. The average amount spent per advertiser was approximately \$167,000, \$156,000 and \$148,000, respectively, for 2019, 2018 and 2017.

Other information

Sales to our five largest advertising agencies and advertisers comprised approximately 28% of total brand advertising revenues for 2019, compared to 22% and 23%, respectively, for 2018 and 2017. As of December 31, 2019, 2018 and 2017, we recorded \$7.3 million, \$10.3 million and \$13.4 million, respectively, of receipts in advance from advertisers. As of December 31, 2019, we had obligations to provide, and advertisers had obligations to purchase, advertising services under existing contracts in the amount of \$12.7 million that are required to be provided during the year ending December 31, 2020.

Search and Search-related advertising Revenues, Generated by Sogou

Revenues from search and search-related advertising services were \$1.07 billion for 2019, compared to \$1.02 billion, and \$801.2 million, respectively, for 2018 and 2017. The year over year increase from 2018 to 2019 was mainly due to healthy traffic growth and improved monetization on mobile devices.

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The increase in revenues from search and search-related advertising services was mainly attributable to an increase in revenues from auction-based pay-for-click services. Revenues from auction-based pay-for-click services accounted for approximately 88% of the total search and search-related advertising revenues for 2019, compared to 84% and 83%, respectively, for 2018 and 2017.

The growth in revenues from auction-based pay-for-click services resulted primarily from increases in the number of our advertisers, offset by decrease in average revenue per advertiser (or “ARPA”). The number of auction-based pay-for-click advertisers was approximately 175,000 for 2019, compared to 139,000 and 137,000, respectively, for 2018 and 2017. The ARPA for auction-based pay-for-click services was \$5,403 for 2019, compared to \$6,168 and \$4,856, respectively, for 2018 and 2017.

Online Game Revenues Generated by Changyou

Revenues from the online game business were \$440.9 million for 2019, compared to \$389.8 million and \$449.5 million, respectively, for 2018 and 2017.

PC games and Mobile Games

Revenues from PC games were \$267.8 million for 2019, compared to \$236.7 million and \$239.2 million, respectively, for 2018 and 2017, representing 61%, 61% and 53%, respectively, of Changyou’s online game revenues for the corresponding years. The dominant PC game operated by Changyou is TLBB, which was launched in May 2007. In 2019, TLBB generated \$215.2 million in revenues, accounting for approximately 49% of Changyou’s online game revenues, approximately 47% of Changyou’s total revenues and approximately 12% of the Sohu Group’s total revenues. The year-on-year increase in revenues from PC games was mainly due to increased revenue contribution from TLBB as a result of the game’s improved performance.

Revenues from mobile games were \$172.7 million for 2019, compared to \$151.7 million and \$208.4 million, respectively, for 2018 and 2017. The dominant mobile game operated by Changyou was Legacy TLBB Mobile, which was launched in May 2017. In 2019, the mobile game Legacy TLBB Mobile generated \$101.1 million in revenues, accounting for approximately 23% of Changyou’s online game revenues, approximately 22% of Changyou’s total revenues, and approximately 5% of the Sohu Group’s total revenues. The year-on-year increase in mobile game revenues for 2019 was \$21.0 million, mainly due to the revenue contribution of TLBB Honor, which was launched in August 2019. The year-on-year decrease in mobile game revenues for 2018 was \$56.7 million, mainly due to the natural decline in revenues of Changyou’s mobile games, including Legacy TLBB Mobile.

The following table sets forth certain operating data for Changyou’s PC games and mobile games for the periods indicated:

Average Monthly Active Accounts (1)	Three Months Ended March 31		Three Months Ended June 30		Three Months Ended September 30		Three Months Ended December 31	
	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games
(in millions)								
2017	2.4	1.1	2.4	7.4	2.3	5.2	2.4	3.1
2018	2.5	2.6	2.3	3.2	2.3	3.7	2.0	2.9
2019	1.9	2.7	2.0	2.7	2.1	3.5	2.2	3.7

Quarterly Aggregate Active Paying Accounts (2)	Three Months Ended March 31		Three Months Ended June 30		Three Months Ended September 30		Three Months Ended December 31	
	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games	PC games	Mobile games
(in millions)								
2017	0.9	0.3	0.9	2.5	0.8	1.4	0.8	1.2
2018	0.8	0.8	0.7	0.7	0.8	0.7	0.9	0.7
2019	0.9	0.6	0.9	0.6	1.0	1.1	1.0	1.1

(1) Average Monthly Active Accounts for a given period refers to the number of registered accounts that were logged in to these games at least once during the period.

(2) Quarterly Aggregate Active Paying Accounts for a given quarter refers to the number of accounts from which game points are used at least once during the quarter.

Other Games

Revenues from games other than PC games and mobile games were \$0.4 million for 2019, compared to \$1.3 million and \$2.0 million, respectively, for 2018 and 2017.

Other Revenues

Revenues from other services were \$156.8 million for 2019, compared to \$168.6 million and \$204.7 million, respectively, for 2018 and 2017. The \$11.7 million year on year decrease in 2019 was mainly attributable to a \$23.7 million decrease in revenues from Sogou's IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, a 5.3 million decrease in revenues from Changyou's IVAS business due to RaidCall having ceased operations in March 2019, and a \$4.6 million decrease in revenues from content provided through the platforms of the three main telecommunications operators in China. The \$36.1 million year-on-year decrease in 2018 was mainly attributable to a \$17.1 million decrease in revenues from sub-licensing to third parties of purchased video content as a result of our reduction in purchases of video content with exclusive right, a \$15.4 million decrease in revenues from smart hardware products due to the phased-out of hardware products that were not AI-enabled, and a \$8.1 million decrease in revenues from IVAS through software applications for PCs and mobile devices offered by RaidCall.

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Costs and Expenses

Cost of Revenues

The following table presents our cost of revenues by source and by proportion for the periods indicated (in thousands, except percentages):

	Year ended December 31,									
	2017		2018		2019		2018 VS 2017		2019 VS 2018	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Incremental ratio	Amount	Incremental ratio
Cost of revenues:										
Online advertising:										
Brand advertising	\$ 363,624	38%	\$ 184,473	19%	\$ 126,406	13%	\$ (179,151)	(49)%	\$ (58,067)	(31)%
Search and search-related advertising	412,904	43%	664,164	68%	703,144	72%	251,260	61%	38,980	6%
Subtotal of cost of online advertising revenues	776,528	81%	848,637	87%	829,550	85%	72,109	9%	(19,087)	(2)%
Online games	62,775	7%	60,981	6%	88,992	9%	(1,794)	(3)%	28,011	46%
Others	110,965	12%	72,868	7%	63,553	6%	(38,097)	(34)%	(9,315)	(13)%
Total cost of revenues	<u>\$ 950,268</u>	100%	<u>\$ 982,486</u>	100%	<u>\$ 982,095</u>	100%	<u>\$ 32,218</u>	3%	<u>\$ (391)</u>	0%

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Cost of Online Advertising Revenues

Cost of online advertising revenues was \$829.6 million for 2019, compared to \$848.6 million and \$776.5 million, respectively, for 2018 and 2017.

Cost of Brand Advertising Revenues

Cost of brand advertising revenues was \$126.4 million for 2019, compared to \$184.5 million and \$363.6 million, respectively, for 2018 and 2017.

The year-on-year decrease for 2019 was \$58.1 million, which mainly consisted of a \$33.5 million decrease in content and license costs, a \$12.4 million decrease in bandwidth service costs, a \$6.6 million decrease in salary and benefits expenses, a \$2.0 million decrease in facilities expenses, a \$1.5 million decrease in depreciation and amortization expenses, and a \$1.5 million decrease in professional fees.

The year-on-year decrease for 2018 was \$179.2 million, which mainly consisted of a \$153.6 million decrease in content and license costs, a \$17.9 million decrease in bandwidth service costs, a \$3.7 million decrease in salary and benefits expenses, a \$1.9 million decrease in depreciation and amortization expenses, and a \$1.0 million decrease in facilities expenses.

We recognized impairment losses for Sohu Video as content and license costs of \$4.0 million, \$10.4 million, and \$70.6 million, respectively, in 2019, 2018 and 2017, as revenues did not meet management's expectations.

Our brand advertising gross margin was 28% for 2019, compared to 20% and negative 16%, respectively, for 2018 and 2017. The year-over-year increase in our brand advertising gross margin for 2019 was mainly attributable to a decrease in video content costs compared to 2018.

Cost of Search and Search-related Advertising Revenues

Cost of search and search-related advertising revenues was \$703.1 million for 2019, compared to \$664.2 million and \$412.9 million, respectively, for 2018 and 2017.

The year-on-year increase for 2019 was \$38.9 million, which mainly consisted of a \$29.5 million increase in traffic acquisition costs, primarily due to price inflation as a result of increased competition.

The year-on-year increase for 2018 was \$251.3 million, which mainly consisted of a \$229.1 million increase in traffic acquisition costs, primarily due to price inflation as a result of increased competition, and a \$12.4 million increase in depreciation and amortization expenses associated with the operation of Internet properties.

Our search and search-related advertising gross margin was 34% for 2019, compared to 35% and 48%, respectively, for 2018 and 2017. The decrease in our search and search-related advertising gross margin for 2019 was mainly due to higher traffic acquisition costs as a percentage of search and search-related advertising revenues.

Cost of Online Game Revenues

Cost of online game revenues was \$89.0 million for 2019, compared to \$61.0 million and \$62.8 million, respectively, for 2018 and 2017.

The year-on-year increase in cost of online game revenues for 2019 was \$28.0 million. The increase included an increase of \$28.6 million in revenue-sharing payments to licensors, game developers, and platforms.

The year-on-year decrease in cost of online game revenues for 2018 was \$1.8 million. The decrease included a \$5.4 million decrease in revenue-sharing payments to mobile APP stores, a \$0.6 million decrease in salary and benefits expenses, and a \$0.6 million decrease in depreciation and amortization expenses, offset by a \$2.9 million increase in bandwidth service costs, and a \$1.8 million increase in content and license costs.

Our online game gross margin was 80%, 84% and 86%, respectively, for 2019, 2018 and 2017.

Cost of Other Revenues

Cost of other revenues was \$63.6 million for 2019, compared to \$72.9 million and \$111.0 million, respectively, for 2018 and 2017. The year-on-year decrease for 2019 was \$9.3 million, which was mainly due to a \$6.5 million decrease in content and license costs related to paid subscription services, and a \$4.2 million decrease in costs of Changyou's IVAS business. The year-on-year decrease for 2018 was \$38.1 million, which was mainly due to a \$15.4 million decrease in content and license costs related to paid subscription services, a \$14.7 million decrease in Sogou's smart hardware product costs, and a \$4.0 million decrease in Changyou's IVAS business cost.

[Table of Contents](#)**Operating Expenses**

The following table presents our operating expenses by nature and by proportion for the periods indicated (in thousands, except percentages):

	Year ended December 31,									
	2017		2018		2019		2018 VS 2017		2019 VS 2018	
	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Incremental ratio	Amount	Incremental ratio
Operating expenses:										
Product development	\$ 412,173	41%	\$441,161	47%	\$419,114	49%	\$ 28,988	7%	\$(22,047)	(5)%
Sales and marketing	390,423	39%	380,290	40%	340,840	39%	(10,133)	(3)%	(39,450)	(10)%
General and administrative	119,041	12%	108,764	11%	95,773	11%	(10,277)	(9)%	(12,991)	(12)%
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	86,882	8%	16,369	2%	7,245	1%	(70,513)	(81)%	(9,124)	(56)%
Total operating expenses	<u>\$1,008,519</u>	100%	<u>\$946,584</u>	100%	<u>\$862,972</u>	100%	<u>\$(61,935)</u>	<u>(6)%</u>	<u>\$(83,612)</u>	<u>(9)%</u>

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Product Development Expenses

Product development expenses were \$419.1 million for 2019, compared to \$441.2 million and \$412.2 million, respectively, for 2018 and 2017.

The year-on-year decrease for 2019 was \$22.0 million, representing a year-on-year decrease of 5%. The decrease mainly consisted of a \$11.2 million decrease in salary and benefits expenses, a \$9.1 million decrease in professional fees, a \$3.0 million decrease in advertising and promotion expenses, a \$1.5 million decrease in travel and entertainment expenses, a \$1.5 million decrease in depreciation and amortization expenses, and a \$1.1 million decrease in bad debt expenses, offset by a \$4.6 million increase in content and license costs, and a \$2.1 million increase in share-based compensation expense.

The year-on-year increase for 2018 was \$29.0 million, representing a year-on-year increase of 7%. The increase mainly consisted of a \$42.3 million increase in salary and benefits expenses, a \$3.4 million increase in professional fees, and a \$2.2 million increase in communication expenses, offset by a \$17.4 million decrease in share-based compensation expense and a \$2.6 million decrease in depreciation and amortization expense.

Sales and Marketing Expenses

Sales and marketing expenses were \$340.8 million for 2019, compared to \$380.3 million and \$390.4 million, respectively, for 2018 and 2017.

The year-on-year decrease for 2019 was \$39.5 million, representing a year-on-year decrease of 10%. The decrease mainly consisted of a \$27.6 million decrease in advertising and promotional expenses, a \$11.7 million decrease in salary and benefits expenses, and a \$3.2 million decrease in travel and entertainment expenses, offset by a \$3.7 million increase in share-based compensation expense.

The year-on-year decrease for 2018 was \$10.1 million, representing a year-on-year decrease of 3%. The decrease mainly consisted of a \$10.3 million decrease in advertising and promotional expenses, a \$5.5 million decrease in share-based compensation expense, and a \$0.9 million decrease in travel and entertainment expenses, offset by a \$4.8 million increase in salary and benefits expense.

General and Administrative Expenses

General and administrative expenses were \$95.8 million for 2019, compared to \$108.8 million and \$119.0 million, respectively, for 2018 and 2017.

The year-on-year decrease for 2019 was \$13.0 million, representing a year-on-year decrease of 12%. The decrease mainly consisted of \$12.7 million decrease in professional fees and a \$11.5 million decrease in salary and benefits expenses, offset by a \$12.3 million increase in Share-based compensation expense.

The year-on-year decrease for 2018 was \$10.3 million, representing a year-on-year decrease of 9%. The decrease mainly consisted of a \$20.2 million decrease in share-based compensation expense and a \$2.1 million decrease in office expenses, offset by a \$7.6 million increase in bad debt expenses and a \$5.7 million increase in professional fees.

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Goodwill Impairment and Impairment of Intangible Assets Acquired as Part of Business Acquisitions

In 2019, we recognized a \$7.2 million impairment loss for a domain name relating to the 56.com Website, mainly due to enhance restrictions that Chinese regulatory authorities imposed on the broadcasting industry, which had an adverse effect on the operation of the 56.com Website.

In 2018, we recognized a \$16.4 goodwill impairment loss associated with the 17173.com Website, which is operated by Changyou. The \$16.4 million of goodwill impairment was primarily due to (i) the launch of new initiatives for the 17173.com Website having fallen behind schedule in the fourth quarter of 2018, and the profit outlook of the business remained uncertain, and (ii) the relevant Chinese authority's suspension between April and December of 2018 of its review of, and issuance of publishing and authorization codes for, online games, which resulted in declines in the number of new games launched and the related demand from game developers and operators for online advertising services on the 17173.com Website. Changyou management determined that, as a result, there was a material adverse impact on our ability to generate revenues from the 17173.com Website.

In 2017, we recognized \$86.9 million goodwill impairment and impairment of intangible assets associated with MoboTap. This \$86.9 million impairment loss consisted primarily of an \$83.5 million impairment loss for goodwill and a \$3.4 million impairment loss for intangible assets related to the Dolphin Browser, as a result of our management's assessment that it was unlikely to gain users and grow its revenues in China.

Share-based Compensation Expense

Share-based compensation expense was recognized in costs and expenses for the years ended December 31, 2017, 2018 and 2019, respectively, as follows (in thousands):

Share-based compensation expense	Year Ended December 31,		
	2017	2018	2019
Cost of revenues	\$ 198	\$ (69)	\$ 615
Product development expenses	23,547	6,131	12,063
Sales and marketing expenses	5,915	405	3,398
General and administrative expenses	15,817	(4,372)	2,175
	<u>\$45,477</u>	<u>\$ 2,095</u>	<u>\$18,251</u>

Share-based compensation expense recognized for share awards of Sohu (excluding Sohu Video), Sogou, Changyou and Sohu Video was as follows (in thousands):

Share-based compensation expense	Year Ended December 31,		
	2017	2018	2019
For Sohu (excluding Sohu Video) share-based awards	\$ 652	\$ (5,100)	\$ 1,941
For Sogou share-based awards (1)	27,729	14,204	15,901
For Changyou share-based awards	17,394	(6,461)	1,304
For Sohu Video share-based awards	(298)	(548)	(895)
	<u>\$45,477</u>	<u>\$ 2,095</u>	<u>\$18,251</u>

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

Note (1): For the years ended December 31, 2017 and 2018, compensation expense for Sogou share-based awards also included compensation expense for Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses. All of such Tencent restricted share units vested before January 1, 2019.

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There was no capitalized share-based compensation expense for 2017, 2018 and 2019.

As of December 31, 2019, unrecognized share-based compensation expense for Sohu (excluding Sohu Video), Sogou and Changyou share-based awards was as follows (in thousands):

Unrecognized share-based compensation expense	As of December 31, 2019
For Sohu (excluding Sohu Video) share-based awards	\$ 0
For Sogou share-based awards	5,028
For Changyou share-based awards	20,953
	<u>\$ 25,981</u>

Operating Profit/(Loss)

We had an operating income of \$0.4 million for 2019, compared to an operating loss of \$116.2 million for 2018 and an operating loss of \$189.2 million for 2017.

Other Income/(Expense)

Other income was \$21.9 million for 2019, compared to other income of \$64.7 million and other income of \$6.7 million, respectively, for 2018 and 2017. The year-over-year decrease in 2019 was mainly attributable to a total of \$34.1 million in impairment losses from certain of our equity investments that were recognized in 2019, offset by \$41.0 million of investment income earned from investments in financial instruments and \$6.4 million of governmental rewards.

Interest Income

Interest income was \$10.5 million for 2019, compared to \$24.1 million and \$24.1 million, respectively, for 2018 and 2017.

Interest Expense

Interest expense was \$14.4 million for 2019, compared to \$17.5 million and \$4.1 million, respectively, for 2018 and 2017. The decrease in 2019 was primarily due to the repayment of bank loans under loan agreements that Sohu entered into with ICBC in late 2017 and with CMB in 2018, which resulted in a decrease of approximately \$2.3 million in interest expense in 2019.

Income Tax Expense/(Benefit)

Income tax expense was \$31.2 million for 2019, compared to income tax benefit of \$13.4 million and income tax expense of \$272.6 million, respectively, for 2018 and 2017.

The income tax expense for 2019 compared to the income tax benefit for 2018 resulted primarily from accrued regular income tax expense of \$41.5 million and income tax expense of \$8 million in interest on an unrecognized tax benefit, offset by a reversal of PRC income tax expense of \$19.5 million by Changyou due to preferential tax rates that Changyou's subsidiaries were entitled to as KNSE and Software enterprises.

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The income tax benefit for 2018 compared to the income tax expense for 2017 resulted primarily from our re-evaluation during the fourth quarter of 2018 of the impact on the Sohu Group of the Toll Charge imposed by the U.S. TCJA and adjustment of the tax expense previously recognized for the Toll Charge; the resulting recognition of a previously unrecognized tax benefit in the amount of \$77 million and recording of a \$142 million unrecognized tax benefit related to the balance of the Toll Charge; and interest accrued in relation to the previously unrecognized tax benefit.

Net Income /(Loss)

As a result of the foregoing, we had a net loss from continuing operations of \$9.4 million for 2019, compared to a net loss of \$22.5 million and net loss of \$449.5 million, respectively, for 2018 and 2017.

We had a net loss from discontinued operations of \$34.0 million for 2019, compared to a net loss of \$44.8 million, and a net loss of 20.5 million, respectively, for 2018 and 2017.

Net Income Attributable to Noncontrolling Interest

Our net income from continuing operations attributable to noncontrolling interest was \$117.2 million for 2019, compared to a net income attributable to noncontrolling interest of \$107.3 million for 2018, and a net income attributable to noncontrolling interest of \$91.1 million for 2017.

Our net loss from discontinued operations attributable to noncontrolling interest was \$11.2 million for 2019, compared to a net loss attributable to noncontrolling interest of \$14.6 million for 2018, and net loss attributable to noncontrolling interest of \$6.6 million for 2017.

Net Loss attributable to Sohu.com Limited

As a result of the foregoing, we had a net loss from continuing operations of \$126.6 million attributable to Sohu.com Limited for 2019, compared to a net loss of \$129.8 million attributable to Sohu.com Limited and \$540.5 million attributable to Sohu.com Limited for 2018 and 2017, respectively.

We had a net loss from discontinued operations of \$22.8 million attributable to Sohu.com Limited for 2019, compared to a net loss of \$30.2 million attributable to Sohu.com Limited and \$14.0 million attributable to Sohu.com Inc. for 2018 and 2017, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Resources Analysis

Liquidity Sources and Balances

Our principal sources of liquidity are cash and cash equivalents, short-term investments, and cash flows generated from our operations. Cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash. Short-term investments comprise investment instruments issued by commercial banks in China, with a variable interest rate indexed to performance of underlying assets and maturity dates within one year.

As of December 31, 2019, we had cash and cash equivalents of approximately \$305.1 million, restricted cash of \$8.7 million, and short-term investments of \$1.32 billion. Of our cash and cash equivalents, \$251.1 million was held in financial institutions inside Mainland China and \$54.0 million was held in financial institutions outside of Mainland China. Of the cash and cash equivalents held in financial institutions inside Mainland China, \$52.7 million was held by our VIEs and \$198.4 million was held by our PRC-based subsidiaries.

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We believe our current liquidity and capital resources are sufficient to meet anticipated working capital needs (net cash used in operating activities), commitments, capital expenditures, and investment activities over the next twelve months. We may, however, require additional cash resources due to changes in business conditions and other future developments, or changes in general economic conditions.

See “Item 3 Key Information—Risk Factors – Risks Related to China’s Regulatory Environment – Restrictions on currency exchange may limit our ability to use our revenues effectively,” “- Our Offshore entities may need to rely on dividends and other distributions on equity paid by our Mainland China-based subsidiaries, including the Mainland China-based subsidiaries of our subsidiaries Sogou and Changyou, to fund any cash requirements those Offshore entities may have. Our Offshore entities may not be able to obtain cash from distributions because our subsidiaries and VIEs in Mainland China are subject to restrictions imposed by PRC law on paying such dividends and making other payments,” and “- Dividends we receive from our operating subsidiaries located in the PRC are subject to PRC profit appropriation and PRC withholding tax,” and “Risks Related to Our Corporate Structure – Although the Sohu Group holds substantial amounts of cash and cash equivalents, a significant portion of such cash and cash equivalents is held by Sogou and Changyou, and it can be difficult for Sohu to have access to the portion held by Sogou and Changyou.” See also “Restrictions and Limitations on Cash Available to Sohu.com Limited.” below and Item 11 “Quantitative and Qualitative Disclosure About Market Risk – Foreign Currency Exchange Rate Risk.”

Cash Generating Ability

Our cash flows were summarized below (in thousands):

	Year Ended December 31,		
	2017	2018	2019
Net cash provided by continuing operations	\$ 186,625	\$ 80,603	\$ 201,249
Net cash provided by discontinued operating activities	1,062	3,422	9,341
Net cash provided by operating activities	187,687	84,025	210,590
Net cash used in continuing investing activities	(713,549)	(458,526)	(432,412)
Net cash used in discontinued investing activities	(954)	(718)	(10,808)
Net cash used in investing activities	(714,503)	(459,244)	(443,220)
Net cash provided by /(used in) continuing financing activities	801,975	96,334	(513,163)
Net cash provided by /(used in) financing activities	801,975	96,334	(513,163)
Effect of exchange rate change on cash, cash equivalents, restricted cash and restricted time deposits	30,226	(19,544)	(10,046)
Reclassification of cash, cash equivalents, restricted cash and restricted time deposits from assets held for sale	11,684	0	0
Net increase /(decrease) in cash, cash equivalents, restricted cash and restricted time deposits	317,069	(298,429)	(755,839)
Cash, cash equivalents, restricted cash and restricted time deposits at beginning of period	1,051,226	1,368,295	1,069,866
Cash, cash equivalents, restricted cash and restricted time deposits at end of period	\$ 1,368,295	\$ 1,069,866	\$ 314,027
Less: Cash, cash equivalents, restricted cash and restricted time deposits of discontinued operations, end of year	243	2,663	0
Cash, cash equivalents, restricted cash and restricted time deposits of continuing operations, end of year	1,368,052	1,067,203	314,027

Net Cash Provided by Operating Activities

For 2019, \$201.3 million net cash provided by continuing operations was primarily attributable to our net loss of \$9.4 million, adjusted by (i) the add back of non-cash items consisting of \$132.4 million of depreciation and amortization expenses, \$34.1 million of impairment of long-term investments, \$23.1 million of bad-debt expense, \$18.3 million of share-based compensation expense, \$8.0 of goodwill impairment and impairment of intangible assets acquired as part of business acquisitions, and \$7.3 million of impairment of other intangible assets and other assets (ii) offset by \$2.9 million of investment loss from equity investments, \$2.3 million of change in fair value of financial instruments, and \$2.0 million from other operating activities. The decrease in cash from \$5.3 million in working capital items is also included in operating cash flow.

For 2018, \$80.6 million net cash provided by continuing operating activities was primarily attributable to our net loss of \$22.5 million, adjusted by (i) the add back of non-cash items consisting of \$152.1 million in depreciation and amortization expenses, \$17.1 million in bad debt expense, \$16.4 in goodwill impairment and impairment of intangible assets acquired as part of business acquisitions, \$10.8 million in impairment of other intangible assets and other assets, \$2.6 million of impairment of a long-term investment, and \$2.1 million of share-based compensation expense, (ii) offset by \$14.2 million of investment loss from equity investments, \$10.9 million in change in fair value of financial instruments, and \$0.7 million from other operating activities. The decrease in cash from \$72.2 million in working capital items is also included in operating cash flow.

For 2017, \$186.6 million net cash provided by continuing operations was primarily attributable to our net loss of \$449.5 million, adjusted by (i) the add back of non-cash items consisting of \$223.1 million of depreciation and amortization expenses, \$86.9 of goodwill impairment and impairment of intangible assets acquired as part of business acquisitions, \$72.3 million of impairment of other intangible assets and other assets, \$41.5 million of share-based compensation expense, a \$8.9 million provision for allowance for doubtful accounts, \$5.8 million of impairment of a long-term investment, and \$2.0 million of investment loss from equity investments, (ii) offset by \$10.4 million in change in fair value of financial instruments and \$1.3 million from other operating activities. The increase in cash from \$207.3 million in working capital items is also included in operating cash flow.

Net Cash Used in Investing Activities

For 2019, \$432.4 million net cash used in continuing investing activities was primarily attributable to (i) \$3.05 billion used in purchase of financial instruments, \$257.4 million for investments in financing receivables, \$96.8 million used in purchase of fixed assets and intangible assets, and \$23.8 million used in the purchase of long-term investments, (ii) offset by \$2.76 billion in proceeds from financial instruments, \$226.1 million from collection of financing receivables, and \$2.8 million cash received from other investing activities.

For 2018, \$458.5 million net cash used in continuing investing activities was primarily attributable to (i) \$3.18 billion used in purchase of financial instruments, \$198.6 million used in purchase of fixed assets and intangible assets, \$98.8 million for investments in financing receivables, and \$20.6 million used in the purchase of long-term investments, (ii) offset by \$2.96 billion in proceeds from financial instruments, \$60.0 million from collection of financing receivables, \$12.1 million from sale of an equity investment, \$5.3 million from loan repayment by a third party to Changyou, and \$1.7 million cash received from other investing activities.

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For 2017, \$713.5 million net cash used in continuing investing activities was primarily attributable to (i) \$1.79 billion used in purchase of financial instruments, \$144.4 million used in purchase of fixed assets and intangible assets, \$7.7 million used in the purchase of long-term investments, and \$1.4 million cash used in other investing activities (ii) offset by \$1.22 billion in proceeds from financial instruments, and \$4.9 million from loan repayment by a third party to Changyou.

Net Cash Provided by / (Used in) Financing Activities

For 2019, \$513.2 million net cash used in continuing financing activities was primarily attributable to (i) \$58.0 million in proceeds received from bank loans, and \$8.6 million in proceeds received from financing activities (ii) offset by \$273.0 million used in repayment of loans from banks, \$165.8 million for the portion of a Changyou dividend distributed to holders of the non-controlling interests in Changyou, and \$42.0 million used in the repurchase of Sogou Pre-IPO Class A Ordinary Shares from a noncontrolling shareholder.

For 2018, \$96.3 million net cash provided by continuing financing activities was primarily attributable to (i) \$325.8 million in proceeds received from bank loans, (ii) offset by \$162.5 million for the portion of a Changyou dividend distributed to holders of the non-controlling interests in Changyou, and \$67.0 million used in repayment of loans from banks.

For 2017, \$802.0 million net cash provided by continuing financing activities was primarily attributable to (i) \$622.1 million received from Sogou's IPO, net of related underwriting discounts and commissions and offering expenses, \$190.2 million in proceeds received from bank loans, and \$0.6 million received from exercise of share-based awards in a subsidiary, (ii) offset by \$7.7 million used in repayment of loans from banks and \$3.2 million used in the repurchase of Sogou Pre-IPO Class A Common Shares from a noncontrolling shareholder.

Restrictions and Limitations on Cash Available to Sohu.com Limited.

To fund any cash requirements it may have, Sohu.com Limited may need to rely on dividends and other distributions on equity paid by our direct subsidiaries, which are all located outside PRC. Since substantially all of our operations are conducted through our indirect Mainland China-based subsidiaries and VIEs, all of Sohu.com Limited's direct subsidiaries may need to rely on dividends, loans or advances made by our PRC subsidiaries and VIEs in order to make dividends and other distributions to us.

The ability of Sohu.com Limited's direct subsidiaries to receive dividends and distributions from our China-based subsidiaries and VIEs, and the amount of cash available for distribution to, and use by, Sohu.com Limited, are subject to certain restrictions and limitations related to PRC law and our subsidiary and VIE structure. We do not expect any of such restrictions or taxes to have a material impact on our ability to meet our cash obligations. However, such restrictions and taxes limit our ability to use cash and cash equivalents held by Changyou and its subsidiaries and VIEs, and by Sogou and its subsidiaries and VIEs, for our Sohu business separate from Changyou and Sogou. See "Risk Factors – Risks Related to Our Corporate Structure – Although the Sohu Group holds substantial amounts of cash and cash equivalents, a significant portion of such cash and cash equivalents is held by Sogou and Changyou, and it can be difficult for Sohu to have access to the portion held by Sogou and Changyou."

PRC Regulations Related to Profit Appropriation, Withholding Tax on Dividends and Foreign Currency Exchange

Regulations in the PRC currently permit payment of dividends of a PRC company only out of accumulated profits as determined in accordance with accounting standards and regulations in China. Our China-based WFOEs are also required to set aside each year to their general reserves at least 10% of their after-tax profit based on PRC accounting standards, until the cumulative amount reaches 50% of their paid-in capital. These reserves may not be distributed as cash dividends, or as loans or advances. Our WFOEs may also allocate a portion of their after-tax profits, at the discretion of their Boards of Directors, to their staff welfare and bonus funds. Any amounts so allocated may not be distributed by Sohu.com Limited, Sogou's parent company Sohu.com (Search) Limited, or Changyou.com Limited and, accordingly, would not be available for distribution to Sohu.com Limited.

The CIT Law imposes a 10% withholding income tax for dividends distributed by foreign-invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate will be applied if there is a tax treaty arrangement between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the "Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income" if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to withholding tax at a rate of 10%. As of December 31, 2019, we had accrued deferred tax liabilities in the amount of \$86.8 million for withholding taxes associated with dividends paid by Changyou's Mainland China-based WFOEs to Changyou's Hong Kong subsidiary.

Under regulations of the SAFE, the RMB is not convertible into foreign currencies for capital account items, such as loans, repatriation of investments and investments outside of Mainland China, unless prior approval of the SAFE is obtained and prior registration with the SAFE is made.

PRC Restrictions Related to Our VIE Structure

A significant portion of our operations is conducted through our VIEs, which generate a significant amount of our revenues. Significant cash balances remained in certain of our VIEs as of December 31, 2019. As our VIEs are not owned by our PRC subsidiaries, the VIEs are not able to make dividend payments to the subsidiaries. Therefore, in order for Sohu.com Limited or our subsidiaries outside of Mainland China to receive any dividends, loans, or advances from our PRC subsidiaries, in some cases we may need to rely on payments made by our VIEs to our PRC subsidiaries pursuant to service contracts between them. Depending on the nature of services provided by our PRC subsidiaries to their corresponding VIEs, certain of these payments will subject to PRC taxes, such as VAT, which will effectively reduce the amount that the PRC subsidiary receives from its corresponding VIE. In addition, the PRC government could impose restrictions on such payments or change the tax rates applicable to such payments.

Capital Expenditure

Our capital expenditures include the purchase of fixed assets, intangible assets and other assets. Our capital expenditures were \$144.4 million, \$198.6 million, and \$96.8 million, respectively, for the years ended December 31, 2017, 2018, and 2019.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of December 31, 2019 (in thousands):

	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Thereafter</u>	<u>Total</u>
Purchase of bandwidth	\$50,405	352	0	0	0	0	50,757
Operating lease obligations	11,989	5,473	982	0	0	0	18,444
Operating rights for licensed games and titles of games in development	12,806	600	0	0	0	0	13,406
Purchase of content and services—video	7,429	2,013	0	0	0	0	9,442
Purchase of content and services—others	5,526	180	53	18	0	0	5,777
Purchase of goods	5,633	0	0	0	0	0	5,633
Interest payment commitment	2,164	0	0	0	0	0	2,164
Others	3,127	460	0	0	0	0	3,587
Total Payments Required	<u>\$99,079</u>	<u>9,078</u>	<u>1,035</u>	<u>18</u>	<u>0</u>	<u>0</u>	<u>109,210</u>

In addition to the above contractual obligations, we also have commitments for repayment of principal of bank loans, amounted to \$114.5 million, nil, nil and nil in the year of 2020, 2021, 2022 and thereafter, respectively. Outstanding principal of the bank loans totaling \$28.5 million was repaid in February 2020 by Sohu.

OTHER LONG-TERM LIABILITIES

We recorded long-term tax liabilities of \$181.6 million, consisting primarily of a \$8 million in interest on the unrecognized tax benefit related to the Toll Charge, and \$171.3 million related to certain business transactions that took place in previous years and management determined may result in additional tax obligations under relevant tax rules.

At this time, we are unable to make a reasonably reliable estimate of the timing of payments of long-term liabilities in individual years beyond 12 months due to uncertainties in the timing of the tax impact of the transactions. As a result, this amount is not included in the table above.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of third parties. We are not subject to any additional potential payments. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity, or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or that engages in leasing, hedging or product development services with us.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Leases (Topic 842). In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance requires an entity to recognize both assets and liabilities arising from finance and operating leases, along with additional qualitative and quantitative disclosures. ASU No. 2016-02 requires a lessee to recognize a liability in its balance sheet to make lease payments (a “lease liability”) and a right-of-use asset representing its right to use the underlying asset for the lease term. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest comparative period presented, or at the beginning of the period of adoption. We adopted ASU 2016-02 at the beginning of the first quarter of fiscal year 2019, using the modified retrospective method and not restating comparable periods. We recorded right-of-use asset of approximately \$25.3 million and lease liabilities of approximately \$22.9 million on our adoption date of January 1, 2019, primarily related to our leased office space. See “Summary of Significant Accounting Policies – Lease” above and Note 12 - Lease.

Compensation-Stock Compensation (Topic 718). In June 2018, the FASB issue ASU No. 2018-07, *Compensation-Stock Compensation (Topic 718)*, which provides guidance concerning amendments to nonemployee share-based payment accounting. The amendments covered by the guidance are effective for publicly-traded business entities for fiscal years beginning after December 15, 2018, including interim periods within the applicable fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than the date of an entity’s adoption of Topic 606. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Other accounting standards adopted beginning January 1, 2019 do not have a significant impact on our consolidated financial statements.

IMPACT OF RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

Financial Instruments-Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. ASU 2016-13 is required to be adopted at the beginning of the first quarter of 2020, using a modified retrospective approach. The adoption of this guidance will result in a change in our provision policy, primarily for receivables. We expect to record an increase of approximately \$6.7 million to allowance for credit losses on our adoption date of January 1, 2020.

Simplifying the Test for Goodwill Impairment. In January 2017 the FASB issued ASU No. 2017-04, “Simplifying the Test for Goodwill Impairment.” The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We do not expect this guidance to have a material impact on our consolidated financial statements.

Simplifying the accounting for income taxes. In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes*. ASU No. 2019-12 removes certain exceptions to the general principles in Topic 740 and provides for consistent application of and simplifies generally accepted accounting principles for other areas of Topic 740 by clarifying and amending existing guidance. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The method of adoption varies depending on the component of the new rule that is being adopted. Early application is permitted. We do not expect to adopt ASU 2019-12 early and we are currently evaluating the impact of adopting this standard on our consolidated financial statements.

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Cloud computing. In 2018, the FASB issued new guidance on a customer’s accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor (i.e., a service contract). Under the new guidance, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The guidance is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those fiscal years. We do not expect this guidance to have a material impact on our consolidated financial statements.

Fair value measurement disclosure requirements. In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”) which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. We do not expect this guidance to have a material impact on our consolidated financial statements

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The following table sets forth information regarding our directors and executive officers as of the date of this annual report. The business address of each of our directors and executive officers is Sohu.com Media Plaza, Block 3, No. 2 Kexueyuan South Road, Haidian District, Beijing 100190, People’s Republic of China.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position</u>
Charles Zhang	55	Chairman of the Board and Chief Executive Officer
Xiaochuan Wang	41	Chief Executive Officer of Sogou
Dewen Chen	44	Chief Executive Officer of Changyou
Joanna Lv	49	Chief Financial Officer
Charles Huang	50	Director
Zhonghan Deng ⁽¹⁾ ⁽²⁾ ⁽³⁾	52	Independent Director
Dave De Yang ⁽¹⁾	54	Independent Director
Dave Qi ⁽¹⁾ ⁽²⁾ ⁽³⁾	56	Independent Director
Shi Wang ⁽³⁾	69	Independent Director

(1) Member of the audit committee of our Board of Directors.

(2) Member of the compensation committee of our Board of Directors.

(3) Member of the nominating committee of our Board of Directors.

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Dr. Charles Zhang is our founder and has been Chairman of our Board and Chief Executive Officer since August 1996. Dr. Charles Zhang also served as our President from August 1996 to July 2004. Prior to founding Sohu, Dr. Charles Zhang worked for Internet Securities Inc. and helped to establish its China operations. Prior to that, Dr. Charles Zhang worked as the Massachusetts Institute of Technology's, or MIT's, liaison officer with China. Dr. Charles Zhang is also the Chairman of the Board of Changyou and Sogou. Dr. Charles Zhang has a Ph.D. in experimental physics from MIT and a Bachelor of Science degree from Tsinghua University.

Xiaochuan Wang has been the Chief Executive Officer of Sogou since 2010, and was named as one of our executive officers effective November 1, 2016. Under his leadership, Sogou has developed many strategic products, including the Sogou Search Engine, the Sogou Pinyin Input Method, and the Sogou Browser. Mr. Wang has played an integral role in establishing a technology-driven culture at Sogou through a focus on team building and product innovation. Mr. Wang served as our senior vice president from 2008 to 2009 and as our Chief Technology Officer from 2009 to 2013. Mr. Wang received a Gold Medal in the 8th International Olympiad in Informatics. Mr. Wang received a bachelor's degree and a master's degree in Computer Science from Tsinghua University.

Dewen Chen is the Chief Executive Officer of Changyou and was one of the principal founders of Changyou's online game business. Mr. Chen was named as one of our executive officers effective November 1, 2016. Mr. Chen joined us in 2005 as a business manager, responsible for building a sales team for game products. Beginning in May 2006, Mr. Chen was in charge of the overall marketing, promotion, sales and channel distribution of our game products. Prior to Changyou's carve-out from us in 2007, Mr. Chen was the Director of Marketing & Operations of our online game business. From April 2000 until he joined us in 2005, Mr. Chen worked at Shanghai Hua Teng Software System Co. Ltd. as a pre-sale technology consultant and sales manager. Prior to that, Mr. Chen worked with Fujian Shi Da Computer Group as a software engineer and project manager, and later as the Director of the Technology Department of the Shanghai branch office. Mr. Dewen Chen received a bachelor's degree in Computer Engineering from Xi'an Jiaotong University.

Joanna Lv has been our Chief Financial Officer since January 27, 2018. Ms. Lv joined us in August 2000. From July 31, 2016 to January 26, 2018, Ms. Lv was our Acting Chief Financial Officer. Prior to July 31, 2016, Ms. Lv was our Senior Finance Director, in charge of day-to-day finance operations, including financial reporting, budget planning and treasury. Ms. Lv brings extensive experience in financial management and has been involved in multiple strategic financial projects for us. Ms. Lv received a bachelor's degree in economics from the Capital University of Economics and Business in Beijing and an EMBA degree from Tsinghua University.

Mr. Charles Huang is the Founder, Chief Executive Officer and Chairman of Netbig Education Holdings Ltd. ("Netbig"), a leading education enterprise in China. Prior to founding Netbig in 1999, Mr. Huang served as Executive Director and Head of the Asia Securitization Group of Deutsche Bank, New York and Hong Kong, as well as a Senior Vice President of Prudential Securities Inc., New York. Mr. Huang is also a Chartered Financial Analyst, and serves as director of ZTO Express (Cayman) Inc. (New York Stock Exchange). Mr. Huang holds a Master of Science degree in Computer Science from MIT and a Bachelor of Science degree from the University of Science and Technology of China.

Dr. Zhonghan Deng is the Chief Scientist and Chairman of the Board of Directors of Vimicro International Corporation ("Vimicro"), which he co-founded in 1999. Dr. Zhonghan Deng also worked as a research scientist for International Business Machines Corporation at the T.J. Watson Research Center in Yorktown Heights, New York. Dr. Deng received a Ph.D. in electrical engineering and computer sciences, a Master of Science degree in economics and a Master of Science degree in physics from the University of California, Berkeley.

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Dave De Yang has served as the Chief Financial Officer and a Partner of Dalton International, an investment firm based in Chicago, since 2017. From 2012 through 2016, Mr. Yang served as Chief Financial Officer for the North Asia region, including China, Hong Kong, Taiwan, Japan, and Korea, of Reckitt Benckiser, a London-based company that is listed on the London Stock Exchange and is included in the FTSE 100 Index. Prior to joining Reckitt Benckiser, Mr. Yang worked for McDonald's Corporation as a senior financial director, including an international assignment as the Corporate Controller of McDonald's China for three and half years. Prior to that role, he served as acting controller of McDonald's India and Indonesia divisions and as a senior director of McDonald's Corporation in the Asia Pacific, Middle East and Africa division, where he oversaw the development and supervision of financial strategy and policy. Prior to joining McDonald's Corporation, Mr. Yang worked in the U.S. business unit of Ernst & Young LLP for seven years in various positions, including as a group manager. During Mr. Yang's tenure at Ernst & Young LLP, he focused on business risk management consultation, corporate M&A, restructuring of corporate internal management processes, internal audits, risk assessment, control system designs, and auditing of corporate financial statements, primarily for Fortune 500 companies. Mr. Yang has also served as a member of the Board of Directors and of the Audit Committee of Changyou since 2009. Mr. Yang has a master of business administration degree from the City University of New York, a master's degree in Management and Engineering from the Graduate School of the Chinese Academy of Sciences in Beijing, and a bachelor's degree in physics from the University of Science and Technology of China. Mr. Yang is a member of the U.S. Institute of Certified Internal Auditors, the Institute of Certified Public Accountants and the Institute of Certified Management Accountants.

Dr. Dave Qi is a Professor of Accounting and the former Associate Dean of the Cheung Kong Graduate School of Business. He began teaching at the Cheung Kong Graduate School of Business in 2002 and was the founding Director of the Executive MBA program. Before joining the Cheung Kong Graduate School of Business, Dr. Dave Qi was an Associate Professor at the School of Accounting of the Chinese University of Hong Kong. Dr. Dave Qi has published many articles and research essays on accounting, financial reporting, capital market and other related topics. Dr. Dave Qi also serves as director of the following public companies: Bison Finance Group Limited (HK Stock Exchange), CTV Golden Bridge International Media Co., LTD. (Hong Kong Stock Exchange), Momo Inc. (NASDAQ), Jutal Offshore Oil Services Limited (Hong Kong Stock Exchange), Yunfeng Financial Group Limited (formerly Reorient Group Limited) (Hong Kong Stock Exchange) and Haidilao International Holding Ltd. (HK Stock Exchange). In addition, Dr. Dave Qi serves as Chairman of the Audit Committee of each of Bison Finance Group Limited, CTV Golden Bridge International Media Co., LTD., and Haidilao International Holding Ltd., and as a member of the Audit Committee of each of Momo Inc., Jutal Offshore Oil Services Limited and Yunfeng Financial Group Limited. Dr. Qi has a Ph.D. in accounting from the Eli Broad Graduate School of management of Michigan State University, a Master of Business Administration from the University of Hawaii at Manoa and a Bachelor of Science and a Bachelor of Arts degree from Fudan University. Dr. Dave Qi is currently a member of the American Accounting Association.

Mr. Shi Wang is the Honorary Chairman of the Board of Directors of Vanke, of which he also served as General Manager from 1991 to 1999. In 1984 Mr. Shi Wang founded the Shenzhen Exhibition Center of Modern Science and Education Equipment, which is the predecessor of Vanke. Mr. Shi Wang is the Executive Manager of the China Real Estate Association and is Deputy Director of the City Housing Development Council of the China Real Estate Association.

Board of Directors

Our Board of Directors currently consists of six directors and is divided into two classes consisting of three directors each, with one class of directors being elected by the holders of our ordinary shares at each annual general meeting of shareholders and holding office for staggered two-year terms, with the term of one of the classes expiring at each annual general meeting. Our directors currently consist of Dr. Charles Zhang, Zhonghan Deng, and Dave De Yang, whose terms will expire at our 2020 annual general meeting of shareholders, and Charles Huang, Dave Qi, and Shi Wang, whose terms will expire at our 2021 annual meeting of shareholders. A director is not required to hold any shares in our company by way of qualification. A director may vote with respect to any contract, proposed contract, or arrangement in which he is materially interested, provided the nature of such interest is disclosed prior to any vote thereon.

Committees of the Board of Directors

Audit Committee

The members of our audit committee currently are Dr. Dave Qi, Dr. Zhonghan Deng and Mr. Dave De Yang, who are each independent as that term is defined in Rule 10A-3 under the Exchange Act and Rule 5605(a)(2) of the NASDAQ Listing Rules. Our Board has determined that Dr. Dave Qi is an audit committee financial expert as set forth under the applicable SEC rules and Rule 5605(c)(2) of the Nasdaq Listing Rules. The full responsibilities of our audit committee are set forth in its charter, which will be reviewed and updated annually and approved by our board, and will be posted on our Website at <http://investors.sohu.com/committee-details/audit-committee>. The audit committee is responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- overseeing our accounting and financial reporting processes and audits of the financial statements of our company;
- reviewing with the independent auditors any audit problems or difficulties and management's response;
- reviewing and approving all proposed related party transactions, as defined in the Nasdaq Listing Rules;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls over financial reporting and any special audit steps adopted in the light of any significant deficiencies or materially weakness in our internal controls; and
- meeting separately and periodically with management and the independent auditors.

Compensation Committee

The members of our compensation committee currently are Dr. Dave Qi and Dr. Zhonghan Deng, who are each independent as that term is defined in Rule 5605(a)(2) of the NASDAQ Listing Rules. Our compensation committee makes recommendations concerning salaries and incentive compensation, administers and approves share-based awards under our equity incentive plans, and otherwise determines compensation levels and performs such other functions regarding compensation as our Board of Directors may delegate to our compensation committee. The full responsibilities of our compensation committee are set forth in its charter, which is posted on our Web site at <http://investors.sohu.com/committee-details/compensation-committee>

Nominating Committee

The members of our nominating committee currently are Dr. Dave Qi, Mr. Shi Wang and Dr. Zhonghan Deng, who are each independent as that term is defined in Rule 5605(a)(2) of the NASDAQ Listing Rules. The purpose of our nominating committee is to assist our Board of Directors in identifying individuals qualified to become directors under criteria approved by our Board of Directors, periodically review director compensation and benefits, recommend to our Board of Directors any proposed revisions to our corporate governance guidelines and assist our Board of Directors in assessing directors' independence, board effectiveness, continuing education, new director orientation and committee membership. The full responsibilities of our nominating committee are set forth in its charter, which is posted on our Web site at <http://investors.sohu.com/committee-details/nominating-committee>

It is a policy of our nominating committee that candidates for director (i) be determined to have unquestionable integrity and honesty, (ii) have the ability to exercise sound, mature and independent business judgment which is in the best interests of the shareholders as a whole, (iii) have a background and experience in fields which will complement the talents of the other Board members, (iv) have the willingness and capability to take the time to actively participate in Board and committee meetings and related activities, (v) have the ability to work professionally and effectively with other Board members and our management, (vi) have the ability to remain on our Board long enough to make a meaningful contribution and (vii) have no material relationships with competitors or other third parties that could create a reasonable likelihood of a conflict of interest or other legal issues.

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Neither our nominating committee nor our Board of Directors has a policy with regard to the consideration of diversity when identifying and evaluating proposed director candidates, although both may consider diversity when identifying and evaluating proposed director candidates, and one of the enumerated factors under our nominating committee's charter that the committee may consider when identifying potential nominees is the interplay of the candidate's experience with the experience of the other board members. In compiling a list of possible candidates and considering their qualifications, our nominating committee makes its own inquiries, solicits input from other directors on our Board and may consult or engage other sources, such as a professional search firm, if it deems appropriate.

Duties of Directors

Under Cayman Islands law, our directors have a common law duty to act honestly in good faith with a view to our best interests and for a proper purpose. A director must exercise the skill and care of a reasonably diligent person having both – (a) the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to the company (an objective test), and (b) if greater, the general knowledge, skill and experience that that director actually possesses (a subjective test). In fulfilling their duty of care to us, our directors must ensure compliance with our memorandum and articles of association. A shareholder may have the right to seek various remedies, including damages on behalf of our company, if a duty owed by our directors is breached.

Terms of Directors and Officers

A director may be removed by ordinary resolution passed by a majority of our shareholders before the expiration of such director's term. For more information about the classification of our Board of Directors, see “—Board of Directors.” Officers are elected by and serve at the discretion of the Board of Directors.

Compensation of Executive Officers and Directors

During the year ended December 31, 2019, we paid an aggregate of approximately \$4.9 million in cash compensation to our executive officers. We paid an aggregate of approximately \$0.6 million in cash compensation to our directors other than Dr. Charles Zhang. In 2019, the total compensation expense for our non-executive directors and executive officers recorded in our consolidated statements of comprehensive income was \$6.3 million. None of our directors, other than Dr. Charles Zhang, have service contracts that provide for benefits upon termination of employment.

Employment Agreements with Executive Officers

Employment Agreements with Dr. Charles Zhang, Ms. Joanna Lv and Mr. Dewen Chen.

We have entered into a three-year employment agreement with our Chief Executive Officer, Dr. Charles Zhang, and a three-year employment agreement with our Chief Financial Officer, Ms. Joanna Lv, and Changyou has entered into an employment agreement with Mr. Dewen Chen, Changyou's Chief Executive Officers. Under these agreements we or Changyou may terminate Dr. Zhang's, Ms. Lv's or Mr. Chen's employment for cause, at any time, for certain acts of such officer such as willful misconduct or gross negligence, repeated failure to perform substantially his or her duties, indictment or conviction for or confession of a felony, or any crime involving moral turpitude. In any such case, such officer will not be entitled to receive payment of any severance benefits or other amounts by reason of termination other than accrued salary and vacation through the date of termination and such officer's right to all other benefits will terminate, except as required by applicable law.

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We or Changyou may also terminate our employment agreements with Dr. Zhang, Ms. Lv or Mr. Chen without cause upon thirty days' advance written notice. In such case of termination by us and also in a case where Dr. Zhang, Ms. Lv or Mr. Chen voluntarily terminates his or her employment with us upon thirty-days' advance written notice for "good reason," we are required to provide him or her with severance benefits equal to an amount up to six (6) months of his or her monthly base salary, provided that he or she complies during the severance period with the non-competition, non-solicitation, confidential information and work product provisions discussed below, which are incorporated into the employment agreement, and executes a release agreement in a form requested by us. "Good reason" includes (i) any significant change in the executive officer's duties and responsibilities inconsistent in any material and adverse respect with his or her title and position, and (ii) any material breach of the employment agreement by us, including any reduction in the executive officer's base salary or our failure to pay to him or her any portion of his or her compensation.

Each of Dr. Zhang, Ms. Lv and Mr. Chen has entered into an employee non-competition, non-solicitation, confidential information, and work product agreement with us or Changyou, respectively. Under these agreements, Dr. Zhang, Ms. Lv or Mr. Chen has agreed to be bound by (i) non-competition restrictions during his or her employment and for one year after the termination of his or her employment or for such longer period during which we pay him or her any severance benefits, and (ii) non-solicitation restrictions during the non-competition period. Each of Dr. Zhang, Ms. Lv and Mr. Chen has agreed to hold in confidence, both during and after the termination or expiry of his or her employment agreement, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment, all of our confidential information or trade secrets, all confidential information or trade secrets of our clients or customers, and all confidential or proprietary information of any third party held by us. Each of Dr. Zhang, Ms. Lv and Mr. Chen has also agreed to disclose to us or Changyou all inventions which he or she conceives and develops during the employment and to assign all right, title and interest in them to us or Changyou and has agreed not to assert any such rights against us or Changyou

Employment Agreement with Mr. Xiaochuan Wang

Our subsidiary Beijing Sogou Technology Development Co., Ltd. entered into an open-ended employment agreement with Mr. Xiaochuan Wang. Under his employment agreement, Mr. Wang is entitled to (i) base salaries and (ii) a performance-based cash bonus. His employment agreement also provides for certain additional benefits to the extent applicable, including vacation time; life, unemployment, medical, work-related injury and other insurance; and allowances for housing. Mr. Wang also agreed in his employment agreement to be bound by obligations regarding (i) assignment of intellectual property and (ii) confidential treatment of proprietary information. His employment agreement is governed by PRC law.

Share Incentive Plans

Sohu Share Incentive Plans

We adopted a share incentive plan in April 2018, or the Sohu 2018 Share Incentive Plan, which will expire in April 2028. The maximum number of our ordinary shares issuable under the Sohu 2018 Share Incentive Plan is 1,132,315, which is equal to the remaining number of 1,148,565 of shares of common stock issuable under the Sohu.com Inc. 2010 Share Incentive Plan as of the adoption of the Sohu 2018 Share Incentive Plan, reduced by 16,250 shares that were issued upon exercise or settlement between the time of the adoption of Sohu 2018 Share Incentive Plan and the dissolution and liquidation of Sohu.com Inc. on May 31, 2018. Our Board of Directors may amend, suspend, or terminate the Sohu 2018 Share Incentive Plan at any time; provided, however, that our Board of Directors must first seek the approval of the participants in the Sohu 2018 Share Incentive Plan if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards. Share incentive awards may be granted under the Sohu 2018 Share Incentive Plan to our management and employees. Share incentive awards that were granted, or may be granted, under the Sohu 2018 Share Incentive Plan include, among other forms, options, restricted share units and restricted shares, and the maximum term of any share incentive award granted is ten years from the grant date.

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Our compensation committee, or our Board of Directors in the absence of such a committee, administers the Sohu 2018 Share Incentive Plan, and determines the terms and conditions of awards under the Sohu 2018 Share Incentive Plans. Awards granted under the Sohu 2018 Share Incentive Plan are evidenced by an award document that sets forth the terms and conditions applicable to each of the awards, as determined by our Board of Directors or compensation committee in its sole discretion.

Upon the dissolution of Sohu.com Inc. on May 31, 2018, we assumed all then existing obligations of Sohu.com Inc. with respect to equity incentive awards that had been granted under Sohu 2010 Stock Incentive Plan and then remained outstanding, and such awards were converted into the right to receive upon exercise or settlement our ordinary shares under the Sohu 2018 Share Incentive Plan rather than shares of the common stock of Sohu.com Inc., subject to the other terms of such outstanding awards.

Sogou Share Incentive Plans

Sogou adopted a share incentive plan in October 2010, as amended from time to time and with the last amendment taking effect on August 22, 2014, or the Sogou 2010 Share Incentive Plan. The maximum number of Sogou Class A Ordinary Shares issuable under the Sogou 2010 Share Incentive Plan is 41,500,000. Share incentive awards may be granted under the Sogou 2010 Share Incentive Plan to Sogou management and employees, and to management and employees of any of the Sohu Group companies. Sogou also adopted a share incentive plan in October 2017, or the Sogou 2017 Share Incentive Plan and, together with the Sogou 2010 Share Incentive Plan, the Sogou Share Incentive Plans. The maximum number of Sogou Class A Ordinary Shares issuable under the Sogou 2017 Share Incentive Plan is 28,000,000. Share incentive awards may be granted under the Sogou 2017 Share Incentive Plan to Sogou management and employees and to management and employees of any of the Sohu Group companies that is not our VIE. Share incentive awards that may be granted under the Sogou Share Incentive Plans include, among other forms, options, restricted share units and restricted shares, and the maximum term of any share incentive award granted is ten years from the grant date.

Sogou's compensation committee, or Sogou's Board of Directors in the absence of such a committee, administers the Sogou Share Incentive Plans, and determines the terms and conditions of awards under the Sogou Share Incentive Plans. Awards granted under the Sogou Share Incentive Plans are evidenced by an award document that sets forth the terms and conditions applicable to each of the awards, as determined by Sogou's Board of Directors or compensation committee in its sole discretion. Prior to Sogou's IPO, the award documents for options previously granted under the Sogou 2010 Share Incentive Plan gave Sogou a right to repurchase from a grantee, within a certain time period, up to 50% of a grantee's Class A Ordinary Shares subject to vested options, upon such grantee's death, disability, or voluntary, or involuntary termination of employment with us (other than for "Cause," as defined in the Sogou 2010 Share Incentive Plan); the repurchase price for such a purchase was equal to the fair market value of Sogou's ordinary shares, as determined in an appraisal by an independent professional appraisal firm chosen by Sogou. Sogou's such repurchase rights under the award documents terminated upon the completion of Sogou's IPO.

The Sogou 2010 Share Incentive Plan will terminate in October 2020 and the Sogou 2017 Share Incentive Plan will terminate in October 2027. Sogou's Board of Directors may amend, suspend, or terminate the Share Incentive Plans at any time; provided, however, that Sogou's Board of Directors must first seek the approval of the participants in the Share Incentive Plans if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards.

Awards for Sogou Class A Ordinary Shares held by Sohu

We also grant to our management and employees options to purchase from us Sogou Class A ordinary shares that we hold for the purpose of making such grants. Vesting of options that we grant generally occurs in equal annual installments over a four-year period, but vesting for each year is also subject to the achievement of annual performance milestones related to Sogou that our Board of Directors establishes in its discretion.

Changyou Share Incentive Plan

Changyou adopted a share incentive plan in August 2008 (the “Changyou 2008 Share Incentive Plan”), which expired in August 2018 and is no longer available for granting new equity incentive awards, a share incentive plan in June 2014 (the “Changyou 2014 Share Incentive Plan”), which will terminate in June 2024, and a share incentive plan in August 2019 (the “Changyou 2019 Share Incentive Plan”), which will terminate in August 2029. The Changyou 2019 Share Incentive Plan, together with the Changyou 2008 Share Incentive Plan and the Changyou 2014 Share Incentive Plan, are collectively called the “Changyou Share Incentive Plans.” The maximum number of Changyou’s Class A ordinary shares issuable under the Changyou 2014 Share Incentive Plan is 6,000,000, and the maximum number of Changyou’s Class A ordinary shares issuable under the Changyou 2019 Share Incentive Plan is 3,000,000. Changyou’s Board of Directors may amend, suspend, or terminate the Changyou 2014 Share Incentive Plan and/or the Changyou 2019 Share Incentive Plan at any time; provided, however, that Changyou’s Board of Directors must first seek the approval of the participants in the Changyou 2014 Share Incentive Plan or in the Changyou 2019 Share Incentive Plan, as the case may be, if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards. Share incentive awards may be granted, under the Changyou Share Incentive Plans to Changyou management and employees and to management and employees of any of the Sohu Group companies. Share incentive awards that were granted, or may be granted, under the Changyou Share Incentive Plans include, among other forms, options, restricted share units and restricted shares, and the maximum term of any share incentive award granted is ten years from the grant date.

Changyou’s compensation committee, or Changyou’s Board of Directors in the absence of such a committee, administers the Changyou Share Incentive Plans, and determines the terms and conditions of awards under the Changyou Share Incentive Plans. Awards granted under the Changyou Share Incentive Plans are evidenced by an award document that sets forth the terms and conditions applicable to each of the awards, as determined by Changyou’s Board of Directors or compensation committee in its sole discretion.

Sohu Video Share Incentive Plan

Our subsidiary Sohu Video adopted a share incentive plan in January 2012, or the Sohu Video 2011 Share Incentive Plan, which will expire in January 2021. The maximum number of Sohu Video ordinary shares issuable under the Sohu Video 2011 Share Incentive Plan is 25,000,000. Share incentive awards may be granted under the Sohu Video 2011 Share Incentive Plan to Sohu Video management and employees, and to management and employees of any of the Sohu Group companies. Share incentive awards that may be granted under the Sohu Video 2011 Share Incentive Plans include, among other forms, options, restricted share units and restricted shares, and the maximum term of any share incentive award granted is ten years from the grant date.

Sohu Video’s compensation committee, or Board of Directors in the absence of such a committee, administers the Sohu Video 2011 Share Incentive Plan, and determines the terms and conditions of awards under the Sohu Video 2011 Share Incentive Plan. Awards granted under the Sohu Video 2011 Share Incentive Plan are evidenced by an award document that sets forth the terms and conditions applicable to each of the awards, as determined by Sohu Video’s Board of Directors or compensation committee in its sole discretion. The award documents for options granted under the Sohu Video 2011 Share Incentive Plan give Sohu Video a right to repurchase from a grantee, within a certain time period, up to 50% of a grantee’s Sohu Video ordinary shares subject to vested options, upon such grantee’s death, disability, or voluntary, or involuntary termination of employment with us (other than for “Cause,” as defined in the Sohu Video 2011 Share Incentive Plan). The repurchase price for such a purchase was equal to the fair market value of Sohu Video’s ordinary shares, as determined in an appraisal by an independent professional appraisal firm chosen by Sohu Video. Sohu Video repurchase rights under the award documents will terminate upon the completion of Sohu Video’s IPO.

Sohu Video’s Board of Directors may amend, suspend, or terminate the Share Incentive Plans at any time; provided, however, that Sohu Video’s Board of Directors must first seek the approval of the participants in the Sohu Video 2011 Share Incentive Plan if such amendment, suspension or termination would adversely affect the rights of participants with respect to any of their existing awards.

Grants of Shares and Options to Directors and Executive Officers

The following tables set forth summaries of all outstanding equity awards granted by us to, and held by each of our directors and executive officers as of March 31, 2020.

Awards Granted under Sohu 2018 Share Incentive Plan

Directors and Executive Officers	Ordinary Shares underlying outstanding options	Exercise price	Date of grant	Expiration date
Charles Zhang	75,000 ⁽¹⁾	\$ 0.001	2/16/2015	2/15/2025
Charles Zhang	70,000 ⁽²⁾	\$ 0.001	7/1/2019	6/30/2029
Joanna Lv	7,500 ⁽³⁾	\$ 0.001	2/16/2015	2/15/2025
Joanna Lv	40,000 ⁽⁴⁾	\$ 0.001	7/1/2019	6/30/2029

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- (1) Consists of options to purchase our ordinary shares at a nominal exercise price, of which 75,000 options are vested and exercisable as of March 31, 2020.
- (2) Consists of options exercisable for the purchase of our ordinary shares that are subject to vesting in equal annual installments over a four-year period.
- (3) Consists of options to purchase our ordinary shares at a nominal exercise price, of which 7,500 options are vested and exercisable as of March 31, 2020.
- (4) Consists of options exercisable for the purchase of our ordinary shares that are subject to vesting in equal annual installments over a four-year period.

Awards Granted under Sogou 2010 Share Incentive Plan

<u>Directors and Executive Officers</u>	<u>Restricted Sogou Class A Ordinary Shares</u>	<u>Exercise price</u>	<u>Date of grant</u>	<u>Expiration date</u>
Xiaochuan Wang	4,320,000 ⁽¹⁾	\$ 0.625	1/31/2013	N/A

- (1) Consists of Sogou Class A Ordinary Shares beneficially held by Mr. Wang that were issued in 2013 upon Mr. Wang's early exercise of share options granted under the Sogou 2010 Share Incentive Plan. Such Sogou Class A Ordinary Shares are subject to vesting in three equal installments upon the second, third and fourth anniversaries of the completion of Sogou's IPO, which took place on November 13, 2017.

Awards Granted under Changyou 2019 Share Incentive Plan

<u>Directors and Executive Officers</u>	<u>Ordinary Shares underlying outstanding options</u>	<u>Exercise price</u>	<u>Date of grant</u>	<u>Expiration date</u>
Dewen Chen	1,288,000 ⁽¹⁾	\$ 0.01	8/26/2019	9/30/2029

- (1) Consists of options, granted on August 26, 2019 and effective as of October 1, 2019, for the purchase of Changyou's Class A ordinary shares that are subject to vesting in equal annual installments over a four-year period commencing on October 1, 2019.

Awards Granted under Sohu Video 2011 Share Incentive Plan

<u>Directors and Executive Officers</u>	<u>Ordinary Shares underlying outstanding options</u>	<u>Exercise price</u>	<u>Date of grant</u>	<u>Expiration date</u>
Joanna Lv	110,000 ⁽¹⁾	\$ 0.01	1/4/2012	1/3/2022
Xiaochuan Wang	50,000 ⁽²⁾	\$ 0.01	1/4/2012	1/3/2022

- (1) Consists of options to purchase Sohu Video's ordinary shares at a nominal exercise price, vesting in equal annual installments over a four-year period, but vesting for each year will also be subject to the achievement of annual performance milestones related to Sohu Video that our Board of Directors establishes in its discretion. As of March 31, 2020, 27,500 options are fully vested and exercisable.
- (2) Consists of options to purchase Sohu Video's ordinary shares at a nominal exercise price, vesting in equal annual installments over a four-year period, but vesting for each year will also be subject to the achievement of annual performance milestones related to Sohu Video that our Board of Directors establishes in its discretion. As of March 31, 2020, 12,500 options are fully vested and exercisable.

Employees

As of December 31, 2019, we had approximately 7,800 employees, including 3,100 employees for Sohu, 3,000 employees for Sogou, and 1,700 employees for Changyou. None of our personnel are represented under collective bargaining agreements.

We have entered into standard employment agreements with our employees through our subsidiaries and VIEs. Sohu's and Sogou's employees have entered into confidentiality, non-competition and non-solicitation agreements with Sohu or Sogou, respectively. Changyou's employees have entered into confidentiality agreements with Changyou. However, the degree of protection afforded to an employer pursuant to confidentiality and non-competition undertakings governed by PRC law may be more limited when compared to the degree of protection afforded under the laws of other jurisdictions. A number of our employees hold share-based awards granted by Sohu, Sogou, Changyou, and Sohu Video, which provide additional financial incentives to them. Most of these awards vest over a period of four years.

Share Ownership

Refer to “Item 7: Major Shareholders and Related Party Transactions” below for a description of the share ownership of our directors and senior executive officers.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**Major Shareholders**

The following table sets forth certain information regarding the beneficial ownership of our ordinary share as of March 31, 2020 by (i) each person (including any “group” as that term is used in Section 13(d)(3) of the Exchange Act known by us to be the beneficial owner of more than 5% of our ordinary share (assuming conversion of all outstanding exercisable options and warrants held by that person), (ii) each current director, (iii) each named executive officer and (iv) all of our current directors and named executive officers as a group. Except as otherwise provided in the footnotes to this table, we believe that the persons named in this table have voting and investment power with respect to all the shares of common stock indicated.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)	Percent of Class(1)
Charles Zhang	10,264,529 (2)	26.09%
Charles Huang (3)	76,265	*
Shi Wang (4)	34,132	*
Dave Qi (5)	28,940	*
Zhonghan Deng (6)	14,514	*
Dave De Yang (7)	—	—
Joanna Lv	10,500(8)	*
Xiaochuan Wang (9)	69,258	*
Dewen Chen (10)	—	—
All directors, nominees and executive officers as a group (9 persons)	10,498,138 (11)	26.68%
Photon Group Limited (12)	9,920,829	25.26%
Public Sector Pension Investment Board (13)	3,919,073	9.99%
Macquarie Investment Management Business Trust (14)	2,823,698	7.20%
Orbis Investment Management Ltd. (15)	2,448,116	6.20%

* Less than 1%.

(1) Includes the number of shares and percentage ownership represented by such shares determined to be beneficially owned by a person in accordance with the rules of the SEC. The number of shares beneficially owned by a person includes the number of ordinary shares subject to options or restricted stock units held by that person that are currently exercisable or settleable or that are exercisable or settleable within 60 days of March 31, 2020. Such shares are deemed outstanding for the purpose of computing the percentage of outstanding shares owned by that person. Such shares are not deemed outstanding, however, for the purpose of computing the percentage ownership of each other person.

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- (2) Includes (i) 75,000 ordinary shares subject to options exercisable within 60 days of March 31, 2020 and (ii) 9,920,829 ordinary shares beneficially owned by Photon Group Limited. Dr. Charles Zhang is a Director of Photon Group Limited, and may be deemed to be a beneficial owner of shares owned by it. Dr. Charles Zhang disclaims beneficial ownership of such shares except to the extent of his pecuniary interest in such shares. Dr. Charles Zhang's address is c/o Sohu.com Limited., Level 18, Sohu.com Media Plaza, Block 3, No. 2 Kexueyuan South Road, Haidian District, Beijing 100190, People's Republic of China.
- (3) Mr. Charles Huang's address is Suite 5206, Central Plaza, Wanchai, Hong Kong.
- (4) Mr. Shi Wang's address is Vanke Architecture Research Center, No. 68 Meilin Road, Futian District, Shenzhen 518049, People's Republic of China.
- (5) Dr. Dave Qi's address is 3/F, Tower E3, Oriental Plaza, 1 East Chang An Avenue, Beijing 100005, People's Republic of China.
- (6) Dr. Zhonghan Deng's address is 16/F, Shining Tower, No. 35, Xueyuan Road, Haidian District, Beijing 100191, People's Republic of China.
- (7) Mr. Dave De Yang's address is 24W435 Arrow Ct. Naperville, IL 60540, the United States.
- (8) Includes 7,500 ordinary shares subject to options exercisable within 60 days of March 31, 2020. Ms. Joanna Lv's address is c/o Sohu.com Limited., Level 18, Sohu.com Media Plaza, Block 3, No. 2 Kexueyuan South Road, Haidian District, Beijing 100190, People's Republic of China.
- (9) Mr. Xiaochuan Wang's address is c/o Sogou Inc., Level 15, Sohu.com Internet Plaza, No. 1 Unit, Zhongguancun East Road, Haidian District, Beijing 100084, People's Republic of China.
- (10) Mr. Dewen Chen's address is c/o Changyou.com Limited, Changyou Tower, No. 65 East Bajiao Road, Shijingshan District, Beijing 100043, People's Republic of China.
- (11) Includes 82,500 ordinary shares that such persons have the right to acquire pursuant to currently exercisable options or options that may be exercised within 60 days of March 31, 2020.
- (12) Photon Group Limited's address is c/o Sohu.com Limited., Sohu.com Media Plaza, Block 3, No. 2 Kexueyuan South Road, Haidian District, Beijing 100190, People's Republic of China.
- (13) Data based on a Schedule 13G/A filed with the SEC on February 13, 2020. The principal business address of Public Sector Pension Investment Board is 1250 Rene-Levesque West, Suite 1400, Montreal, Quebec, H3B 5E9 Canada.
- (14) Data based on a Schedule 13G/A filed with the SEC on February 13, 2020. The principal business address of Macquarie Investment Management Business Trust is 2005 Market Street, Philadelphia, PA 19103.
- (15) Data based on a Schedule 13G/A filed with the SEC on February 18, 2020. Orbis Investment Management Ltd.'s address is Orbis House, 25 Front Street, Hamilton HM 11, Bermuda.

Related Party Transactions

Changyou's Loan Arrangements with Fox Financial Technology Group Limited ("Fox Financial," formerly known as "SoEasy Internet Finance Group Limited")

Commencing in April 2015, certain subsidiaries of Changyou and certain subsidiaries of Fox Financial entered into a series of loan agreements pursuant to which the subsidiaries of Changyou were entitled to draw down HK dollar-denominated or U.S. dollar-denominated loans from the Fox Financial subsidiaries and the Fox Financial subsidiaries were entitled to draw down equivalent RMB-denominated loans from the subsidiaries of Changyou, to facilitate each other's business operations. All of the loans carry a fixed rate of interest which approximates to the current market interest rate.

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During the first quarter of 2016, Changyou drew down from Fox Financial U.S. dollar-denominated loans of approximately \$29.9 million and granted RMB-denominated loans to Fox Financial of approximately \$30.2 million. During the second quarter of 2016, Changyou repaid to Fox Financial HK dollar-denominated loans of approximately \$12.9 million and received from Fox Financial RMB-denominated loans of \$12.1 million.

As of December 31, 2017, Changyou had U.S. dollar-denominated loans payable to Fox Financial in a total amount of approximately \$29.8 million, and RMB-denominated loans receivable from Fox Financial in a total amount of approximately \$29.8 million. For the year of 2017, Changyou incurred interest expense of \$0.7 million and earned interest income of \$1.2 million. As of December 31, 2017, total interest expense payable to Fox Financial amounted to \$1.4 million; and total interest income receivable from Fox Financial was \$2.2 million.

In December 2018 and 2019, Changyou entered into supplemental agreements with Fox Financial pursuant to which all accrued and unpaid interest on the loans as of December 31, 2018 and December 2019 was added to the principal of the corresponding loans. Due to the depreciation of the RMB against the U.S. dollar in 2018, the principal amounts of the Changyou's outstanding RMB-denominated loans to Fox Financial as of December 31, 2018 were adjusted upward to amounts equal to the product of the principal amounts of Fox Financials' outstanding U.S. dollar denominated loans to Changyou as of December 31, 2018, multiplied by the monthly average RMB to U.S. dollar exchange rate published by the Bank of China for the month of December 2018. As a result of such adjustment, Changyou advanced additional RMB-denominated loans in the principal amount of RMB8.2 million (approximately \$1.2 million) to Fox Financial in January 2019.

In December 2019, Changyou entered into a supplemental agreement with Fox Financial which states that Fox Financial undertakes and agrees to provide to Changyou a guaranty of the repayment obligation of Fox Financial and to deposit an amount equal to the US dollar denominated loan principal and corresponding interest owed by Changyou to Fox Financial as a security deposit. If Fox Financial fails to repay the loan principal and corresponding interest based on RMB owed to Changyou, then the security deposit will be applied to repayment of the loan principal and corresponding interest owed to Changyou. The security deposit will be required to be replenished by Fox Financial if it is insufficient to repay the loan principal and corresponding interest of the RMB denominated loan owed to Changyou, and any remaining surplus after the repayment of the RMB denominated loan principal and interest will be returned to Fox Financial. The parties entered into an additional supplemental agreement, in which Changyou undertakes and agrees to provide to Fox Financial a guaranty of Changyou's repayment obligation and to deposit an amount equal to the RMB denominated loan principal and corresponding interest owed by Fox Financial to Changyou as a security deposit. If Changyou fails to repay the loan principal and corresponding interest, then the security deposit will be applied to repayment of the loan principal and corresponding interest owed to Fox Financial. The security deposit will be required to be replenished by Changyou if it is insufficient to repay the loan principal and corresponding interest to Fox Financial, and the remaining security deposit (if any) will be returned to Changyou if there is any surplus after the repayment of the US dollar denominated loan principal and interest.

As of December 31, 2018 and 2019, Changyou had U.S. dollar-denominated loans payable to Fox Financial in a total amount of approximately \$32.7 million and \$33.5 million, respectively, and RMB-denominated loans receivable from Fox Financial in a total amount of approximately \$31.6 million and \$33.3 million, respectively. For the year ended December 31, 2018 and 2019, Changyou incurred interest expense of \$0.5 million and \$0.8 million, respectively, in connection with the loans payable and earned interest income of \$1.1 million and \$1.0 million, respectively, in connection with the loans receivable.

Transactions with Vanke Co., Ltd.

In the 2017, 2018, and 2019 fiscal years, Vanke Co., Ltd. purchased \$247,301, \$220,755 and \$174,259, respectively, in advertising services from us. Mr. Shi Wang, one of our directors, is the Honorary Chairman of the Board of Vanke Co., Ltd.

Intra-Group Loan Agreement

On October 24, 2016, Sohu Media entered into a loan agreement (the "Loan Agreement") with AmazGame, pursuant to which Sohu Media may borrow from time to time from AmazGame up to RMB1.00 billion (or approximately \$148.6 million). Principal amounts outstanding under the Loan Agreement bear interest at an annual rate of 6%. The outstanding principal of each advance will be due one year from the date of the advance, subject to extension for an additional year with the consent of AmazGame.

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On October 24, 2016, our indirect wholly-owned subsidiary Sohu Game and Changyou entered into a share pledge agreement (the “Share Pledge Agreement”) pursuant to which Sohu Game pledged to Changyou Class B ordinary shares of Changyou held by Sohu Game. As of December 31, 2019, the number of Class B ordinary shares pledged by Sohu Game to Changyou was 43,823,946. On January 13, 2020, in connection with the organization of Changyou Merger Co. for purposes of the Changyou Merger, Sohu Game transferred to Changyou Merger Co. all of the issued and outstanding Changyou Class B ordinary shares held by Sohu Game, including the Changyou Class B ordinary shares subject to the Sohu Share Pledge Agreement. Simultaneously with that contribution, the Sohu Share Pledge Agreement was revised to substitute Changyou Merger Co. as the pledgor in place of Sohu Game. Prior to the effectiveness of the Changyou Merger on April 17, 2020, Changyou executed and delivered to Changyou Merger Co. a Deed of Release providing for the release and discharge of Changyou Merger Co. from all obligations under the Share Pledge Agreement.

In December 2016, March 2017 and April 2017, Sohu Media received RMB500.0 million (or approximately \$72.1 million), RMB200.0 million (or \$30.6 million) and RMB300.0 million (or \$45.9 million), respectively, from AmazGame. As of December 31, 2017, the total outstanding balance of the loan was RMB1.0 billion (or \$153.0 million). In January 2018, Sohu Media entered into a supplementary agreement with AmazGame and Video Tianjin, a subsidiary of the Company, pursuant to which Sohu Media assigned and transferred the entire principal amount outstanding and all the related rights and obligations under the Loan Agreement to Video Tianjin. In December 2018, Video Tianjin and AmazGame entered into an agreement extending the due date of each advance for an additional year. As of December 31, 2018, the total outstanding balance of the loan was RMB1.0 billion (or \$145.7 million). In December 2019, Video Tianjin and AmazGame entered into an agreement extending the due date of each advance for an additional year. As of December 31, 2019, the total outstanding balance of the loan was RMB1.0 billion (or \$143.3 million). The intra-Group loan has been eliminated upon consolidation.

Contractual Arrangements with our VIEs and their Shareholders

PRC law currently restricts foreign ownership of Internet information and content, internet access, value-added telecommunications, online game, and certain other businesses. To comply with PRC law, we conduct a significant part of our value-added telecommunications, search and search-related, online game and other businesses through contractual arrangements between our principal PRC subsidiaries and their corresponding VIEs and their respective shareholders. See “Information on the Company—Organizational Structure” in Item 4 of this annual report for a description of the ownership information of our current principal VIEs.

The following is a summary of the agreements currently in effect between these principal PRC subsidiaries and our principal VIEs:

Agreements between Subsidiaries, Consolidated VIEs and Nominee Shareholders

Loan and share pledge agreement between Sohu Media and the shareholders of High Century: The agreement provides for loans to the shareholders of High Century for them to make contributions to the registered capital of High Century in exchange for the equity interests in High Century, and the shareholders pledge those equity interests to Sohu Media as security for the loans. The agreement includes powers of attorney that give Sohu Media the power to appoint nominees to act on behalf of the shareholders of High Century in connection with all actions to be taken by High Century. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in High Century, which are held by the Sohu Group’s legal department and may be completed and effected at Sohu Media’s election.

Loan and share pledge agreement between Sohu Focus (HK) Limited (“Focus HK”) and the shareholders of Heng Da Yi Tong: The agreement provides for loans to the shareholders of Heng Da Yi Tong for them to make contributions to the registered capital of Heng Da Yi Tong in exchange for the equity interests in Heng Da Yi Tong, and the shareholders pledge those equity interests to Focus HK as security for the loans. The agreement includes powers of attorney that give Focus HK the power to appoint nominees to act on behalf of the shareholders of Heng Da Yi Tong in connection with all actions to be taken by Heng Da Yi Tong. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in Heng Da Yi Tong, which are held by the Sohu Group’s legal department and may be completed and effected at Focus HK’s election.

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Loan agreements and equity pledge agreements between Fox Information Technology (Tianjin) Limited (“Video Tianjin”) and the shareholders of Tianjin Jinhui. The loan agreements provide for loans to the shareholders of Tianjin Jinhui for them to make contributions to the registered capital of Tianjin Jinhui in exchange for the equity interests in Tianjin Jinhui. Under the equity pledge agreements, the shareholders of Tianjin Jinhui pledge to Video Tianjin their equity interests in Tianjin Jinhui to secure the performance of their obligations under the loan agreements and Tianjin Jinhui’s obligations to Video Tianjin under their business agreements. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to Video Tianjin their equity interests in Tianjin Jinhui.

Exclusive equity interest purchase right agreements between Video Tianjin, Tianjin Jinhui and the shareholders of Tianjin Jinhui. Pursuant to these agreements, Video Tianjin and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Tianjin Jinhui all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Video Tianjin, Tianjin Jinhui and the shareholders of Tianjin Jinhui. The agreement sets forth the right of Video Tianjin to control the actions of the shareholders of Tianjin Jinhui. The agreement has a term of 10 years, renewable at the request of Video Tianjin.

Powers of Attorney executed by the shareholders of Tianjin Jinhui in favor of Video Tianjin with a term of 10 years, extendable at the request of Video Tianjin. These powers of attorney give Video Tianjin the right to appoint nominees to act on behalf of each of the Tianjin Jinhui shareholders in connection with all actions to be taken by Tianjin Jinhui.

Loan and share pledge agreements between Sogou Technology and the shareholders of Sogou Information. The loan agreement provides for a loan to Xiaochuan Wang, the individual shareholder of Sogou Information, to be used by him to make contributions to the registered capital of Sogou Information in exchange for his equity interest in Sogou Information. The loan is interest free and is repayable on demand, but the shareholder may repay the loan only by transferring to Sogou Technology his equity interest in Sogou Information. Under the pledge agreement, all of the shareholders of Sogou Information pledge their equity interests to Sogou Technology to secure the performance of their obligations under the various VIE-related agreements. If any shareholder of Sogou Information breaches any of his or its obligations under any VIE-related agreements, Sogou Technology is entitled to exercise its right as the beneficiary under the share pledge agreement. The share pledge agreement terminates only after all of the obligations of the shareholders under the various VIE-related agreements are no longer in effect.

Exclusive equity interest purchase right agreements between Sogou Technology, Sogou Information and the shareholders of Sogou Information. Pursuant to these agreements, Sogou Technology and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Sogou Information all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Sogou Technology, Sogou Information and the shareholders of Sogou Information. The agreement sets forth the right of Sogou Technology to control the actions of the shareholders of Sogou Information. The agreement has a term of 10 years, renewable at the request of Sogou Technology.

Powers of Attorney executed by the shareholders of Sogou Information in favor of Sogou Technology with a term of 10 years, extendable at the request of Sogou Technology. These powers of attorney give Sogou Technology the right to appoint nominees to act on behalf of each of the three Sogou Information shareholders in connection with all actions to be taken by Sogou Information.

Loan agreements and equity pledge agreements between AmazGame and the sole shareholder of Gamease and between Gamespace and the sole shareholder of Guanyou Gamespace. The loan agreements provide for loans to the respective shareholders of Gamease and Guanyou Gamespace for the shareholders to make contributions to the registered capital of Gamease and Guanyou Gamespace in exchange for 100% of the equity interests in Gamease and Guanyou Gamespace. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to AmazGame and Gamespace, as the case may be, their equity interests in Gamease and Guanyou Gamespace. Under the equity pledge agreements, the respective shareholders of Gamease and Guanyou Gamespace pledge to AmazGame and Gamespace, their equity interests in Gamease and Guanyou Gamespace to secure the performance of their obligations under the loan agreements and Gamease’s and Guanyou Gamespace’s obligations to AmazGame and Gamespace under the various VIE-related agreements. If the shareholders breach their obligations under any VIE-related agreements (Gamease’s or Guanyou Gamespace’s breach of any of its obligations under the various applicable VIE-related agreements will be treated as its shareholder’s breach of its obligations), including the equity pledge agreements, AmazGame and Gamespace are entitled to exercise their rights as the beneficiaries under the applicable equity pledge agreements, including all rights the respective shareholders have as shareholders of Gamease or Guanyou Gamespace.

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Equity interest purchase right agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right, exercisable at any time if and when it is legal to do so under PRC law, to purchase from the respective shareholders of Gamease and Guanyou Gamespace all or any part of their equity interests in Gamease and Guanyou Gamespace at a purchase price equal to their initial contributions to the registered capital of Gamease and Guanyou Gamespace.

Powers of attorney executed by the sole shareholder of Gamease in favor of AmazGame and by the sole shareholder of Guanyou Gamespace in favor of Gamespace, with a term of 10 years. These powers of attorney give the respective boards of directors of AmazGame and Gamespace the right to appoint nominees to act on behalf of their respective shareholders in connection with all actions to be taken by Gamease and Guanyou Gamespace.

Business operation agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. These agreements set forth the right of AmazGame and Gamespace to control the actions of Gamease and Guanyou Gamespace, as the case may be, and the respective shareholders of Gamease and Guanyou Gamespace. Each agreement has a term of 10 years.

Business Arrangements between Subsidiaries and Consolidated VIEs

Exclusive technology consulting and service agreement between Sohu Era and Sohu Internet. Pursuant to this agreement Sohu Era has the right to provide technical consultation and other related services to Sohu Internet, in exchange for a percentage of the gross revenue of Sohu Internet. The agreement has an initial term of two years, and is renewable at the request of Sohu Era.

Exclusive technology consulting and service agreement between Video Tianjin and Tianjin Jinhu. Pursuant to this agreement Video Tianjin has the right to provide technical consultation and other related services to Tianjin Jinhu in exchange for a fee. The agreement has a term of 10 years and is renewable at the request of Video Tianjin.

Exclusive technology consulting and service agreement between Sogou Technology and Sogou Information. Pursuant to this agreement Sogou Technology has the right to provide technical consultation and other related services to Sogou Information in exchange for a fee. The agreement has a term of 10 years and is renewable at the request of Sogou Technology.

Technology support and utilization agreements between AmazGame and Gamease and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right to provide certain product development and application services and technology support to Gamease and Guanyou Gamespace, respectively, for a fee equal to a predetermined percentage, subject to adjustment by AmazGame or Gamespace at any time, of Gamease's and Guanyou Gamespace's respective revenues. Each agreement terminates only when AmazGame or Gamespace is dissolved.

Services and maintenance agreements between AmazGame and Gamease, and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace, respectively, provide marketing, staffing, business operation and maintenance services to Gamease and Guanyou Gamespace, respectively, in exchange for a fee equal to the cost of providing such services plus a predetermined margin. Each agreement terminates only when AmazGame or Gamespace, as the case may be, is dissolved.

Certain of the contractual arrangements described above between the VIEs and the related wholly-owned subsidiaries of the Sohu Group are silent regarding renewals. However, because the VIEs are controlled by the Sohu Group through powers of attorney granted to the Sohu Group by the shareholders of the VIEs, the contractual arrangements can be, and are expected to be, renewed at the subsidiaries' election.

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Other Transactions with Certain Directors, Shareholders and Affiliates

See “Directors, Senior Management and Employees—Compensation of Directors and Executive Officers.”

Employment Agreements

See “Directors, Senior Management and Employees —Employment Agreements with Executive Officers.”

Share Incentive Plans

See “Directors, Senior Management and Employees —Equity Incentive Plans.”

Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

Consolidated Financial Statements

Please see Item 18 “Financial Statements” for our audited consolidated financial statements filed as a part of this annual report.

Legal Proceedings

From time to time we become subject to legal proceedings and claims in the ordinary course of our business. Such legal proceedings or claims, even if not meritorious, could result in the expenditure of significant financial and management resources.

Dividend Policy

The Sohu Group intends to retain all available funds and any future earnings for use in the operation and expansion of its own business, and does not anticipate paying any cash dividends on Sohu.com Limited’s common stock for the foreseeable future. Future cash dividends distributed by Sohu.com Limited., if any, will be declared at the discretion of Sohu.com Limited’s Board of Directors and will depend upon future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our Board of Directors may deem relevant.

Significant Changes Since December 31, 2019

On April 17, 2020, we completed the acquisition of all outstanding shares of Changyou that we did not already beneficially own, through the Changyou Merger, in which our newly-formed indirectly wholly-owned subsidiary Changyou Merger Co. merged with and into Changyou.com Limited, with Changyou.com Limited being the surviving company. As a result of the Changyou Merger, Changyou has become a privately-owned company wholly owned directly and indirectly by us and Changyou ADSs are no longer listed on the Nasdaq Global Select Market.

ITEM 9. THE OFFER AND LISTING

Our ADSs commenced trading on June 1, 2018 on the NASDAQ Global Select Market under the symbol “SOHU.” Prior to June 1, 2018, the common stock of our predecessor Sohu.com Inc. was listed and traded on the NASDAQ Global Select Market under the same “SOHU” symbol.

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

We incorporate by reference into this annual report the description of our amended and restated memorandum of association and our amended and restated articles of association contained in our Registration Statement on Form F-4 (File No. 333-224069) filed with the SEC on April 19, 2018 and in Sohu.com Inc.'s and our joint proxy statement/prospectus filed with the SEC on April 23, 2018. Our shareholders adopted our Memorandum and Articles of Association by a special resolution on April 2, 2018, which became effective on April 2, 2018.

Differences in Corporate Law—Mergers and Similar Arrangements

The Companies Law is modeled after similar laws in the United Kingdom but does not follow all statutory enactments or legislative changes in the United Kingdom. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the State of Delaware.

Mergers and Similar Arrangements

A merger or consolidation of two or more constituent companies under Cayman Islands law requires a plan of merger or consolidation to be approved by the directors of each constituent company and authorization by (a) a special resolution of the members of each constituent company and (b) such other authorization, if any, as may be specified in such constituent company's articles of association.

A merger or consolidation between a Cayman parent company and its Cayman subsidiary or subsidiaries does not require authorization by a resolution of shareholders. For this purpose, a subsidiary is a company of which shares carrying at least ninety percent (90%) of the votes exercisable in a general meeting are held by or registered in the name of the parent company.

The consent of each holder of a fixed or floating security interest over a constituent company is required unless this requirement is waived by a court in the Cayman Islands.

Save in certain circumstances, a dissenting shareholder of a Cayman constituent company is entitled to payment of the fair value of his shares upon dissenting to a merger or consolidation. The exercise of appraisal rights will preclude the exercise of any other rights save for the right to seek relief on the grounds that the merger or consolidation is void or unlawful.

In addition, there are statutory provisions applicable to a scheme of arrangement that facilitate the takeover of companies or the reconstruction and amalgamation of companies, provided that the scheme of arrangement is approved by a majority in number of each class of shareholders or creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority shareholders or creditors to promote interests adverse to those of the class;
- the arrangement is such that may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

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When a takeover offer is made and accepted by holders of 90% of the shares within four months, the offeror may, within a two-month period commencing on the expiration of such four-month period, require the holders of the remaining shares to transfer such shares to the offeror on the same terms as the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of a lack of compliance with the statutory procedures, of fraud, bad faith, or collusion.

If a scheme of arrangement and reconstruction or takeover offer is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders in a merger or consolidation or to dissenting shareholders of Delaware corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits

In principle, we will normally be the proper plaintiff, and, as a general rule, a derivative action may not be brought by a minority shareholder and requires leave or permission from the court in the Cayman Islands for such an action to be continued. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, subject to leave being given, a derivative action may be available when:

- a company acts or proposes to act illegally or ultra vires;
- the act complained of, although not ultra vires, could only be effected duly if authorized by more than a simple majority vote of our shareholders and this has not been obtained; and
- those who control the company are perpetrating a "fraud on the minority."

Indemnification of Directors and Executive Officers and Limitation of Liability

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime. Our Amended and Restated Memorandum of Association and Amended and Restated Articles of Association permit indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such unless such losses or damages arise from fraud or dishonesty of such directors or officers. This standard of conduct is generally the same as permitted under the Delaware General Corporation Law for a Delaware corporation. In addition, we have entered into indemnification agreements with our directors and senior executive officers that provide such persons with additional indemnification beyond that provided in our Amended and Restated Memorandum of Association and Amended and Restated Articles of Association.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or persons controlling us under the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

Anti-Takeover Provisions in the Memorandum of Association and Articles of Association

Some provisions of our Amended and Restated Memorandum of Association and Amended and Restated Articles of Association may discourage, delay, or prevent a change in control of our company or management that shareholders may consider favorable, including provisions that authorize our Board of Directors to issue preferred shares in one or more series and to designate the price, rights, preferences, privileges and restrictions of such preferred shares without any further vote or action by our shareholders.

However, under Cayman Islands law, our directors may only exercise the rights and powers granted to them under our Amended and Restated Memorandum of Association and Amended and Restated Articles of Association, as amended and restated from time to time, for what they believe in good faith to be in the best interests of our company and for a proper purpose.

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In January 2019, we entered into a Shareholders' Rights Agreement with The Bank of New York Mellon, as Rights Agent (the "Shareholders' Rights Agreement"). The Shareholders' Rights Agreement is designed to deter coercive takeover tactics, including the accumulation of shares in the open market or through private transactions, and to prevent an acquirer from gaining control of the Sohu Group without offering a fair and adequate price and terms to all of our shareholders. Under the terms of the Shareholders' Right Agreement if a person or group acquired more than 15% or more of our outstanding ordinary shares (including ordinary shares represented by ADSs), except as specifically permitted under the Shareholders' Right Agreement, all other shareholders and holders of our ADSs would have the right to purchase securities from us at a substantial discount to those securities' fair market value, thus causing substantial dilution to the holdings of the person or group that acquires more than 15%. The rights granted under the Shareholders' Rights Agreement will expire on January 13, 2029, unless redeemed or cancelled earlier. Also see "Certain provisions of our Memorandum and Articles of Association, Cayman Islands law regarding mergers and similar arrangements, and our Shareholders' Rights Agreement could delay or deter a change in control" in Item 3 of this report.

Directors' Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling shareholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

As a matter of Cayman Islands law, a director of a Cayman Islands company owes the following duties to the company—a duty to act bona fide in the best interests of the company and for a proper purpose, a duty not to make a personal profit based on his position as director (unless the company permits him to do so) and a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party. A director must exercise the skill and care of a reasonably diligent person having both – (a) the general knowledge, skill and experience that may reasonably be expected of a person carrying out the same functions as are carried out by that director in relation to the company (an objective test), and (b) if greater, the general knowledge, skill and experience that that director actually possesses (a subjective test).

Transactions with Interested Shareholders

The Delaware General Corporation Law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by such statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that such person becomes an interested shareholder. An interested shareholder generally is a person or a group who or which owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which such shareholder becomes an interested shareholder, the Board of Directors approves either the business combination or the transaction which resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's Board of Directors.

Cayman Islands law has no comparable statute. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper corporate purpose and not with the effect of constituting a fraud on the minority shareholders.

Dissolution: Winding-up

Under the Delaware General Corporation Law, unless the Board of Directors approves the proposal to dissolve, dissolution must be approved by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the Board of Directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. Under the Companies Law of the Cayman Islands and our Amended and Restated Articles of association, our company may be dissolved, liquidated or wound up voluntarily by a special resolution (the vote of the holders of two-thirds of our shares voting at a meeting or the unanimous written resolution of all shareholders) or, if our company is unable to pay its debts as they fall due, by an ordinary resolution of our shareholders. Under Cayman Islands law, a company may be wound up compulsorily by an order of the courts of the Cayman Islands if the company has passed a special resolution of its shareholders to be wound up by the court or, if the company is unable to pay its debts as they fall due. The court also has authority to order a winding up in a number of other specified circumstances including where it is, in the opinion of the court, just and equitable to do so.

Material Contracts

We have not entered into any material contracts within the past two fiscal years other than in the ordinary course of business, other than those listed in Item 19 "Exhibits," as described elsewhere in this annual report, or as described below.

Facility Agreement and Equity Share Mortgages with ICBC Tokyo

On April 3, 2020, our indirect wholly-owned subsidiary Sohu Game, as borrower, and Sohu.com Limited, as guarantor, entered into a facility agreement (the "Facility Agreement") with ICBC Tokyo pursuant to which ICBC Tokyo agreed to provide a term loan facility of up to \$250 million (the "Term Facility"), subject to customary conditions, to be used to finance the consummation of the Changyou Merger and the related transactions and to pay related fees and expenses associated with the Changyou Merger. The Term Facility will consist of (i) a one-year term facility for term loans of up to \$100 million (the "One-Year Facility") and (ii) a four-year term facility for term loans of up to \$150 million (the "Four-Year Facility"). The outstanding principal amount of the loans under the One-Year Facility will be due in full on the one-year anniversary of the date of the first utilization of the One-Year Facility. The outstanding principal amount of the loans under the Four-Year Facility will be due in installments, with \$7.5 million due and payable at the end of each of the second and third calendar years during the term of the Four-Year Facility and the remaining outstanding principal amount due and payable on the fourth anniversary of the date of the first utilization of the One-Year Facility. The Term Facility will be available for drawdown from the date of the Facility Agreement until six months after the date of the Facility Agreement, and the Term Facility may be drawn in up to three installments by Sohu Game at its election.

The Term Facility bears interest at a rate of Three Month LIBOR plus a margin of 1.75%, with LIBOR to be determined by ICBC on the basis of the London InterBank Offered Rate published two business days before the first day of each three calendar month interest period. Accrued interest will be paid every three calendar months on the first day after the end of each such three-month interest period.

The obligations of Sohu Game as borrower under the Term Facility are initially fully guaranteed by Sohu.com Limited, and are initially secured by first priority share pledges or mortgages over 97.9% of the outstanding equity interests in Changyou. In addition, Sohu Game is required to cause Changyou, within one (1) month after the initial funding under the Term Facility, to pledge a deposit certificate evidencing an RMB deposit equivalent to not less \$125 million at an exchange rate of \$1.00 = RMB7.20 and, within three months after the initial funding under the Term Facility, to pledge RMB deposit certificates evidencing amounts at least equivalent to the Facility Agreement amount (including the initial \$125 million-equivalent deposit certificate). Upon the effectiveness of such additional pledge, Sohu's guarantee and all share pledges or mortgages over the outstanding equity interests in Changyou will be released and discharged.

Exchange Controls

China's government imposes control over the convertibility of RMB into foreign currencies. The conversion of RMB into foreign currencies, including U.S. dollars, has been based on rates announced by the People's Bank of China. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar. Under the new policy, the RMB is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. This change in policy has resulted in significant appreciation of the RMB against the U.S. dollar by the end of 2014. While the international reaction to the RMB revaluation has generally been positive, there remains significant international pressure on the PRC government to adopt an even more flexible currency policy, which could result in a further and more significant appreciation of the RMB against the U.S. dollar.

Pursuant to the Foreign Exchange Administration Regulations issued by the State Council on January 29, 1996, and effective as of April 1, 1996 (and amended on January 14, 1997 and August 5, 2008) and the Regulations on the Administration of Settlement, Sale and Payment of Foreign Exchange issued by the People's Bank of China on June 20, 1996 and effective on July 1, 1996, or the FX Regulations, regarding the administration and control of foreign exchange, conversion of RMB into foreign exchange by foreign investment enterprises for current account items, including the distribution of dividends and profits to foreign investors in joint ventures, is permissible. Foreign investment enterprises are permitted to remit foreign exchange from their foreign exchange bank accounts in China on the basis of, inter alia, the terms of the relevant joint venture contracts and the board resolutions declaring the distribution of the dividend and payment of profits. Each conversion of RMB into a foreign currency and each remittance of a foreign currency for capital account items, including direct investment, loans and security investment, is subject to the approval of the SAFE.

Under the Foreign Exchange Administration Regulations, foreign investment enterprises are required to open and maintain separate foreign exchange accounts for capital account items (but not for other items). In addition, foreign investment enterprises may only buy, sell and/or remit foreign currencies at those banks authorized to conduct foreign exchange business upon the production of valid commercial documents and, in the case of capital account item transactions, approval of the documents by the SAFE.

Currently, foreign investment enterprises are required to apply to the SAFE for "foreign exchange registration certificates for foreign investment enterprises" (which are granted to foreign investment enterprises, upon fulfilling specified conditions and which are subject to review and renewal by the SAFE on an annual basis). With such foreign exchange registration certificates and required underlying transaction documents, or with approval documents from the SAFE if the transactions are under capital account (which are obtained on a transaction-by-transaction basis), foreign-invested enterprises may enter into foreign exchange transactions at banks authorized to engage in the foreign exchange business to obtain foreign exchange for their needs.

Taxation

The following summary of the material Cayman Islands, PRC and United States federal income tax consequences of an investment in our ADSs or ordinary shares is based upon laws and relevant interpretations thereof in effect as of the date of this annual report, all of which are subject to change. This summary does not discuss all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under United States state, local and other tax laws.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty or withholding tax applicable to us or to any holder of our ADSs and ordinary shares. We will not be subject to Cayman Islands taxation on payments of dividends or upon the repurchase by us of your ADSs or Ordinary Shares, nor will gains derived from the disposal of ADSs or Ordinary Shares be subject to Cayman Islands income or corporation tax. There are no other taxes likely to be material to us or holders of our ADSs or ordinary shares levied by the Government of Cayman Islands except for stamp duties, which may be applicable on instruments executed in, or after execution brought within the jurisdiction of the Cayman Islands. No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands exempted companies, except those which hold interests in land in the Cayman Islands. The Cayman Islands is not party to any double tax treaties. There are no exchange control regulations or currency restrictions in the Cayman Islands.

PRC Taxation

Under the CIT Law and its implementation rules, an enterprise established outside of the PRC with a “de facto management body” within the PRC is considered a resident enterprise and will be subject to the enterprise income tax on its global income at the rate of 25%. The implementation rules define the term “de facto management body” as the body that exercises full and substantial control and overall management over the business, productions, personnel, accounts and properties of an enterprise. On April 22, 2009, the SAT issued a circular, known as Circular 82, which provides certain specific criteria for determining whether the “de facto management body” of a PRC-controlled enterprise that is incorporated Offshore is located in China, which will be subject to PRC enterprise income tax on its global income only if all of the following conditions are met: (i) the primary location of the day-to-day operational management is in the PRC; (ii) decisions relating to the enterprise’s financial and human resource matters are made or are subject to approval by organizations or personnel in the PRC; (iii) the enterprise’s primary assets, accounting books and records, company seals, and board and shareholder resolutions are located or maintained in the PRC; and (iv) at least 50% of voting board members or senior executives habitually reside in the PRC. Circular 82 applies only to Offshore enterprises controlled by PRC enterprises or PRC enterprise groups, rather than those controlled by PRC individuals or foreigners, like us, but the criteria set forth in the circular may reflect the SAT’s general position on how the “de facto management body” text should be applied in determining the tax resident status of all Offshore enterprises. Although we believe we are not a PRC tax resident enterprise, it is not clear whether Sohu.com Limited and our subsidiaries established outside of the PRC will be deemed to be PRC tax residents under the CIT Law. If we are considered to be a PRC tax resident under the CIT law by the PRC tax authorities, our global income will be subject to corporate income tax at a rate of 25%.

The implementation rules of the CIT Law provide that, (i) if an enterprise that distributes dividends is domiciled in the PRC, or (ii) if gains are realized from transferring equity interests of enterprises domiciled in the PRC, then such dividends or capital gains are treated as PRC-sourced income. It is not clear how “domicile” may be interpreted under the CIT Law, and it may be interpreted as the jurisdiction where the enterprise is a tax resident. Therefore, if we, or our subsidiaries located in Hong Kong, are considered to be a PRC tax resident enterprise for tax purposes, any dividends we pay to our non-PRC resident shareholders or ADS holders as well as gains realized by such shareholders or ADS holders from the transfer of our shares or ADSs may be regarded as PRC-sourced income and as a result become subject to PRC tax at the rate up to 10% in the case of enterprises or 20% in the case of individuals. In the case of dividends, we would be required to withhold any PRC tax at source. See “Risk Factors—Risk Related to China’s Regulatory and Economic Environment—Dividends paid by us to our foreign investors and profits on the sale of our shares or ADSs may be subject to tax under PRC tax laws.”

United States Federal Income Taxation

The following is a general summary of the material United States federal income tax considerations related to the purchase, ownership and disposition of our ADSs or ordinary shares by U.S. holders (as defined below). This summary applies only to U.S. holders that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion does not address any aspect of United States federal gift, estate tax or Medicare tax, or state, local or foreign tax consequences of an investment in our ADSs or ordinary shares. This discussion is based on the tax laws of the United States as in effect on the date of this annual report and on United States Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report, as well as judicial and administrative interpretations of such tax laws and regulations available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not describe the tax consequences that may be relevant to any particular investor or to persons in special tax situations such as:

- banks or certain financial institutions;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;

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- persons holding ADSs or ordinary shares as part of a straddle, hedging, conversion transaction or other integrated investment;
- regulated investments companies;
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as compensation;
- persons who actually or constructively own 10% or more of the total combined voting power of all classes of our shares entitled to vote or 10% or more of the total value of all classes of our shares; or
- partnerships or other pass-through entities for United States federal income tax purposes or persons holding ADSs or ordinary shares through partnerships or other pass-through entities.

U.S. holders are urged to consult their own tax advisors about the application of the United States federal tax rules to their particular circumstances as well as the state, local and foreign tax consequences to them of the purchase, ownership and disposition of our ADSs or ordinary shares.

The discussion below of the United States federal income tax consequences to “U.S. holders” will apply to a beneficial owner of ADSs or ordinary shares as capital assets for purposes of United States federal income tax laws and who is, for United States federal income tax purposes:

- a citizen or individual resident of the United States;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to United States federal income taxation regardless of its source; or
- a trust (1) whose administration is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) that has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

For United States federal income tax purposes, the tax treatment of a partner in a partnership or other entity taxable as a partnership that holds ADSs or ordinary shares depends on the partner’s status and the activities of the partnership. U.S. holders who hold their ADSs or ordinary shares through a partnership, limited liability company, or other entity taxable as a partnership should consult their tax advisers regarding their tax treatment.

The discussion below assumes that the representations contained in the Deposit Agreement are true and that the obligations in the Deposit Agreement and any related agreement have been and will be complied with in accordance with their terms. Holders of ADSs will be treated as the holders of the underlying ordinary shares represented by those ADSs for United States federal income tax purposes. Accordingly, deposits of ordinary shares in return for ADSs representing those shares, and surrender of ADSs in return for the underlying ordinary shares, will not be subject to United States federal income tax.

The United States Treasury has expressed concerns that parties to whom ADSs are released before the underlying shares are delivered to the depository (“pre-release”), or intermediaries in the chain of ownership between holders of ADSs and the issuer of the security underlying the ADSs, may be taking actions that are inconsistent with the claiming of foreign tax credits by holders of ADSs. These actions would also be inconsistent with the claiming of the reduced rate of tax, described below, applicable to dividends received by certain non-corporate holders. Accordingly, the creditability of PRC taxes, and the availability of the reduced tax rate for dividends received by certain non-corporate U.S. holders, each described below, could be affected by actions taken by such parties or intermediaries.

Passive Foreign Investment Company

We believe that we may have been classified as a PFIC for United States federal income tax purposes for our 2019 taxable year ended November 30, 2019. Our expectation is based on our operations and the composition of our earnings and assets for the 2019 taxable year, including the valuation of our assets (including goodwill) based on the expected price of our ADSs in the market. We currently hold, and expect to continue to hold, a substantial amount of cash and cash equivalents, and because the value of our other assets may be based in part on the market price of our ADSs, which has fluctuated and is likely to continue to fluctuate (and may fluctuate considerably given that market prices of internet and online game companies historically have been especially volatile), our PFIC status in the current and future taxable years may depend in large part on the market price of our ADSs. A drop in the market price of our ADSs and associated decrease in the value of our goodwill would cause a reduction in the value of our non-passive assets for purposes of the asset test. In addition, the composition of our income and assets will be affected by how, and how quickly, we spend our cash. Furthermore, it is not entirely clear how the contractual arrangements between us and our consolidated VIEs will be treated for purposes of the PFIC rules. If these contractual arrangements were found by PRC authorities with appropriate jurisdiction to be unenforceable, such a finding alone could cause more than 75% of our gross income or more than 50% of our assets to be passive in the year that this finding was made or in subsequent years, which, in a given taxable year for which we might not otherwise expect to be classified as a PFIC, could cause us to be classified as a PFIC. See “Risk Factors—Risks Related to Our Corporate Structure and Corporate Governance—Our contractual arrangements with our VIEs and their shareholders may not be as effective in providing control over our VIEs as direct ownership of the VIEs and the shareholders of our VIEs may have conflicts of interest with us or with each other.” Also, our actual PFIC status for any taxable year will depend upon the character of our income and assets and the value of our assets for such year, which will not be determinable until after the close of the taxable year. Accordingly, there is no guarantee regarding our PFIC status for any taxable year.

A non-U.S. corporation is considered a PFIC for any taxable year if either:

- at least 75% of its gross income is passive income (such as certain dividends, interest or royalties) (the “income test”), or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income (the “asset test”).

For the purposes of this determination, we will be treated as owning our proportionate share of the assets and earning our proportionate share of the income of any other corporation in which we own, directly or indirectly, at least 25% (by value) of the shares.

We must make a separate determination each year as to whether we are a PFIC. As a result, our PFIC status may change from one year to the next.

If we are a PFIC for any taxable year during which a U.S. holder holds our ADSs or ordinary shares, such U.S. holder will be subject to special tax rules with respect to any “excess distribution” that such U.S. holder receives and any gain that such U.S. holder realizes from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless the holder makes a “mark-to-market” election as discussed below. For purposes of these special rules, if we are a PFIC for any year during which a U.S. holder holds ADSs or ordinary shares, we will continue to be treated as a PFIC with respect to such U.S. holder for all succeeding years during which such U.S. holder holds ADSs or ordinary shares, even if we are no longer classified as a PFIC in subsequent years. Under certain attribution rules, if we are a PFIC, a U.S. holder will be deemed to own such U.S. holder’s proportionate share of any subsidiaries or other entities that are PFICs in which we hold (directly or indirectly through other PFICs) an equity interest (“subsidiary PFICs”), and will generally be treated for purposes of the PFIC rules as if such U.S. holder directly held the shares of such subsidiary PFICs.

Under these rules, distributions that a U.S. holder receives in a taxable year that are greater than 125% of the average annual distributions that such U.S. holder received during the shorter of the three preceding taxable years or such U.S. holder’s holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. holder’s holding period for the ADSs or ordinary shares;

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- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and
- the amount allocated to each other taxable year will be subject to the highest tax rate in effect for that taxable year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such taxable year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of ADSs or ordinary shares cannot be treated as capital, even if the U.S. holder holds the ADSs or ordinary shares as capital assets. A U.S. holder will be subject to the same United States federal income tax rules as described above on indirect or constructive distributions that the U.S. holder is deemed to receive on shares of a subsidiary PFIC and on indirect or constructive dispositions of shares of subsidiary PFICs.

Alternatively, a U.S. holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed in the two preceding paragraphs. A mark-to-market election will not be available, however, with respect to any subsidiary PFICs. If a U.S. holder makes a mark-to-market election for the ADSs or ordinary shares, such U.S. holder will generally include in income each year an amount equal to the excess, if any, of the fair market value of the ADSs or ordinary shares as of the close of such U.S. holder’s taxable year over such U.S. holder’s adjusted tax basis in such ADSs or ordinary shares. The U.S. holder will be allowed a deduction for the excess, if any, of the adjusted basis of the ADSs or ordinary shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the ADSs or ordinary shares included in the U.S. holder’s income for prior taxable years. Amounts included in a U.S. holder’s income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, will generally be taxed at ordinary income rates. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on the ADSs or ordinary shares, as well as to any loss realized on the actual sale or disposition of the ADSs or ordinary shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such ADSs or ordinary shares. A U.S. holder’s basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. A mark-to-market election will not apply to ADSs or ordinary shares held by a U.S. holder for any taxable year during which we are not a PFIC, but will remain in effect with respect to any subsequent taxable year in which we become a PFIC.

The mark-to-market election will only be available for “marketable stock” which is stock that is traded in more than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in applicable Treasury regulations. We expect that the ADSs will continue to be listed and regularly traded on the Nasdaq Global Select Market, which is a qualified exchange for these purposes, and, consequently, that the mark-to-market election would be available to U.S. holders of our ADSs if and when we are a PFIC. U.S. holders should consult their own tax advisors regarding the availability and tax consequences of a mark-to-market election with respect to our ADSs and ordinary shares.

Another alternative taxation regime that may be available to some United States investors in PFICs, known as qualified electing fund, or QEF, treatment, will not be available to U.S. holders of our ADSs or ordinary shares. This is because QEF treatment requires the PFIC to supply annually certain information to its U.S. holders of ADSs or ordinary shares, and we do not intend to supply such information.

A U.S. holder of ADSs or ordinary shares in any year in which we are a PFIC will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares. In addition, if we are a PFIC for a taxable year in which we pay a dividend, or for the prior taxable year, the lower rate on “qualified dividend income” discussed below with respect to dividends paid to certain non-corporate U.S. holders would not apply.

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

Taxation of Dividends and Other Distributions on ADSs or Ordinary Shares

Subject to the PFIC rules discussed above, the gross amount of our distributions to a U.S. holder with respect to ADSs or ordinary shares (including any amount withheld in respect of PRC taxes) generally will be included in a U.S. holder's gross income as foreign source dividend income on the date of receipt by the depository, in the case of ADSs, or by the U.S. holder, in the case of ordinary shares, but only to the extent that the distribution is paid out of our current or accumulated earnings and profits (as determined under United States federal income tax principles). To the extent, if any, that the amount of any such distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of the U.S. holder's tax basis in the ADSs or the ordinary shares (thereby increasing the amount of any gain or decreasing the amount of any loss realized on the subsequent sale or disposition of such ADSs or ordinary shares) and thereafter as capital gain. Further, any distributions treated as dividends generally will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other United States corporations.

With respect to certain non-corporate U.S. holders, including individual U.S. holders, may be taxed on dividend payments at a special rate (the applicable capital gains rate) that is applicable to "qualified dividend income" provided that (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States, (2) we are not treated as a PFIC with respect to the U.S. holder (as discussed above) for our taxable year in which the dividend was paid and we were not a PFIC in the preceding taxable year, and (3) certain holding period requirements are met. Under Internal Revenue Service authority, our ordinary shares, or ADSs representing such shares, will be considered for the purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed (as our ADSs are currently) on the Nasdaq Global Select Market. U.S. holders should consult their own tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares. Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are taxed as qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will be limited to the gross amount of the dividend, multiplied by the reduced tax rate applicable to qualified dividend income and divided by the highest tax rate normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For foreign tax credit purposes, dividends paid on our ordinary shares will generally constitute "passive category income" but could, in the case of certain U.S. holders, constitute "general category income."

If PRC withholding taxes apply to dividends paid to a U.S. holder with respect to our ADSs or ordinary shares, subject to certain conditions and limitations, such PRC withholding taxes will be treated as foreign taxes eligible for credit against the U.S. holder's United States federal income tax liability. The rules governing foreign tax credits are complex, and U.S. holders should consult their tax advisors regarding the availability of a foreign tax credit in such U.S. holders' particular circumstances.

Taxation of Disposition of Shares

Subject to the PFIC rules discussed above, a U.S. holder will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized for the ADS or ordinary share and the U.S. holder's adjusted tax basis in the ADS or ordinary share. Such gain or loss will be capital gain or loss. A non-corporate U.S. holder, including an individual U.S. holder, who has held the ADS or ordinary share for more than one year will be eligible for reduced capital gains tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that a U.S. holder recognizes will be treated as United States source income (or loss, in the case of losses, subject to certain limitations) for foreign tax credit limitation purposes.

As described above under "Taxation—PRC Taxation," any gain from the disposition of our ADSs or ordinary shares may be subject to PRC tax. In such event, a U.S. holder that is eligible for the benefits of the income tax treaty between the United States and the PRC may elect to treat the gain as PRC source income for foreign tax credit purposes.

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U.S. holders should consult their tax advisors regarding their eligibility for benefits under the income tax treaty between the United States and the PRC and their ability to credit any PRC tax withheld in respect of a sale of our ADSs or ordinary shares against their United States federal income tax liability.

Information Reporting and Backup Withholding

Dividend payments with respect to ADSs or ordinary shares and proceeds from the sale, exchange or redemption of ADSs or ordinary shares may be subject to information reporting to the Internal Revenue Service and possible United States backup withholding at a rate of 24% for taxable years beginning after December 31, 2017, and before January 1, 2026. Backup withholding will not apply, however, to a U.S. holder who furnishes a correct taxpayer identification number and makes any other required certifications or who is otherwise exempt from backup withholding and demonstrates such exemption if required. *U.S. holders who are required to establish their exempt status must provide such certification on Internal Revenue Service Form W-9. U.S. holders should consult their tax advisors regarding the application of the United States information reporting and backup withholding rules.*

Individual U.S. holders, and certain entities that are U.S. holders, that own “specified foreign financial assets” with an aggregate value in excess of \$50,000 are generally required to file an information statement along with their tax returns, currently on Form 8938, with respect to such assets. “Specified foreign financial assets” include any financial accounts held at a non-U.S. financial institution, as well as securities issued by a non-U.S. issuer (which would include our ADSs and ordinary shares) that are not held in accounts maintained by financial institutions. Higher reporting thresholds apply to certain individuals living abroad and to certain married individuals. Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. U.S. holders who fail to report the required information could be subject to substantial penalties. Prospective investors should consult their own tax advisors concerning the application of these rules to their investment in our ADSs and ordinary shares, including the application of the rules to their particular circumstances.

Prospective purchasers of our ADSs or ordinary shares should consult their own tax advisor regarding the application of the United States federal income tax laws to their particular situations as well as any tax consequences resulting from purchasing, holding or disposing of our ADSs and Ordinary Shares, including the applicability and effect of the tax laws of any state, local or foreign jurisdiction and including estate, gift and inheritance laws.

Available Additional Information

We are subject to the periodic reporting and other informational requirements of the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC.

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

As permitted under Nasdaq Listing Rule 5250(d)(1)(C), we will post our annual reports filed with the SEC on our Web site at <http://investors.sohu.com>. We will not furnish hard copies of such reports to holders of our ADSs unless we are requested to do so in writing by a holder. Upon receipt of such a request, we will provide a hard copy of such reports to such requesting holder free of charge.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

FOREIGN CURRENCY EXCHANGE RATE RISK

While our reporting currency is the U.S. dollar, to date the majority of our revenues and costs are denominated in RMB and a significant portion of our assets and liabilities are denominated in RMB. As a result, we are exposed to foreign exchange risk as our revenues and results of operations may be affected by fluctuations in the exchange rate between the U.S. dollar and the RMB. If the RMB depreciates against the U.S. dollar, the value of our RMB revenues and assets as expressed in our U.S. dollar financial statements will decline. For example, our revenues for 2019 were \$1.85 billion and our total assets as of December 31, 2019 were \$2.69 billion, representing revenue of RMB12.87 billion and total assets of RMB18.76 billion at the central parity rate of RMB 6.9762 to \$1.00 on December 31, 2019. If the value of the RMB were to depreciate by approximately 10% to RMB 7.6738 to \$1.00, the value of the same amount of RMB-denominated revenue and total assets in U.S. dollars would be \$1.68 billion and \$2.44 billion, respectively.

The RMB is currently freely convertible under the “current account,” which includes dividends, trade and service-related foreign exchange transactions, but not under the “capital account,” which includes foreign direct investment. In addition, commencing on July 21, 2005, China reformed its exchange rate regime by changing to a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Under the managed floating exchange rate regime, the RMB is no longer pegged to the U.S. dollar, and the People’s Bank of China will announce the closing prices of foreign currencies such as the U.S. dollar traded against the RMB in the inter-bank foreign exchange market after the closing of the market on each business day, and will make such prices the central parity for trading against the RMB on the following business day. On June 19, 2010, the People’s Bank of China announced that it had decided to proceed further with the reform of the RMB exchange rate regime to enhance the flexibility of the RMB exchange rate and that emphasis would be placed on reflecting market supply and demand with reference to a basket of currencies. While so indicating its intention to make the RMB’s exchange rate more flexible, the People’s Bank of China ruled out any sharp fluctuations in the currency or a one-off adjustment. On March 17, 2014, the People’s Bank of China announced a policy to expand the maximum daily floating range of RMB trading prices against the U.S. dollar in the inter-bank spot foreign exchange market to 2%. In the long term, the RMB may appreciate or depreciate more significantly in value against the U.S. dollar or other foreign currencies, depending on the market supply and demand with reference to a basket of currencies.

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

The following table sets forth a summary of our foreign currency sensitive financial instruments as of December 31, 2019. These financial instruments are recorded at their fair value.

	(\$ in thousands)				
	US\$	RMB	HK\$	Others	Total
Cash and cash equivalents	\$ 52,044	\$ 251,055	\$1,173	\$ 854	\$ 305,126
Restricted cash	0	8,661	0	0	8,661
Short-term investments	711,175	605,658	0	0	1,316,833
Account and financing receivables, net	1,742	258,876	62	36	260,716
Prepaid and other current assets	34,455	89,616	477	1,666	126,214
Equity investments with readily determinable fair values	0	9,320	0	0	9,320
Restricted time deposits	240	0	0	0	240
Current liabilities	71,625	1,025,905	822	441	1,098,793

INFLATION RATE RISK

According to the National Bureau of Statistics of China, the consumer price index grew 2.9% in 2019, compared to an increase of 2.1% in 2018. There may be a further increase in the rate of inflation in the future, which could have an adverse effect on our business.

INTEREST RATE RISK

The basic objectives of our investment program are to protect the invested funds from excessive risk and to provide for liquidity that is sufficient to meet operating and investment cash requirements. Under the investment policy, our excess cash is invested in high-quality securities which are limited as to length of time to maturity and the amount of credit exposure.

Our exposure to interest rate risk primarily relates to the interest income generated from excess cash invested in demand deposits, and interest expense generated from loans to Changyou from Offshore banks. We have not used derivative financial instruments in our investment portfolio in order to reduce this risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

The following table summarizes the fees and charges that a holder of our ADSs may have to pay, directly or indirectly, pursuant to the Deposit Agreement and the types of services and the amount of the fees or charges paid therefore:

<i>Persons depositing or withdrawing shares or ADS holders must pay:</i>	<i>For:</i>
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	<ul style="list-style-type: none">• Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
\$0.05 (or less) per ADS	<ul style="list-style-type: none">• Cancellation of ADSs for the purpose of withdrawal, including if the Deposit Agreement terminates• Any cash distribution to ADS holders
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	<ul style="list-style-type: none">• Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADS holders
\$0.05 (or less) per ADSs per calendar year	<ul style="list-style-type: none">• Depositary services
Registration or transfer fees	<ul style="list-style-type: none">• Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of the depositary	<ul style="list-style-type: none">• Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement)• converting foreign currency to U.S. dollars
Taxes and other governmental charges the depositary or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	<ul style="list-style-type: none">• As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	<ul style="list-style-type: none">• As necessary

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Pursuant to an agreement dated April 23, 2018, between us and the Bank of New York Mellon, the depository for our ADSs, the depository reimbursed us in cash for our expenses, including investor relations expenses, legal fees, accounting fees, Nasdaq listing application and listing fees, and related expenses, of \$nil, which figures are net of U.S. withholding tax, related to the establishment of an American depository receipt facility.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

On May 31, 2018, effective at 4:30 PM Eastern Time (such date and time, the “Effective Time”), pursuant to a proposal (the “Liquidation Proposal”) for the dissolution of our predecessor Sohu.com Inc., a Delaware corporation, and adoption of a plan of complete liquidation and dissolution of Sohu.com Inc. that was approved by the stockholders of Sohu.com Inc. at a special meeting of stockholders held on May 29, 2018, Sohu.com Inc. was dissolved; all outstanding shares of the common stock of Sohu.com Inc. were cancelled; ADSs representing all our outstanding ordinary shares were distributed by Sohu.com Inc. on a share-for-share basis to the stockholders of Sohu.com Inc. as of immediately prior to the Effective Time.

The rights of a former stockholder of Sohu.com Inc. were governed by the Delaware General Corporation Law and the certificate of incorporation and bylaws of Sohu.com Inc. After the Effective Time, those stockholders became the holders of ADSs representing our ordinary shares, and the rights of our shareholders will be governed by the Companies Law of the Cayman Islands, our Memorandum and Articles of Association, and the Deposit Agreement. Many of the principal attributes of shares of Sohu.com Inc.’s common stock and our ordinary shares, including economic and voting rights, are similar. However, there are differences between rights under the Delaware General Corporation Law and under the Companies Law. In addition, there are differences between the certificate of incorporation and bylaws of Sohu.com Inc. and our Memorandum and Articles of Association. For a summary of certain material differences in the rights of a holder of shares of Sohu.com Inc. common stock and a holder of our ordinary shares, you may refer to the section titled “Comparison of Rights of Sohu Delaware Stockholders and Sohu Cayman Shareholders” in our Registration Statement on Form F-4 (File No. 333-224069) filed with the SEC on April 19, 2018 and in Sohu.com Inc.’s and our joint proxy statement/prospectus filed with the SEC on April 23, 2018, which section is incorporated herein by reference.

USE OF PROCEEDS

On July 17, 2000, our predecessor Sohu.com Inc. completed an underwritten IPO of shares of its common stock pursuant to a Registration Statement on Form S-1 (SEC file No. 333-96137) that became effective on July 10, 2000. There has been no change in the information regarding use of proceeds from the IPO that was included in our Annual Report on Form 20-F for the year ended December 31, 2018 that we filed with the SEC on March 28, 2019.

ITEM 15. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our “disclosure controls and procedures” (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act) as of the end of the period covered by this report (the “Evaluation Date”), have concluded that as of the Evaluation Date our disclosure controls and procedures were effective and designed to ensure that all material information relating to Sohu.com Limited required to be included in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive and financial officers, as appropriate to allow timely decisions regarding required disclosure.

MANAGEMENTS ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers Zhong Tian LLP, an independent registered public accounting firm, as stated in their report which is included in this report on pages F-2.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have not been any changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the Company’s fiscal year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Dr. Dave Qi is an “audit committee financial expert” as defined under the applicable SEC rules and Rule 5605(c)(2) of the Nasdaq Listing Rules. Our Board of Directors has determined that all three members of our audit committee are “independent” under Rule 10A-3 under the Securities Exchange Act of 1934 and Rule 5605 of the Nasdaq Listing Rules.

ITEM 16B. CODE OF ETHICS

Our Board of Directors adopted a code of ethics and conduct that is applicable to all of our directors, officers and employees. A copy of our code of ethics and conduct is filed as an exhibit to this annual report, and is also posted on our Website at <http://investors.sohu.com>.

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ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table sets forth the aggregate fees by categories specified below in connection with certain professional services rendered by PricewaterhouseCoopers Zhong Tian LLP, our principal external auditor, and its affiliates for the periods indicated below.

	For the year ended	
	December 31,	
	2018	2019
	(in thousands)	
Audit fees(1)	\$ 2,647	\$2,654
Tax fees(2)	8,226	567
Audit related fees(3)	326	142
All other fees	4	2
Total	\$11,203	\$3,365

- (1) "Audit fees" means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements and our internal controls over financial reporting.
- (2) "Tax fees" means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance and tax advice.
- (3) "Audit-related fees" means the aggregate fees incurred in each of the fiscal years listed for professional services rendered by our principal auditors related to the audit of our financial statements and our internal controls over financial reporting that are not reported under "Audit Fees" and consultation on accounting standards or transactions.

Audit Committee Pre-approval Policies and Procedures

Our audit committee has adopted procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by PricewaterhouseCoopers Zhong Tian LLP before that firm is retained for such services. The pre-approval procedures are as follows:

- Any audit or non-audit service to be provided to us by the independent accountant must be submitted to the audit committee for review and approval, with a description of the services to be performed and the fees to be charged.
- The audit committee in its sole discretion then approves or disapproves the proposed services and documents such approval, if given, through written resolutions or in the minutes of meetings, as the case may be.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not Applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not Applicable.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not Applicable.

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ITEM 16G. CORPORATE GOVERNANCE

Not Applicable.

ITEM 16H. MINE SAFETY DISCLOSURE

Not Applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

The consolidated financial statements of Sohu and its subsidiaries and VIEs are included at the end of this annual report.

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ITEM 19. EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>
1.1(1)	<u>Amended and Restated Memorandum and Articles of Association of the Registrant.</u>
2.1(22)	<u>Registrant's Specimen American Depositary Receipt (included in Exhibit 2.2).</u>
2.2(22)	<u>Amended and Restated Deposit Agreement, dated January 14, 2019, among the Registrant, the depository and all registered holders and beneficial owners of the American Depositary Shares.</u>
2.3(22)	<u>Shareholders' Rights Agreement, dated as of January 14, 2019, between the Registrant and The Bank of New York Mellon.</u>
4.1(2)	<u>Loan and Share Pledge Agreement dated November 19, 2001 among Sohu.com Inc., Dr. Charles Zhang, and Li Wei.</u>
4.2(3)	<u>Real Property Purchase Agreement between Sohu Era and Vision Hua Qing.</u>
4.3(4)	<u>Master Transaction Agreement, dated January 1, 2009, by and between Sohu.com Inc. and Changyou.com Limited.</u>
4.4(4)	<u>Project Cooperation Agreement, dated November 20, 2009, by and between Beijing Raycom Real Estate Development Co., Ltd. and Beijing Sohu Media.</u>
4.5(5)	<u>Amended and Restated Marketing Services Agreement, dated January 1, 2010, by and between Sohu.com Inc. and Changyou.com Limited.</u>
4.6(6)	<u>Changyou Project Cooperation Agreement dated August 23, 2010.</u>
4.7(6)	<u>Amended and Restated 2010 Stock Incentive Plan.</u>
4.8(6)	<u>Cooperation Agreement, dated September 30, 2010. (Portions of this exhibit have been omitted pursuant to rules of the SEC permitting a registrant to omit confidential information that is not material, the release of which could cause competitive harm to the registrant).</u>
4.9(7)	<u>Master Transaction Agreement, dated as of November 29, 2011, between Sohu.com Inc., Sohu Internet, Sohu Era, and Sohu Media, on the one hand, and Changyou.com Limited, Changyou.com HK, Gamespace, and Guanyou Gamespace, on the other hand.</u>

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- 4.10(7) [Amended and Restated Non-Competition Agreement, dated as of November 29, 2011, between Changyou.com Limited and Sohu.com Inc.](#)
- 4.11(7) [Services Agreement, dated as of November 29, 2011, between Changyou Gamespace and Sohu Media.](#)
- 4.12(8) [Sohu Video 2011 Share Incentive Plan.](#)
- 4.13(8) [English Translation of Services and Maintenance Agreement, dated November 30, 2007, between AmazGame and Gamease.](#)
- 4.14(8) [English Translation of Technology Support and Utilization Agreement, dated August 20, 2008, between AmazGame and Gamease.](#)
- 4.15(8) [English Translation of Exclusive Technology Consulting and Services Agreement, dated September 26, 2010, between Sogou Technology and Sogou Information.](#)
- 4.16(9) [English Translation of Loan Agreement, dated December 2, 2013, between Sogou Technology and Xiaochuan Wang.](#)
- 4.17(9) [English Translation of Share Pledge Agreement, dated December 2, 2013, among Sogou Technology, Sogou Information, and the shareholders of Sogou Information.](#)
- 4.18(9) [English Translation of Exclusive Equity Interest Purchase Rights Agreement, dated December 2, 2013, among Sogou Technology, Sogou Information, and the shareholders of Sogou Information.](#)
- 4.19(9) [English Translation of Business Operation Agreement, dated December 2, 2013, among Sogou Technology, Sogou Information, and the shareholders of Sogou Information.](#)
- 4.20(9) [English Translation of Power of Attorney, dated December 2, 2013, by the shareholders of Sogou Information in favor of Sogou Technology.](#)
- 4.21(9) [English Translation of Exclusive Technology Consulting and Services Agreement August 2, 2012, between Sohu Internet and Sohu Era.](#)
- 4.22(10) [2010 Share Incentive Plan of Sogou Inc. \(as amended and restated\)](#)
- 4.23(10) [2014 Share Incentive Plan of Changyou.com Limited.](#)

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- 4.24(10) [English Translation of Loan Agreement, dated November 15, 2011, between Video Tianjin and Ye Deng, the shareholder of Tianjin Jinhua.](#)
- 4.25(10) [English Translation of Loan Agreement, dated December 4, 2013, between Video Tianjin and Xuemei Zhang, the shareholder of Tianjin Jinhua.](#)
- 4.26(10) [English Translation of Equity Pledge Agreement, dated November 15, 2011, between Video Tianjin and Ye Deng, the shareholder of Tianjin Jinhua.](#)
- 4.27(10) [English Translation of Equity Pledge Agreement, dated December 4, 2013, between Video Tianjin and Xuemei Zhang, the shareholder of Tianjin Jinhua.](#)
- 4.28(10) [English Translation of Exclusive Equity Interest Purchase Right Agreement, dated December 4, 2013, between Video Tianjin, Tianjin Jinhua and the shareholders of Tianjin Jinhua.](#)
- 4.29(10) [English Translation of Business Operation Agreement, dated December 4, 2013, among Video Tianjin, Tianjin Jinhua and the shareholders of Tianjin Jinhua.](#)
- 4.30(10) [English Translation of Powers of Attorney, dated December 4, 2013, by the shareholders of Tianjin Jinhua in favor of Video Tianjin.](#)
- 4.31(10) [English Translation of Exclusive Technology Consulting and Services Agreement, dated December 4, 2013, between Video Tianjin and Tianjin Jinhua.](#)
- 4.32(10) [Loan and Share Pledge Agreement, effective as of April 28, 2014, by and among Sohu.com Limited, Charles Zhang, and Wei Li. \(Portions of this exhibit have been omitted pursuant to rules of the SEC permitting a registrant to omit confidential information that is not material, the release of which could cause competitive harm to the registrant.\)](#)
- 4.33(11) [English Translation of Loan Agreement, dated April 15, 2015, between AmazGame and High Century.](#)
- 4.34(11) [English Translation of Equity Interest Pledge Agreement, dated April 15, 2015 among AmazGame, Gamease and High Century.](#)
- 4.35(11) [English Translation of Equity Interest Purchase Right Agreement, dated April 15, 2015, between AmazGame, Gamease and High Century.](#)
- 4.36(11) [English Translation of Power of Attorney, dated April 15, 2015, by High Century in favor of AmazGame.](#)

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- 4.37(11) [English Translation of Business Operation Agreement, dated April 15, 2015, among AmazGame, Gamease and High Century.](#)
- 4.38(12) [Loan and Share Pledge Agreement, dated July 1, 2015, among Sohu Media, Charles Zhang and Wei Li.](#)
- 4.39(12) [Loan and Share Pledge Agreement, dated July 1, 2015, among Focus HK, Charles Zhang and Wei Li.](#)
- 4.40(13) [English translation of Loan Agreement, dated July 6, 2015, between Gamespace and Changyou Star.](#)
- 4.41(13) [English translation of Equity Interest Purchase Right Agreement, dated July 6, 2015, among Gamespace, Guanyou Gamespace and Changyou Star.](#)
- 4.42(13) [English translation of Equity Pledge Agreements, dated July 6, 2015, among Gamespace, Guanyou Gamespace and Changyou Star.](#)
- 4.43(13) [English translation of Business Operation Agreement, dated July 6, 2015, among Gamespace, Guanyou Gamespace and Changyou Star.](#)
- 4.44(13) [English translation of Power of Attorney, dated July 6, 2015, executed by Changyou Star in favor of Gamespace.](#)
- 4.45(13) [English translation of Share Purchase Agreement, dated April 16, 2015, between Gamease and Shanghai Yong Chong.](#)
- 4.46(14) [English Translation of Loan Agreement, dated as of October 24, 2016, between AmazGame and Sohu Media.](#)
- 4.47(15) [English translation of Employment Agreement effective as of April 1, 2012, between Sohu Era and Joanna Lv.](#)
- 4.48(15) [English translation of Agreement Changing One Party to Employment Agreement effective as of April 1, 2013, among Sohu Era, Joanna Lv and Sohu Media.](#)
- 4.49(15) [English translation of Employment Agreement effective as of November 30, 2012, between Sogou Technology and Xiaochuan Wang.](#)
- 4.50(16) [English translation of Credit Agreement, dated May 19, 2017, between Ping An Bank and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.51(16) [English translation of Credit Agreement, dated May 19, 2017, between Ping An Bank and Fox Information Technology \(Tianjin\) Limited.](#)

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- 4.52(16) [English translation of Credit Agreement, dated May 19, 2017, between Ping An Bank and Tianjin Jinhua Culture Development Co., Ltd.](#)
- 4.53(16) [English translation of Form of Loan Agreement.](#)
- 4.54(16) [English translation of Asset Pledge Agreement, dated May 19, 2017, between Ping An Bank and Beijing Sohu New Momentum Information Technology Co., Ltd.](#)
- 4.55(16) [English translation of Asset Pledge Agreement, dated May 19, 2017, between Ping An Bank and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.56(16) [English translation of Asset Pledge Agreement, dated May 19, 2017, between Ping An Bank and Beijing Sohu New Era Information Technology Co., Ltd.](#)
- 4.57(16) [English translation of Guaranty Agreement, dated May 19, 2017, between Ping An Bank and Sohu.com \(Game\) Limited.](#)
- 4.58(16) [English translation of Commitment Letter, dated May 19, 2017, between Ping An Bank and Sohu.com Inc.](#)
- 4.59(16) [English translation of Strategic Cooperation Agreement, dated May 19, 2017, between Ping An Bank and Sohu.com Inc.](#)
- 4.60(17) [English translation of Amendment to the Original PAB Credit Agreements, dated September 1, 2017.](#)
- 4.61(17) [English translation of Credit Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Media Information Technology Co., Ltd., Fox Information Technology \(Tianjin\) Limited, and Beijing Sohu New Momentum Information Technology Co., Ltd.](#)
- 4.62(17) [English translation of Asset Pledge Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Momentum Information Technology Co., Ltd.](#)
- 4.63(17) [English translation of Asset Pledge Agreement, dated September 7, 2017, between ICBC and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.64(17) [English translation of Commitment Letter, dated September 7, 2017, between ICBC and Sohu.com Inc.](#)
- 4.65(18) [Voting Agreement dated September 16, 2013 among Sogou Inc., Sohu.com \(Search\) Limited, Photon, Xiaochuan Wang, and other members of Sogou Management, as amended as of August 11, 2017.](#)

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- 4.66(18) [Voting Agreement dated as of August 11, 2017 among Sogou Inc., Sohu.com \(Search\) Limited, and THL A21 Limited.](#)
- 4.67(18) [Registration Rights Agreement dated as of August 11, 2017 among Sogou Inc., Sohu.com \(Search\) Limited, Photon and THL A21 Limited.](#)
- 4.68(18) [English Translation of Second Amended and Restated Mobile Browser Cooperation Agreement, dated September 25, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information and Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. \(Portions of this exhibit have been omitted pursuant to rules of the SEC permitting a registrant to omit confidential information that is not material, the release of which could cause competitive harm to the registrant.\)](#)
- 4.69(23) [English Translation of Cooperation Agreement between Weixin Official Platform and Sogou Search dated March 1, 2019, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Information.](#)
- 4.70(18) [English Translation of Amended and Restated Business Development and Resource Sharing Agreement, dated September 25, 2017, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information, Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. and Sohu.com Limited.](#)
- 4.70A(23) [English Translation of Supplemental Agreement to Amended and Restated Business Development and Resource Sharing Agreement, dated September 20, 2018, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information, Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. and Sohu.com Limited.](#)
- 4.70B(23) [English Translation of Second Supplemental Agreement to Amended and Restated Business Development and Resource Sharing Agreement, dated October 24, 2019, between Shenzhen Tencent Computer Systems Co., Ltd. and Sogou Inc., Sogou Technology, Sogou Network, Sogou Information, Shenzhen Shi Ji Guang Su Information Technology Co., Ltd. and Sohu.com Limited.](#)
- 4.71(23) [English Translation of SOHU.COM Internet Plaza Office Building Lease, dated December 25, 2019, between Beijing Sohu New Era Information Technology Co., Ltd. and Beijing Sogou Network Technology Co., Ltd.](#)
- 4.72(23) [English Translation of SOHU.COM Internet Plaza Office Building Lease, dated December 25, 2019, between Beijing Sohu New Media Information Technology Co., Ltd. and Beijing Sogou Information Services Co., Ltd.](#)

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- 4.73(23) [English Translation of SOHU.COM Internet Plaza Office Building Lease, dated December 25, 2019, between Beijing Sohu New Media Information Technology Co., Ltd. and Beijing Sogou Technology Development Co., Ltd.](#)
- 4.74(19) [Seventh Amended and Restated Memorandum of Association and Third Amended and Restated Articles of Association of Sogou Inc.](#)
- 4.75(19) [Sogou Inc. 2017 Share Incentive Plan, as amended and restated.](#)
- 4.76(19) [Employment Agreement effective as of January 1, 2018 between Changyou and Dewen Chen.](#)
- 4.77(19) [Employment Agreement effective as of January 1, 2018 between Sohu.com Inc. and Charles Zhang.](#)
- 4.78(22) [Employment Agreement effective as of May 1, 2018 between Sohu.com Limited and Joanna Lv.](#)
- 4.79(20) [English translation of Credit Facility Agreement, dated April 11, 2018, between CMB and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.80(20) [English translation of Asset Pledge Agreement, dated April 11, 2018, between CMB and Beijing Sohu New Era Information Technology Co., Ltd.](#)
- 4.81(20) [English translation of Asset Pledge Agreement, dated April 11, 2018, between CMB and Beijing Sohu New Media Information Technology Co., Ltd.](#)
- 4.82(20) [English translation of Commitment Letter, dated April 11, 2018, issued by the registrant to CMB.](#)
- 4.83(21) [Sohu.com Limited 2018 Share Incentive Plan.](#)
- 4.84(23) [Changyou.com Limited 2019 Share Incentive Plan.](#)
- 4.85(23) [Facility Agreement, dated April 3, 2020, among Sohu.com Limited, Sohu Game, and ICBC Tokyo.](#)
- 4.86(23) [Equitable Share Mortgage relating to shares in Sohu Game, dated April 3, 2020, between All Honest International Limited and ICBC Tokyo.](#)
- 4.87(23) [Equitable Share Mortgage relating to shares in Changyou, dated April 3, 2020, between Sohu Game and ICBC Tokyo.](#)
- 8.1(23) [Principal Subsidiaries and VIEs of the Registrant.](#)
- 11.1(22) [Code of Ethics and Conduct for Directors, Officers and Employees.](#)
- 12.1(23) [Rule 13a-14\(a\)/15d-14\(a\) Certification of Dr. Charles Zhang.](#)

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- 12.2(23) [Rule 13a-14\(a\)/15d-14\(a\) Certification of Joanna Lv.](#)
- 13.1(23) [Section 1350 Certification of Dr. Charles Zhang.](#)
- 13.2(23) [Section 1350 Certification of Joanna Lv.](#)
- 15.1(23) [Consent of Independent Registered Public Accounting Firm.](#)
- 15.2(23) [Consent of Haiwen & Partners, PRC Counsel.](#)
- 101(23) Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2019 and 2018; (ii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018, and 2017; (iii) Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017; (iv) Consolidated Statements of Changes in Equity for the years ended December 31, 2019, 2018, and 2017; (v) Notes to Consolidated Financial Statements, tagged using four different levels of detail; and (vi) Additional Information – Condensed Financial Statements.

-
- (1) Incorporated herein by reference to Sohu.com Limited's Registration Statement on Form F-4 (File No. 333-224069) filed with the SEC on April 19, 2018.
- (2) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on March 15, 2002.
- (3) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on May 8, 2007.
- (4) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 26, 2010.
- (5) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on May 7, 2010.
- (6) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on November 8, 2010.
- (7) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on December 1, 2011.
- (8) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 28, 2013.
- (9) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 28, 2014.
- (10) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on March 2, 2015.
- (11) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on August 7, 2015.
- (12) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on November 6, 2015.

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- (13) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 26, 2016.
- (14) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on October 24, 2016.
- (15) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 27, 2017.
- (16) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on May 19, 2017.
- (17) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on September 7, 2017.
- (18) Incorporated herein by reference to Sohu.com Inc.'s Quarterly Report on Form 10-Q filed on November 3, 2017.
- (19) Incorporated herein by reference to Sohu.com Inc.'s Annual Report on Form 10-K filed on February 28, 2018.
- (20) Incorporated herein by reference to Sohu.com Inc.'s Current Report on Form 8-K filed on April 16, 2018.
- (21) Incorporated herein by reference to Sohu.com Limited's Registration Statement on Form S-8 POS filed on June 1, 2018.
- (22) Incorporated herein by reference to Sohu.com Limited's Annual Report on Form 20-F filed on March 28, 2019
- (23) Filed herewith.

SOHU.COM LIMITED
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of Sohu.com Limited:

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Sohu.com Limited and its subsidiaries (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income /(loss), of cash flows and of changes in equity for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the “consolidated financial statements”). We also have audited the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control—Integrated Framework (2013) issued by the COSO.

Change in Accounting Principles

As discussed in Note 2 and Note 12 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

As discussed in Note 2 and Note 11 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers and the manner in which it accounts for financial instruments in 2018.

Basis for Opinions

The Company’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the Managements Annual Report on Internal Control Over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company’s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
April 21, 2020

We have served as the Company's auditor since 1999.

SOHU.COM LIMITED
CONSOLIDATED BALANCE SHEETS
(In thousands)

	As of December 31,	
	2018	2019
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 819,485	\$ 305,126
Restricted cash	3,539	8,661
Short-term investments	1,041,395	1,316,833
Account and financing receivables, net (including \$1,445 and \$2,006, respectively, due from a related party as of December 31, 2018 and 2019)	264,411	260,716
Prepaid and other current assets (including \$31,607 and \$33,329, respectively, due from a related party as of December 31, 2018 and 2019)	225,744	124,332
Current assets associated with discontinued operations	34,324	0
Total current assets	<u>2,388,898</u>	<u>2,015,668</u>
Fixed assets, net	504,647	447,688
Goodwill	53,263	52,923
Long-term investments, net	108,356	94,332
Intangible assets, net	24,071	11,437
Restricted time deposits	244,179	240
Prepaid non-current assets	3,107	1,882
Other assets	43,928	65,620
Non-current assets associated with discontinued operations	398	0
Total assets	<u>\$3,370,847</u>	<u>\$2,689,790</u>
LIABILITIES		
Current liabilities:		
Accounts payable (including accounts payable of consolidated variable interest entities (“VIEs”) without recourse to the Company of \$84,749 and \$74,781, respectively, as of December 31, 2018 and 2019)	\$ 286,745	\$ 253,403
Accrued liabilities (including accrued liabilities of consolidated VIEs without recourse to the Company of \$60,555 and \$64,874, respectively, as of December 31, 2018 and 2019)	292,282	249,810
Receipts in advance and deferred revenue (including receipts in advance and deferred revenue of consolidated VIEs without recourse to the Company of \$43,020 and \$47,735, respectively, as of December 31, 2018 and 2019)	120,404	118,222
Accrued salary and benefits (including accrued salary and benefits of consolidated VIEs without recourse to the Company of \$7,389 and \$7,670, respectively, as of December 31, 2018 and 2019)	108,011	110,833
Tax payables (including tax payables of consolidated VIEs without recourse to the Company of \$14,110 and \$9,750, respectively, as of December 31, 2018 and 2019)	93,073	102,686
Short-term bank loans (including short-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2018 and 2019)	129,677	114,528

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Other short-term liabilities (including other short-term liabilities of consolidated VIEs without recourse to the Company of \$65,352 and \$63,439, respectively, as of December 31, 2018 and 2019, and due to a related party of \$32,718 and \$33,536, respectively, as of December 31, 2018 and 2019.)	123,921	149,311
Current liabilities associated with discontinued operations	101,105	0
Total current liabilities	<u>1,255,218</u>	<u>1,098,793</u>
Long-term accounts payable (including long-term accounts payable of consolidated VIEs without recourse to the Company of nil as of both December 31, 2018 and 2019)	752	767
Long-term bank loans (including long-term bank loans of consolidated VIEs without recourse to the Company of nil as of both December 31, 2018 and 2019)	302,323	0
Long-term tax liabilities (including long-term tax liabilities of consolidated VIEs without recourse to the Company of \$13,554 and \$13,220, respectively, as of December 31, 2018 and 2019)	174,339	181,640
Deferred tax liabilities (including deferred tax liabilities of consolidated VIEs without recourse to the Company of \$2,239 and \$1,998, respectively, as of December 31, 2018 and 2019)	85,264	95,904
Other long-term liabilities (including other long-term liabilities of consolidated VIEs without recourse to the Company of nil and \$1,130, respectively, as of December 31, 2018 and 2019)	0	5,769
Total long-term liabilities	<u>562,678</u>	<u>284,080</u>
Total liabilities	<u>\$1,817,896</u>	<u>\$1,382,873</u>
Commitments and contingencies		
SHAREHOLDERS' EQUITY		
Sohu.com Limited shareholders' equity:		
Ordinary Shares: \$0.001 par value per share (75,400 shares authorized; 39,229 shares and 39,269 shares, respectively, issued and outstanding as of December 31, 2018 and 2019)	\$ 39	\$ 39
Additional paid-in capital	958,883	948,201
Accumulated other comprehensive income	24,719	24,351
Accumulated deficit	(394,801)	(544,137)
Total Sohu.com Limited shareholders' equity	588,840	428,454
Noncontrolling interest	964,111	878,463
Total shareholders' equity	<u>1,552,951</u>	<u>1,306,917</u>
Total liabilities and shareholders' equity	<u>\$3,370,847</u>	<u>\$2,689,790</u>

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

SOHU.COM LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME /(LOSS)
(In thousands, except per share data)

	Year Ended December 31,		
	2017	2018	2019
Revenues:			
Online advertising:			
Brand advertising (including revenues generated from a related party of \$247, \$224 and \$174, respectively, for 2017, 2018 and 2019)	\$ 314,112	\$ 231,945	\$ 174,861
Search and search-related advertising	801,199	1,022,456	1,072,860
Subtotal of online advertising revenues	1,115,311	1,254,401	1,247,721
Online games	449,533	389,788	440,902
Others (including revenues generated from a related party of \$2, \$2,187 and \$3,796, respectively, for 2017, 2018 and 2019)	204,745	168,638	156,824
Total revenues	1,769,589	1,812,827	1,845,447
Cost of revenues:			
Online advertising:			
Brand advertising	363,624	184,473	126,406
Search and search-related advertising	412,904	664,164	703,144
Subtotal of cost of online advertising revenues	776,528	848,637	829,550
Online games	62,775	60,981	88,992
Others (including cost generated from a related party of nil, \$237 and \$57 respectively, for 2017, 2018 and 2019)	110,965	72,868	63,553
Total cost of revenues	950,268	982,486	982,095
Gross profit	819,321	830,341	863,352
Operating expenses:			
Product development	412,173	441,161	419,114
Sales and marketing	390,423	380,290	340,840
General and administrative	119,041	108,764	95,773
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	86,882	16,369	7,245
Total operating expenses	1,008,519	946,584	862,972
Operating profit/(loss)	(189,198)	(116,243)	380
Other income /(expense), net	6,697	64,724	21,948
Interest income (including interest income generated from a related party of \$1,157, \$1,051 and \$1,015, respectively, for 2017, 2018 and 2019)	24,138	24,074	10,546
Interest expense (including interest expense generated from a related party of \$724, \$519, and \$818, respectively, for 2017, 2018 and 2019)	(4,088)	(17,538)	(14,370)
Exchange difference	(14,385)	9,026	3,279
Income /(loss) before income tax expense /(benefit)	(176,836)	(35,957)	21,783
Income tax expense /(benefit)	272,636	(13,433)	31,176
Net loss from continuing operations	(449,472)	(22,524)	(9,393)
Net loss from discontinued operations, net of tax	(20,531)	(44,835)	(33,998)
Net loss	(470,003)	(67,359)	(43,391)
Less: Net income from continuing operations attributable to the noncontrolling interest shareholders	91,076	107,318	117,177
Less: Net loss from discontinued operations attributable to the noncontrolling interest shareholders	(6,553)	(14,595)	(11,232)

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Net loss from continuing operations attributable to Sohu.com Limited	(540,548)	(129,842)	(126,570)
Net loss from discontinued operations attributable to Sohu.com Limited	(13,978)	(30,240)	(22,766)
Net loss attributable to Sohu.com Limited	<u>\$(554,526)</u>	<u>\$(160,082)</u>	<u>\$(149,336)</u>
Net loss	<u>\$(470,003)</u>	<u>\$ (67,359)</u>	<u>\$ (43,391)</u>
Foreign currency translation adjustments	56,250	(37,339)	(13,069)
Change in unrealized gain/(loss) for equity securities with readily determinable fair values	12,179	0	0
Other comprehensive income/(loss)	<u>68,429</u>	<u>(37,339)</u>	<u>(13,069)</u>
Comprehensive loss	<u>(401,574)</u>	<u>(104,698)</u>	<u>(56,460)</u>
Less: Comprehensive income attributable to noncontrolling interest shareholders	<u>117,960</u>	<u>61,376</u>	<u>93,244</u>
Comprehensive loss attributable to Sohu.com Limited	<u>\$(519,534)</u>	<u>\$(166,074)</u>	<u>\$(149,704)</u>
Basic net loss per share attributable to Sohu.com Limited			
Continuing operations	\$ (13.91)	\$ (3.33)	\$ (3.22)
Discontinued operations	(0.36)	(0.78)	(0.58)
Net loss per share	<u>(14.27)</u>	<u>(4.11)</u>	<u>(3.80)</u>
Shares used in computing basic net loss per share attributable to Sohu.com Limited	<u>38,858</u>	<u>38,959</u>	<u>39,249</u>
Diluted net loss per share attributable to Sohu.com Limited			
Continuing operations	\$ (13.95)	\$ (3.36)	\$ (3.25)
Discontinued operations	(0.35)	(0.77)	(0.58)
Net loss per share	<u>(14.30)</u>	<u>(4.13)</u>	<u>(3.83)</u>
Shares used in computing diluted net loss per share attributable to Sohu.com Limited	<u>38,858</u>	<u>38,959</u>	<u>39,249</u>

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

SOHU.COM LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2017	2018	2019
Cash flows from operating activities:			
Net loss	\$ (470,003)	\$ (67,359)	\$ (43,391)
Net loss from discontinued operations, net of tax	(20,531)	(44,835)	(33,998)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of intangible assets and purchased video content in prepaid expense	140,238	59,315	39,547
Depreciation	82,893	92,799	92,888
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	86,882	16,369	8,015
Share-based compensation expense	41,468	2,095	18,251
Impairment of long-term investment	5,754	2,605	34,119
Impairment of other intangible assets and other assets	72,259	10,797	7,331
Investment loss /(gain) from equity investments	1,451	(14,045)	(2,960)
Allowance for doubtful accounts and credit losses	8,891	14,568	20,345
Provision for inventory	0	2,547	2,734
Loss /(gain) from sale of equity investments	523	(134)	0
Change in fair value of financial instruments	(10,447)	(10,857)	(2,327)
Others	(1,068)	(730)	(1,995)
Changes in assets and liabilities:			
Account and financing receivables	(50,418)	(32,833)	15,268
Prepaid and other assets	30,037	(26,182)	11,262
Accounts payable	30,952	57,492	(9,750)
Receipts in advance and deferred revenue	169	2,514	(306)
Tax liabilities	262,726	(72,954)	14,709
Deferred tax	(82)	43,798	8,455
Accrued liabilities and other short-term liabilities	(66,131)	(44,037)	(44,944)
Net cash provided by continuing operating activities	<u>186,625</u>	<u>80,603</u>	<u>201,249</u>
Net cash provided by discontinued operating activities	<u>1,062</u>	<u>3,422</u>	<u>9,341</u>
Net cash provided by operating activities	<u>187,687</u>	<u>84,025</u>	<u>210,590</u>
Cash flows from investing activities:			
Purchase of fixed assets	(78,711)	(100,989)	(45,277)
Purchase of intangible and other assets	(65,652)	(97,611)	(51,479)
Purchase of long-term investments	(7,680)	(20,613)	(23,777)
Return of funds from a third party	4,928	5,264	0
Collection of financing receivables	0	59,967	226,086
Investment in financing receivables	0	(98,774)	(257,388)
Proceeds from financial instruments	1,219,986	2,957,984	2,763,189
Purchase of financial instruments	(1,785,012)	(3,177,532)	(3,046,582)
Proceeds received from sale of equity investment	0	12,073	0
Other cash proceeds /(payments) related to investing activities	(1,408)	1,705	2,816
Net cash used in continuing investing activities	<u>(713,549)</u>	<u>(458,526)</u>	<u>(432,412)</u>
Net cash used in discontinued investing activities	<u>(954)</u>	<u>(718)</u>	<u>(10,808)</u>
Net cash used in investing activities	<u>(714,503)</u>	<u>(459,244)</u>	<u>(443,220)</u>

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Cash flows from financing activities:			
Consideration received from Sogou IPO, net of IPO Transaction Expenses	622,131	0	0
Proceeds from long-term bank loan	122,433	251,738	0
Proceeds from short-term bank loan	67,785	74,056	58,035
Exercise of share-based awards in subsidiaries	494	12	7
Repayments of loans from banks	(7,684)	(67,011)	(371,973)
Repurchase of Sogou Pre-IPO Class A Ordinary Shares from noncontrolling shareholders	(3,190)	0	0
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	0	0	(42,016)
Distribution of Changyou dividend to noncontrolling interest shareholders	0	(162,461)	(165,817)
Other cash proceeds related to financing activities	6	0	8,601
Net cash provided by /(used in) continuing financing activities	801,975	96,334	(513,163)
Net cash provided by /(used in) financing activities	801,975	96,334	(513,163)
Effect of exchange rate changes on cash, cash equivalents, restricted cash and restricted time deposits	30,226	(19,544)	(10,046)
Reclassification of cash, cash equivalents, restricted cash and restricted time deposits from assets held for sale	11,684	0	0
Net increase /(decrease) in cash, cash equivalents, restricted cash, and restricted time deposits	317,069	(298,429)	(755,839)
Cash, cash equivalents, restricted cash and restricted time deposits at beginning of year	1,051,226	1,368,295	1,069,866
Cash, cash equivalents, restricted cash and restricted time deposits at end of year	<u>\$1,368,295</u>	<u>\$1,069,866</u>	<u>\$ 314,027</u>
Less: Cash, cash equivalents, restricted cash and restricted time deposits of discontinued operations, end of year	243	2,663	0
Cash, cash equivalents, restricted cash and restricted time deposits of continuing operations, end of year	<u>1,368,052</u>	<u>1,067,203</u>	<u>314,027</u>
Supplemental cash flow disclosures:			
Cash paid for income taxes	(43,264)	(53,147)	(31,116)
Cash paid for interest expense	(7,176)	(12,563)	(9,396)
Barter transactions	6,110	28,404	20,087
Supplemental schedule of non-cash investing activity:			
Changes in payables and other liabilities related to fixed assets and intangible assets additions	56,486	30,797	(25,977)

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

SOHU.COM LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended December 31, 2017
(In thousands)

	Shareholders' Equity						
	Total	Common Stock	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	Noncontrolling Interest
Beginning balance	\$1,557,795	45	821,867	(143,858)	3,220	312,306	564,215
Consideration received from Sogou IPO, net of IPO Transaction Expenses	622,131	0	278,428	0	0	0	343,703
Share-based compensation expense	41,468	0	827	0	0	0	40,641
Settlement/Adjustment of share-based awards in subsidiary	494	0	(2,755)	0	0	0	3,249
Repurchase of Sogou Pre-IPO Class A Ordinary Shares from noncontrolling shareholders	(3,190)	0	0	0	0	0	(3,190)
Purchase of noncontrolling interest	193	0	88	0	0	0	105
Disposal of noncontrolling interest	(80)	0	0	0	0	0	(80)
Net income/(loss) attributable to Sohu.com Limited and noncontrolling interest shareholders	(470,003)	0	0	0	0	(554,526)	84,523
Accumulated other comprehensive loss	68,429	0	0	0	34,992	0	33,437
Ending balance	<u>\$1,817,237</u>	<u>45</u>	<u>1,098,455</u>	<u>(143,858)</u>	<u>38,212</u>	<u>(242,220)</u>	<u>1,066,603</u>

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

SOHU.COM LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended December 31, 2018
(In thousands)

	Sohu.com Limited Shareholders' Equity						Noncontrolling Interest
	Total	Ordinary Shares	Additional Paid-in Capital	Treasury Stock	Accumulated Other Comprehensive Income	Accumulated Deficit	
Beginning balance	\$1,817,237	45	1,098,455	(143,858)	38,212	(242,220)	1,066,603
Impact of adoption of new accounting standards*	0	0	0	0	(7,501)	7,501	0
Share-based compensation expense	2,095	0	(5,559)	0	0	0	7,654
Settlement/Adjustment of share-based awards in subsidiary	1,811	0	9,839	0	0	0	(8,028)
Distribution of Changyou dividend to noncontrolling interest shareholders	(162,461)	0	0	0	0	0	(162,461)
Disposal of a majority-owned subsidiary	(2,113)	0	0	0	0	0	(2,113)
Liquidation of Sohu.com Inc.	0	(6)	(143,852)	143,858	0	0	0
Net income/(loss) attributable to Sohu.com Limited and noncontrolling interest shareholders	(67,359)	0	0	0	0	(160,082)	92,723
Accumulated other comprehensive loss	(37,339)	0	0	0	(5,992)	0	(31,347)
Others	1,080	0	0	0	0	0	1,080
Ending balance	<u>\$1,552,951</u>	<u>39</u>	<u>958,883</u>	<u>0</u>	<u>24,719</u>	<u>(394,801)</u>	<u>964,111</u>

* For details see Note 11—Fair Value Measurements—Financial Instruments Measured at Fair Value—Equity Investments.

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

SOHU.COM LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year Ended December 31, 2019
(In thousands)

	<u>Sohu.com Limited Shareholders' Equity</u>						
	<u>Total</u>	<u>Ordinary Shares</u>	<u>Additional Paid-in Capital</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Accumulated Deficit</u>	<u>Noncontrolling Interest</u>
Beginning balance	\$1,552,951	39	958,883	0	24,719	(394,801)	964,111
Share-based compensation expense	18,251	0	1,045	0	0	0	17,206
Settlement/Adjustment of share-based awards in subsidiary	698	0	2,555	0	0	0	(1,857)
Distribution of Changyou dividend to noncontrolling interest shareholders	(166,507)	0	0	0	0	0	(166,507)
Net income/(loss) attributable to Sohu.com Limited and noncontrolling interest shareholders	(43,391)	0	0	0	0	(149,336)	105,945
Repurchase of Sogou Class A Ordinary Shares from noncontrolling shareholders	(42,016)	0	(14,282)	0	0	0	(27,734)
Accumulated other comprehensive loss	(13,069)	0	0	0	(368)	0	(12,701)
Ending balance	<u>\$1,306,917</u>	<u>39</u>	<u>948,201</u>	<u>0</u>	<u>24,351</u>	<u>(544,137)</u>	<u>878,463</u>

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

SOHU.COM LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE COMPANY AND NATURE OF OPERATIONS

Nature of Operations and Organization

Sohu.com Limited was incorporated in the Cayman Islands on May 30, 2003 as a direct wholly-owned subsidiary of Sohu.com Inc., which was incorporated in Delaware in August 1996 and was the ultimate parent company of the Sohu Group (as defined below) until its dissolution on May 31, 2018. On July 17, 2000, Sohu.com Inc. completed an initial public offering (“IPO”) of shares of its common stock on NASDAQ trading under the symbol “SOHU.” On May 31, 2018, pursuant to a proposal for the dissolution of Sohu.com Inc. and adoption of a plan of complete liquidation and dissolution of Sohu.com Inc. that was approved by the stockholders of Sohu.com Inc. at a special meeting of stockholders held on May 29, 2018, Sohu.com Inc. was dissolved, all outstanding shares of the common stock of Sohu.com Inc. were delisted and cancelled, and American Depositary Shares (“ADSs”) representing all outstanding ordinary shares of Sohu.com Limited were distributed on a share-for-share basis to the stockholders of Sohu.com Inc. On June 1, 2018 Sohu.com Limited’s ADSs began trading on the NASDAQ Global Select Market under the same “SOHU” symbol in place of the common stock of Sohu.com Inc. As a result, Sohu.com Limited replaced Sohu.com Inc. as the top-tier, publicly-traded holding company of the Sohu Group (as defined below). Sohu.com Limited (or its predecessor Sohu.com Inc., as applicable), together with its subsidiaries and consolidated VIEs, are collectively referred to herein as the “Sohu Group,” the “Group” or the “Company.”

The Sohu Group is a leading Chinese online media, search and game service group providing comprehensive online products and services on PCs and mobile devices in China. The Sohu Group, which consists of “Sohu,” which when referred to in this report, unless the context requires otherwise, excludes the businesses and the corresponding subsidiaries and VIEs of Sogou Inc. (“Sogou”) and Changyou.com Limited (“Changyou”), Sogou and Changyou. Sogou and Changyou are the indirect controlled subsidiaries of the Company. Sohu is a leading Chinese language online media content and services provider; Sogou is an innovator in search and a leader in China’s Internet industry; and Changyou is a leading online game developer and operator in China that engages primarily in the development, operation and licensing of online games for PCs and mobile devices. Most of the Sohu Group’s operations are conducted through the Group’s China-based subsidiaries and VIEs.

Sogou completed its IPO on the NYSE in November 2017 trading under the symbol “SOGO.” Changyou completed its IPO on NASDAQ in April 2009, trading under the symbol “CYOU.”

As Sohu.com Limited, or its predecessor Sohu.com Inc., is the controlling shareholder of both Sogou and Changyou, Sohu.com Limited consolidates Sogou and Changyou in its consolidated financial statements, and recognizes noncontrolling interests reflecting economic interests in Sogou and Changyou held by shareholders other than Sohu.com Limited. The consolidated financial statements of Sohu.com Limited represent the continuation of the financial statements of Sohu.com Inc., reflecting the assets and liabilities, accumulated deficit and other equity balances of Sohu.com Inc. immediately before Sohu.com Inc.’s dissolution on May 31, 2018.

Through the operation of Sohu, Sogou and Changyou, the Sohu Group generates online advertising revenues, including brand advertising revenues and search and search-related advertising revenues; online games revenues; and other revenues. Online advertising and online games are the Sohu Group’s core businesses.

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The principal subsidiaries and VIEs through which the Group conducts its business operations as of December 31, 2019 are described below:

Name of Entity	Date of Incorporation/Acquisition	Place of Incorporation/Acquisition	Effective Interest held
Subsidiaries:			
For Sohu's Business:			
Sohu.com (Hong Kong) Limited ("Sohu HK")	Incorporated on April 19, 2000	Hong Kong	100%
Beijing Sohu New Era Information Technology Co., Ltd. ("Sohu Era")	Incorporated on July 25, 2003	People's Republic of China	100%
Sohu.com (Search) Limited ("Sohu Search")	Incorporated on October 28, 2005	Cayman Islands	100%
Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media")	Incorporated on June 19, 2006	People's Republic of China	100%
Sohu.com (Game) Limited ("Sohu Game")	Incorporated on February 11, 2008	Cayman Islands	100%
Beijing Sohu New Momentum Information Technology Co., Ltd. ("Sohu New Momentum")	Incorporated on May 31, 2010	People's Republic of China	100%
Fox Video Limited ("Sohu Video")	Incorporated on July 26, 2011	Cayman Islands	100%
Fox Information Technology (Tianjin) Limited ("Video Tianjin")	Incorporated on November 17, 2011	People's Republic of China	100%
Sohu Focus Limited ("Sohu Focus")	Incorporated on July 11, 2013	Cayman Islands	100%
For Sogou's Business:			
Sogou Inc. ("Sogou")	Incorporated on December 23, 2005	Cayman Islands	34%
Sogou (BVI) Limited ("Sogou BVI")	Incorporated on December 23, 2005	British Virgin Islands	34%
Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology")	Incorporated on February 8, 2006	People's Republic of China	34%
Sogou Hong Kong Limited ("Sogou HK")	Incorporated on December 12, 2007	Hong Kong	34%
Vast Creation Advertising Media Services Limited ("Vast Creation")	Acquired on November 30, 2011	Hong Kong	34%
Beijing Sogou Network Technology Co., Ltd. ("Sogou Network")	Incorporated on March 29, 2012	People's Republic of China	34%
Sogou (Shantou) Internet Microcredit Co., Ltd. ("Sogou Microcredit")	Incorporated on November 22, 2017	People's Republic of China	34%
Sogou (Hangzhou) Intelligent Technology Co., Ltd. ("Sogou Hangzhou")	Incorporated on April 28, 2018	People's Republic of China	34%
Shantou Ying Zhong Bai Fu Financing Guarantee Co., Ltd. ("Sogou Financing Guarantee")	Incorporated on July 24, 2019	People's Republic of China	34%
For Changyou's Business:			
Changyou.com Limited ("Changyou")	Incorporated on August 6, 2007	Cayman Islands	67%
Changyou.com (HK) Limited ("Changyou HK")	Incorporated on August 13, 2007	Hong Kong	67%
Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame")	Incorporated on September 26, 2007	People's Republic of China	67%
Beijing Changyou Gamespace Software Technology Co., Ltd. ("Gamespace")	Incorporated on October 29, 2009	People's Republic of China	67%
Beijing Changyou Chuangxiang Software Technology Co., Ltd. ("Changyou Chuangxiang")	Incorporated on November 8, 2016	People's Republic of China	67%
VIEs:			
For Sohu's Business:			
Beijing Century High-Tech Investment Co., Ltd. ("High Century")	Incorporated on December 28, 2001	People's Republic of China	100%
Beijing Heng Da Yi Tong Information Technology Co., Ltd. ("Heng Da Yi Tong")	Incorporated on February 7, 2002	People's Republic of China	100%
Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet")	Incorporated on July 31, 2003	People's Republic of China	100%
Beijing Sohu Donglin Advertising Co., Ltd. ("Donglin")	Incorporated on May 17, 2010	People's Republic of China	100%
Tianjin Jinhu Culture Development Co., Ltd. ("Tianjin Jinhu")	Incorporated on November 24, 2011	People's Republic of China	100%
Beijing Focus Interactive Information Service Co., Ltd. ("Focus Interactive")	Incorporated on July 15, 2014	People's Republic of China	100%
For Sogou's Business:			
Beijing Sogou Information Service Co., Ltd. ("Sogou Information")	Incorporated on December 28, 2005	People's Republic of China	34%
Chengdu Easypay Technology Co., Ltd. ("Chengdu Easypay")	Incorporated on January 19, 2015	People's Republic of China	34%
For Changyou's Business:			
Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease")	Incorporated on August 23, 2007	People's Republic of China	67%
Shanghai ICE Information Technology Co., Ltd. ("Shanghai ICE")	Acquired on May 28, 2010	People's Republic of China	67%
Beijing Guanyou Gamespace Digital Technology Co., Ltd. ("Guanyou Gamespace")	Incorporated on August 5, 2010	People's Republic of China	67%

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Sohu's Business

Brand Advertising Business

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

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

Revenues generated by the brand advertising business are classified as brand advertising revenues in the Sohu Group's consolidated statements of comprehensive income.

Other Sohu Business

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

Sogou's Business

Search and Search-related Business

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

Revenues generated by the search and search-related business are classified as search and search-related advertising revenues in the Sohu Group's consolidated statements of comprehensive income.

Other Sogou Business

Sogou also offers IVAS, primarily with respect to the operation of Web games and mobile games developed by third parties, and offers other products and services, including smart hardware products and online lending and microcredit services. Revenues generated by Sogou from other business are classified as other revenues in the Sohu Group's consolidated statements of comprehensive income.

Initial Public Offering of Sogou

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

Sogou’s Share Structure

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

As of December 31, 2019, Sogou had a combined total of 388,731,140 Sogou Class A Ordinary Shares and Sogou Class B Ordinary Shares issued and outstanding, consisting of:

- (i) Sohu: 127,200,000 Sogou Class B Ordinary Shares held by Sohu for its own account, and 3,717,250 Sogou Class A Ordinary Shares held by Sohu for the purpose of issuance upon the exercise of outstanding share-based awards and future share-based awards;
- (ii) Tencent: 151,557,875 Sogou Class B Ordinary Shares;
- (iii) Photon: 24,686,863 Sogou Class A Ordinary Shares; and
- (iv) Shareholders other than Sohu, Tencent, and Photon: 81,569,152 Sogou Class A Ordinary Shares, including Sogou Class A Ordinary Shares represented by Sogou ADSs.

The total number of Sogou outstanding shares listed above include 5,520,000 Sogou Class A Ordinary Shares that are outstanding for legal purposes, but have been determined to be Sogou treasury stock for accounting purposes.

Voting Agreement between Sohu, Tencent and Sogou

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

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

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

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

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

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

Voting Agreement between Sohu, Photon and Sogou Management

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

Changyou's Business

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

Online Game Business

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

PC Games

PC games are interactive online games that are accessed and played simultaneously by hundreds of thousands of game players through personal computers and require that local client-end game access software be installed on the computers used. Changyou's dominant game is Tian Long Ba Bu ("TLBB"), a PC based client-end game. For the year ended December 31, 2019, revenues from TLBB were \$215.2 million, accounting for approximately 49% of Changyou's online game revenues, approximately 47% of Changyou's total revenues and approximately 12% of the Sohu Group's total revenues.

Mobile Games

Mobile games are played on mobile devices and require an Internet connection. In the second quarter of 2017, Changyou launched a mobile game, Legacy TLBB ("Legacy TLBB Mobile"), which is operated by Tencent under license from Changyou. For the year ended December 31, 2019, revenues from Legacy TLBB Mobile were \$101.1 million, accounting for approximately 23% of Changyou's online game revenues, approximately 22% of Changyou's total revenues, and approximately 5% of the Sohu Group's total revenues.

Platform Channel Business

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

17173.com Website

The 17173.com Website provides news, electronic forums, online videos, mobile game distribution services, and other online game information services to game players. All revenues generated by the 17173.com Website are classified as brand advertising revenues.

RaidCall

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

Cinema Advertising Business (Discontinued)

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

Changyou's Share Structure

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

As of December 31, 2019, Changyou had a combined total of 107,263,420 Changyou Class A and Class B Ordinary Shares issued and outstanding, consisting of:

- (i) Sohu: 1,500,000 Changyou Class A Ordinary Shares and 70,250,000 Changyou Class B Ordinary Shares; and
- (ii) Public shareholders: 35,513,420 Changyou Class A Ordinary Shares represented by Changyou's ADSs.

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As of December 31, 2019, Sohu held approximately 67% of the combined total of Changyou's outstanding ordinary shares, and controlled approximately 95% of the total voting power in Changyou. As a result of the completion of Sohu's acquisition, by way of a merger (the "Changyou Merger"), of the noncontrolling interests in Changyou on April 17, 2020, as of the date of this report, Sohu holds 100% of the combined total of Changyou's outstanding ordinary shares and 100% of the total voting power in Changyou. As Changyou's controlling shareholder, Sohu consolidates Changyou in its consolidated financial statements and, prior to the completion of the Changyou Merger on April 17, 2020, also provided for noncontrolling interests reflecting ordinary shares in Changyou held by shareholders other than the Company ("Changyou noncontrolling shareholders").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Standards

The consolidated financial statements have been prepared in accordance with United States of America generally accepted accounting principles ("U.S. GAAP") to reflect the financial position and results of operations of the Sohu Group.

Discontinued operations

A component of a reporting entity or a group of components of a reporting entity that are disposed of or meet the criteria to be classified as held for sale should be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. Discontinued operations are reported when a component of an entity comprising operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity is classified as held for disposal or has been disposed of, if the component either (1) represents a strategic shift or (2) has a major impact on an entity's financial results and operations. In the statement of financial position, the assets and liabilities of the discontinued operation are presented separately in the asset and liability sections, respectively, of the statement of financial position and prior periods are presented on a comparative basis. In the consolidated statements of comprehensive income, results from discontinued operations are reported separately from the income and expenses from continuing operations and prior periods are presented on a comparative basis. Cash flows for discontinued operations are presented separately in the consolidated statements of cash flows. In order to present the financial effects of the continuing operations and discontinued operations, revenues and expenses arising from intra-group transactions are eliminated except for those revenues and expenses that are considered to continue after the disposal of the discontinued operations.

Use of Estimates

The preparation of these financial statements requires the Sohu Group to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. On an on-going basis, the Group evaluates its estimates based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Identified below are the accounting policies that reflect the Group's most significant estimates and judgments, and those that the Group believes are the most critical to fully understanding and evaluating its consolidated financial statements.

Basis of Consolidation and Recognition of Noncontrolling Interest

The Sohu Group's consolidated financial statements include the accounts of the Company and its subsidiaries and consolidated VIEs. All intra-Group transactions are eliminated.

VIE Consolidation

The Sohu Group's VIEs are wholly or partially owned by certain employees of the Group as nominee shareholders. For consolidated VIEs, management made evaluations of the relationships between the Sohu Group and the VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of such contractual arrangements, the Group controls the shareholders' voting interests in these VIEs. As a result of such evaluation, management concluded that the Sohu Group is the primary beneficiary of its consolidated VIEs.

Noncontrolling Interest Recognition

Noncontrolling interests are recognized to reflect the portion of the equity of subsidiaries and VIEs which is not attributable, directly or indirectly, to the controlling shareholders. Currently, the noncontrolling interests in the Sohu Group's consolidated financial statements primarily consist of noncontrolling interests for Sogou and Changyou.

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Noncontrolling Interest for Sogou

Prior to the completion of Sogou's IPO in November 2017, the Company controlled the election of a majority of the Board of Directors of Sogou pursuant to a shareholders' agreement that expired upon the completion of the IPO. Following the completion of Sogou's IPO, pursuant to the Voting Agreement and Sogou's Amended and Restated Articles of Association, the Company still has the right to appoint a majority of Sogou's Board of Directors.

As Sogou's controlling shareholder, the Company consolidates Sogou in its consolidated financial statements, and recognizes noncontrolling interest reflecting economic interests in Sogou held by shareholders other than it (the "Sogou noncontrolling shareholders"). Sogou's net income/(loss) attributable to the Sogou noncontrolling shareholders is recorded as noncontrolling interest in its consolidated statements of comprehensive income.

Noncontrolling Interest Recognition before Sogou's IPO

Based on the principles of allocation of Sogou's profit and loss set forth below, Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, along with changes in shareholders' equity/(deficit) and adjustments for share-based compensation expense in relation to those share-based awards that were unvested and vested but not yet settled and the Sogou noncontrolling shareholders' investments in Sogou Series A Preferred Shares outstanding before Sogou's IPO ("Sogou Pre-IPO Series A Preferred Shares") and Sogou Series B Preferred Shares outstanding before Sogou's IPO ("Sogou Pre-IPO Series B Preferred Shares") (together, the "Sogou Pre-IPO Preferred Shares") and Sogou ordinary shares outstanding before Sogou's IPO ("Sogou Pre-IPO Class A Ordinary Shares" and "Sogou Pre-IPO Class B Ordinary Shares, as applicable) were accounted for as a noncontrolling interest classified as permanent equity in the Sohu Group's consolidated balance sheets, as Sohu Group had the power to reject a redemption requested by the noncontrolling shareholders. These treatments were based on the terms governing investment, and on the terms of the classes of Sogou shares held, by the noncontrolling shareholders in Sogou before Sogou's IPO.

Principles of Allocation of Sogou's Profit and Loss - By virtue of the terms of the Sogou Pre-IPO Preferred Shares, Pre-IPO Class A Ordinary Shares, and Pre-IPO Class B Ordinary Shares, Sogou's losses were allocated in the following order before Sogou's IPO:

- (i) net losses were allocated to holders of the Sogou Pre-IPO Class A Ordinary Shares and the holder of the Sogou Pre-IPO Class B Ordinary Shares until their basis in Sogou decreased to zero;
- (ii) additional net losses were allocated to holders of the Sogou Pre-IPO Series A Preferred Shares until their basis in Sogou decreased to zero;
- (iii) additional net losses were allocated to the holder of the Sogou Pre-IPO Series B Preferred Shares until its basis in Sogou decreased to zero; and
- (iv) further net losses were allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Net income from Sogou was allocated in the following order before Sogou's IPO:

- (i) net income was allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou until their basis in Sogou increased to zero;
- (ii) additional net income was allocated to the holder of the Sogou Pre-IPO Series B Preferred Shares to bring its basis back;
- (iii) additional net income was allocated to holders of the Sogou Pre-IPO Series A Preferred Shares to bring their basis back;
- (iv) further net income was allocated to holders of the Sogou Pre-IPO Class A Ordinary Shares and the holder of the Sogou Pre-IPO Class B Ordinary Shares to bring their basis back; and
- (v) further net income was allocated between Sohu and noncontrolling shareholders based on their shareholding percentage in Sogou.

Noncontrolling Interest Recognition after Sogou's IPO

Sogou's cumulative results of operations attributable to the Sogou noncontrolling shareholders, based on their share of the economic interest in Sogou, along with changes in shareholders' equity and adjustment for share-based compensation expense in relation to share-based awards that are unvested and vested but not yet settled and adjustment for changes in the Sohu Group's ownership percentage in Sogou, are recorded as noncontrolling interest in the Sohu Group's consolidated balance sheets.

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Noncontrolling Interest for Changyou

As Changyou's controlling shareholder, Sohu consolidates Changyou in its consolidated financial statements and, prior to the completion of the Changyou Merger on April 17, 2020, also recognizes noncontrolling interest reflecting the economic interest in Changyou held by Changyou noncontrolling shareholders. Changyou's net income /(loss) attributable to the Changyou noncontrolling shareholders is recorded as noncontrolling interest in the Sohu Group's consolidated statements of comprehensive income, based on the noncontrolling shareholders' share of the economic interest in Changyou. Changyou's cumulative results of operations attributable to the Changyou noncontrolling shareholders, along with changes in shareholders' equity, adjustment for share-based compensation expense in relation to those share-based awards which are unvested and vested but not yet settled and adjustment for changes in the Company's ownership in Changyou, are recorded as noncontrolling interest in the Sohu Group's consolidated balance sheets.

Segment Reporting

The Sohu Group's segments are business units that offer different services and are reviewed separately by the chief operating decision maker (the "CODM"), or the decision-making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is the Company's Chief Executive Officer.

Revenue Recognition

Impact of Adoption of ASC 606

On January 1, 2018, the Sohu Group adopted ASC 606, applying the modified retrospective method to contracts that were not completed as of January 1, 2018. The adoption of ASC 606 did not have a material impact on the Company's accumulated deficit as of January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC 606, while prior-period amounts are not adjusted and continue to be reported in accordance with the Group's historic accounting under ASC 605.

Under ASC 605, advertising-for-advertising barter transactions for which the fair value of the advertising services was not determinable were recorded at the carrying amount of the advertising surrendered, since the Group did not settle such barter transactions with the counterparties in cash. As ASC 605 has been superseded by ASC 606 on this subject, advertising-for-advertising barter transactions are to be recorded at the fair value of the advertising received by reference to the fair value of advertising services provided to other customers.

Under ASC 606, revenues are recognized when control of the promised goods or services is transferred to the Group's customers, in an amount that reflects the consideration the Group expects to be entitled to in exchange for those goods or services. The recognition of revenues involves certain management judgments, including estimated lives of virtual items purchased by game players, the estimation of the fair value of an advertising-for-advertising barter transaction, allocation of upfront license fees for licensed-out games between license and post-sale services, and volume sales rebates. The Group does not believe that significant management judgments are involved in revenue recognition, but the amount and timing of the Group's revenues could be different for any period if management made different judgments or utilized different estimates.

The following table presents the Group's revenues disaggregated by products and services:

	Year Ended December 31, 2017 (in thousands)			
	Sohu	Sogou	Changyou	Total
Brand advertising:				
Sohu Media Portal	\$152,015	0	0	152,015
Sohu Video	79,756	0	0	79,756
Focus	57,245	0	0	57,245
17173.com Website	0	0	25,096	25,096
Search and search related advertising	0	801,199	0	801,199
Online games:				
PC games	0	0	239,149	239,149
Mobile games	0	0	208,355	208,355
Other games	0	0	2,029	2,029
Others	83,758	106,807	14,180	204,745
Total	\$372,774	908,006	488,809	1,769,589

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	Year Ended December 31, 2018 (in thousands)			
	Sohu	Sogou	Changyou	Total
Brand advertising:				
Sohu Media Portal	\$127,348	0	0	127,348
Sohu Video	53,756	0	0	53,756
Focus	31,144	0	0	31,144
17173.com Website	0	0	19,697	19,697
Search and search related advertising	0	1,022,456	0	1,022,456
Online games:				
PC games	0	0	236,743	236,743
Mobile games	0	0	151,737	151,737
Other games	0	0	1,308	1,308
Others	61,975	100,589	6,074	168,638
Total	<u>\$274,223</u>	<u>1,123,045</u>	<u>415,559</u>	<u>1,812,827</u>

	Year Ended December 31, 2019 (in thousands)			
	Sohu	Sogou	Changyou	Total
Brand advertising:				
Sohu Media Portal	\$ 94,497	0	0	94,497
Sohu Video	34,529	0	0	34,529
Focus	32,120	0	0	32,120
17173.com Website	0	0	13,715	13,715
Search and search related advertising	0	1,072,860	0	1,072,860
Online games:				
PC games	0	0	267,752	267,752
Mobile games	0	0	172,718	172,718
Other games	0	0	432	432
Others	57,080	98,981	763	156,824
Total	<u>\$218,226</u>	<u>1,171,841</u>	<u>455,380</u>	<u>1,845,447</u>

As noted above, in accordance with the modified retrospective method upon adoption of ASC 606, amounts for 2017 were not adjusted.

Online Advertising Revenues

Online advertising revenues include revenues from brand advertising services as well as search and search-related advertising services. Certain customers may receive sales rebates, which are accounted for as variable consideration. The Group estimates annual the expected revenue volume from each agent with reference to its historical results. Sales rebates will reduce revenues recognized. The Group recognizes revenue for the amount of fees it receives from its advertisers, after deducting sales rebates and net of value-added tax (“VAT”). The Group believes that there will not be significant changes to its estimates of variable consideration.

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Brand Advertising Revenues

Revenue Recognition of Multiple Performance Obligations

The Group's contracts with customers may include multiple performance obligations. For such arrangements, the Group allocates revenues to each performance obligation based on its relative standalone selling price. The Group generally determines the standalone selling price of each distinct performance obligation based on the prices charged to customers when sold on a standalone basis. Where a standalone selling price is not directly observable, the Group generally estimates the selling price based on the prices at which performance obligations of a similar nature and geography are charged to customers. Most of such contracts have all performance obligations completed within the same quarter.

Pricing Model

Through mobile devices and PCs, the Group provides advertisement placements to its advertisers on different Internet platforms and in different formats, which include banners, links, logos, buttons, full screen, pre-roll, mid-roll, post-roll video screens, pause video screens, loading page ads, news feed ads, in-feed video infomercial ads and other formats.

Currently the Group has three main types of pricing models, consisting of the Fixed Price model, the Cost Per Impression ("CPM") model and the Cost Per Click ("CPC") model.

(i) Fixed Price model

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

(ii) CPM model

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

(iii) CPC model

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

Search and Search-related Advertising Revenues

Search and search-related services consist primarily of search and search-related advertising services offered by Sogou.

Pay-for-click Services

Pay for click services enable advertisers' promotional links to be displayed on Sogou search result pages and other Internet properties and third parties' Internet properties where the links are relevant to the subject and content of searches and such properties. For pay-for-click services, Sogou introduces Internet users to its advertisers through auction-based systems and charges advertisers on a per-click basis when the users click on the displayed links. The performance obligation of pay-for-click services is satisfied at the point in time when users click on the displayed links, and revenue for pay-for-click services is recognized on a per-click basis.

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Other Online Advertising Services

Other online advertising services mainly consist of displaying advertisers' promotional links on Sogou's Internet properties. For time-based advertising services, Sogou's performance obligation is satisfied over time when the advertising links are displayed over the contract periods, and therefore revenue is normally recognized on a straight-line basis over the contracted display period. For performance-based advertising services, for example, advertisers are charged based on the times that users download from the displayed links, Sogou's performance obligation is satisfied at the point in time when the promised performance is completed, and the revenue is recognized upon the completion of the promised performance.

Sogou's online advertising services expand distribution of advertisers' promotional links and advertisements by leveraging traffic on third parties' Internet properties, including Web content, software, and mobile applications. Sogou is the principal in such arrangement because its promise to advertisers is to provide the advertising services itself rather than to arrange for the advertising services to be provided by third parties on their Internet properties. Payments made to operators of third-party Internet properties are included in the traffic acquisition costs.

Online Game Revenues

Changyou's online game revenues are generated primarily from its self-operated and licensed-out PC games and mobile games. Prior to the sale of the MoboTap business in 2018, Changyou also generated a small amount of revenues from online card and board games. All of Changyou's games are operated under the item-based revenue model, where the basic game play functions are free of charge and players are charged for purchases of in-game virtual items, including those with a predetermined expiration time and perpetual virtual items.

Changyou is the principal of its self-operated games. Changyou hosts the games on its own servers and is responsible for the sale and marketing of the games as well as customer service. Accordingly, revenues are recorded gross of revenue sharing-payments to third-party developers and/or mobile APP stores, but net of VAT and discounts to game card distributors where applicable. Changyou obtains revenues from the sale of in-game virtual items. Revenues are recognized over time for virtual items with estimated lives and upon use for items that are consumed immediately. If different assumptions were used in deriving the estimated lives of the virtual items, the timing of the recording of the revenues would be impacted.

PC Games

Proceeds from Changyou's self-operated PC games are collected from players and third-party game card distributors through sales of Changyou's game points on its online payment platform and prepaid game cards.

Changyou's self-operated PC games are either developed in house or licensed from third-party developers. For licensed PC games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance, pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are recorded in Changyou's cost of revenues.

Mobile Games

Self-operated Mobile Games

For self-operated mobile games, Changyou sells game points to its game players via third-party mobile APP stores. The mobile APP stores in turn pay Changyou proceeds after deducting their share of pre-agreed revenue-sharing amounts.

Changyou's self-operated mobile games are either developed in house or licensed from or jointly developed with third-party developers. For licensed and jointly-developed mobile games, Changyou remits a pre-agreed percentage of the proceeds to the third-party developers, and keeps the balance, pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to mobile application stores and third-party developers are included in Changyou's cost of revenues.

Licensed Out Mobile Games

Changyou also authorizes third parties to operate its mobile games. Licensed out games include mobile games developed in house, such as Changyou's mobile game Legacy TLBB Mobile, and mobile games jointly developed with third-party developers. Changyou receives monthly revenue-based royalty payments from the third-party licensee operators. Changyou receives additional up-front license fees from certain third-party licensee operators who are entitled to an exclusive right to operate Changyou's games in specified geographic areas. Since Changyou is obligated to provide post-sale services ("PCS"), the initial license fees are allocated between the license and PCS based on relative standalone selling prices. The amount allocated to the license is recognized as revenue upon the commencement of the license period, given that Changyou's intellectual property rights subject to the license are considered to be functional and the licensee has the right to use such intellectual property rights as they exist at the point when the license is granted, and the amount allocated to PCS is recognized as revenue ratably over the license period. Monthly revenue-based royalty payments are recognized when the relevant services are delivered, provided that collectability is reasonably assured. Changyou views the third-party licensee operators as Changyou's customers and recognizes revenues on a net basis, as Changyou does not have the primary responsibility for fulfillment and acceptability of the game services. Changyou remits to the third-party developers a pre-agreed percentage of revenues and keeps the balance pursuant to revenue-sharing agreements. Such revenue-sharing amounts paid to third-party developers are included in Changyou's cost of revenues or product development expenses.

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Other Revenues

Sohu

Other revenues attributable to Sohu consist primarily of revenues from paid subscription services, interactive broadcasting services, and sub-licensing of purchased video content to third parties.

Sogou

Other revenues attributable to Sogou are IVAS revenues, which are mainly from the operation of Web games and mobile games developed by third parties, and revenues from other products and services, including smart hardware products and online lending and microcredit services. Other revenues are generally recognized when Sogou's performance obligations under the applicable agreements have been satisfied, except for interest revenues from Sogou's online lending and microcredit services, which are recognized using the effective interest method.

Changyou

Other revenues attributable to Changyou are primarily from IVAS.

As of August 12, 2019, the Sohu Group ceased consolidating Changyou's cinema advertising business in its consolidated financial statements and, accordingly, the financial results of the cinema advertising business are excluded from the Sohu Group's results from continuing operations and are presented in separate line items as discontinued operations in the consolidated financial statements, and retrospective adjustments to the Sohu Group's historical audited consolidated financial statements have been made in order to provide a consistent basis of comparison.

Revenues generated from Changyou's IVAS were derived primarily from software applications for PCs and mobile devices offered by RaidCall, which ceased operations in March 2019. Prior to March 2018, IVAS revenues also included revenues generated from the Dolphin Browser operated by MoboTap. Revenues from IVAS are recognized during the period the services are rendered or items are consumed under the gross method, as Changyou is the principal obligor for provision of the services.

Contract Balances

Timing of revenue recognition may differ from the timing of invoicing to customers. Accounts receivable represent amounts invoiced and revenue recognized prior to invoicing, when the Group has satisfied its performance obligations and has the unconditional right to payment. The allowance for doubtful accounts and authorized credits is estimated based upon the Group's assessment of various factors, including historical experience, the age of the accounts receivable balances, current economic conditions and other factors that may affect the Group's customers' ability to pay. Contract assets as of December 31, 2019 were not material. The allowance for doubtful accounts and authorized credits was \$16.2 million and \$15.1 million, respectively, as of December 31, 2019 and December 31, 2018.

Receipts in advance and deferred revenue relate to unsatisfied performance obligations at the end of the period and primarily consist of fees received from game players in the online game business and from advertisers in the search and search-related advertising business. Due to the generally short-term duration of the contracts, the majority of the performance obligations are satisfied in the following reporting period. The amount of revenue recognized that was included in the receipts in advance and deferred revenue balance at the beginning of the period was \$110.2 million for the year ended December 31, 2019.

There was no significant change in the contract assets and contract liability balances during 2019.

Revenue recognized in 2019 from performance obligations related to prior years was not material.

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Practical Expedients

The Group has used the following practical expedients as allowed under ASC 606:

- (i) The transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied has not been disclosed, as substantially all of the Group's contracts have a duration of one year or less.
- (ii) Payment terms and conditions vary by contract type, although terms generally include a requirement of prepayment or payment within one year or less. In instances where the timing of revenue recognition differs from the timing of invoicing, the Group has determined that its contracts generally do not include a significant financing component.
- (iii) The Group applied the portfolio approach in determining the commencement date of consumption and the estimated lives of virtual items for the recognition of games revenue, given that the effect of applying a portfolio approach to a group game players' behaviors would not differ materially from considering each one of them individually.
- (iv) The Group generally expenses sales commissions when incurred because the amortization period would be one year or less. These costs are recorded within sales and marketing expenses.

Cost of Revenues

Cost of Online Advertising Revenues

Cost of online advertising revenues includes cost of revenues from brand advertising services as well as cost of revenues from search and search-related services.

Cost of Brand Advertising Revenues

Cost of brand advertising revenues mainly consists of content and license costs, salary and benefits expenses, and bandwidth service costs. For self-developed video content, production costs incurred in excess of the amount of revenue contracted for are expensed as incurred.

Cost of Search and Search-related Advertising Revenues

Cost of search and search-related advertising revenues mainly consists of traffic acquisition costs, bandwidth service costs, depreciation expenses, salary and benefits expenses, and share-based compensation expense. Traffic acquisition costs represent the most significant portion of cost of revenues. Traffic acquisition costs consist primarily of payments to third parties that direct search queries of the users to Internet properties of Sogou or distribute Sogou advertisers' promotional links through such third parties' Internet properties. The traffic acquisitions costs for such arrangements consist primarily of fees that Sogou pays to the third parties based on an agreed-upon unit price and revenue-sharing payments that Sogou makes to such third parties based on an agreed-upon percentage of revenues generated from users' clicks.

Cost of Online Game Revenues

Cost of online game revenues mainly consists of revenue-sharing payments, salary and benefits expenses, bandwidth service costs, content and license costs, tax surcharges, depreciation and amortization expenses, and other direct costs.

Cost of Other Revenues

Cost of other revenues mainly consists of revenue-sharing payments related to the IVAS business, costs of smart hardware products, revenue-sharing payments related to interactive broadcasting services, and content and license costs related to paid subscription services.

Product Development Expenses

Product development expenses mainly consist of salary and benefits expenses, content and license costs, technical service fees, facilities expenses, and depreciation and amortization expenses. These expenses are incurred for the enhancement and maintenance of the Sohu Group's Internet platforms as well as for its products and services. The development costs of online games are expensed as incurred, including the development costs of online games prior to the establishment of technological feasibility and maintenance costs after the online games are available for marketing.

Sales and Marketing Expenses

Sales and marketing expenses mainly consist of advertising and promotional expenses, salary and benefits expenses, travel and entertainment expenses, and facilities expenses. Advertising and promotional expenses generally represent the expenses of promotions to create or stimulate a positive image of the Sohu Group or a desire to subscribe for the Group's products and services. Advertising and promotional expenses are expensed as incurred.

General and Administrative Expenses

General and administrative expenses mainly consist of salary and benefits expenses, bad debts, professional fees, depreciation and amortization expenses, travel and entertainment expenses, and facilities expenses.

Share-based Compensation Expense

Sohu (excluding Sohu Video), Sogou, Changyou, and Sohu Video have incentive plans for the granting of share-based awards, including share options and restricted share units, to members of the boards of directors, management and other key employees.

For share-based awards for which a grant date has occurred, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income based on the fair value of the related share-based awards on their grant dates. For share-based awards for which the service inception date precedes the grant date, share-based compensation expense is recognized as costs and expenses in the consolidated statements of comprehensive income beginning on the service inception date and is re-measured on each subsequent reporting date before the grant date, based on the estimated fair value of the related share-based awards. Share-based compensation expense is charged to the shareholders' equity or noncontrolling interest section in the consolidated balance sheets. The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. If factors change or different assumptions are used, the Group's share-based compensation expense could be materially different for any period. Moreover, the estimates of fair value are not intended to predict actual future events or the value that ultimately will be realized by employees who receive equity awards.

Sohu (excluding Sohu Video), Sogou, and Changyou Share-based Awards

Sohu (excluding Sohu Video) Share-based Awards

In determining the fair value of share options granted by Sohu (excluding Sohu Video) as share-based awards, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied. In determining the fair value of restricted share units granted, the public market price of the underlying shares on the grant dates was applied.

Upon the dissolution of Sohu.com Inc. on May 31, 2018, Sohu.com Limited assumed all then existing obligations of Sohu.com Inc. with respect to equity incentive awards that had been granted under Sohu.com Inc.'s Amended and Restated 2010 Stock Incentive Plan (the "Sohu 2010 Stock Incentive Plan") and remained outstanding, and such awards were converted into the right to receive upon exercise or settlement Sohu.com Limited's ordinary shares under the Sohu.com Limited 2018 Share Incentive Plan (the "Sohu 2018 Share Incentive Plan") rather than shares of the common stock of Sohu.com Inc., subject to the other terms of such outstanding awards. Options for the purchase of Sohu.com Limited's ordinary shares, including options converted from those contractually granted under the Sohu 2010 Stock Incentive Plan, are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets.

Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Sohu and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimate of the awards' fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair value at the grant date.

Sogou Share-based Awards

In determining the fair value of share options granted by Sogou as share-based awards, a binomial valuation model was applied. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions regarding a number of complex and subjective variables, including risk-free interest rates, exercise multiples, expected forfeiture rates, expected share price volatility rates, and expected dividends. Before the completion of Sogou's IPO, the fair values of the ordinary shares were assessed using the income approach/discounted cash flow method or based on the mid-point of the estimated IPO price range, in each case with a discount for lack of marketability, given that the shares underlying the awards were not publicly traded at the time of grant.

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After the completion of Sogou's IPO, the fair values of the ordinary shares were determined based on the trading price of Sogou' ADSs in the public market.

Before Sogou's adoption of ASU 2018-07 "Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," effective for fiscal years beginning after December 15, 2018, share-based compensation expense for share options granted to non-employees was measured at fair value at the earlier of the performance commitment date or the date service was completed and recognized over the period during which the service was provided. Sogou applied the guidance in ASC 505-50 to measure share options granted to non-employees based on the then-current fair value at each reporting date until the service had been provided and the performance targets had been met. After Sogou's adoption of ASU 2018-07, share-based compensation expense for share options granted to non-employees is recognized in accordance with the requirements of ASC 718 for employee share-based compensation awards.

Changyou Share-based Awards

In determining the fair value of ordinary shares and restricted share units granted by Changyou as share-based awards in 2008, the income approach/discounted cash flow method with a discount for lack of marketability was applied, given that the shares underlying the awards were not publicly traded at the time of grant. Changyou's 2008 Share Incentive Plan expired in August 2018 and is no longer available for granting new share-based awards. In determining the fair value of restricted share units granted after Changyou's IPO, the public market price of the underlying shares on the grant dates was applied.

Options for the purchase of Changyou Class A ordinary shares contractually granted under the Changyou 2014 Share Incentive Plan and the Changyou 2019 Share Incentive Plan are subject to vesting in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and certain subjective performance targets. Under ASC 718-10-25, no grant date can be established until a mutual understanding is reached between Changyou and the recipients clarifying the subjective performance requirements. In accordance with ASC 718-10-55, as the service inception date preceded the grant date, compensation expense was accrued beginning on the service inception date and will be re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. The estimates of the awards' fair values will be fixed in the period in which the grant date occurs, and cumulative compensation expense will be adjusted based on the fair values at the grant date. In determining the fair values of Changyou share options granted, the public market price of the underlying shares at each reporting date was used, and a binomial valuation model was applied.

Compensation Expense Recognition

For options and restricted share units granted with respect to Sohu (excluding Sohu Video) shares and Changyou shares, compensation expense is recognized on an accelerated basis upon the requisite service period and certain subjective performance targets being met. For share options granted with respect to Sogou shares, compensation expense is recognized over the estimated period during which the service period requirement and performance target will be met, which is usually within one year, or, after the performance target of Sogou's completion of an IPO was met upon the completion of Sogou's IPO on November 13, 2017, on an accelerated basis over the requisite service period, or, for options with only service period requirement, on an accelerated basis over the requisite service period. For Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses, compensation expense is recognized by Sogou on an accelerated basis over the requisite service period, and the fair value of the share-based compensation is re-measured at each reporting date until the service has been provided. The number of share-based awards for which the service is not expected to be rendered over the requisite period is estimated, and no compensation expense is recorded for the number of awards so estimated.

Sohu Video Share-based Awards

On January 4, 2012, Sohu Video, the holding entity of Sohu's video division, adopted a 2011 Share Incentive Plan (the "Video 2011 Share Incentive Plan") which provides for the issuance of up to 25,000,000 ordinary shares of Sohu Video (representing approximately 10% of the outstanding Sohu Video shares on a fully-diluted basis) to management and key employees of the video division and to Sohu management. As of December 31, 2019, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made, of which options for the purchase of 4,972,800 ordinary shares were vested.

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For purposes of ASC 718-10-25, as of December 31, 2019, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. Therefore the fair value of the awards was not determinable and could not be accounted for. In accordance with ASC 718-10-55, the Group's management determined that the service inception date with respect to vested option awards for the purchase of 4,972,800 shares had preceded the grant date. Therefore, the Group recognized compensation expense for these vested Sohu Video share-based awards and re-measured, and will re-measure, the compensation expense on each subsequent reporting date based on the then-current fair values of these vested awards until the grant date is established.

Taxation

PRC Corporate Income Tax

Income taxes are accounted for using an asset and liability approach which requires the recognition of income taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Group's financial statements or tax returns. Deferred income taxes are determined based on the differences between the accounting basis and the tax basis of assets and liabilities and are measured using the currently enacted tax rates and laws. Deferred tax assets are reduced by a valuation allowance, if based on available evidence, it is considered that it is more likely than not that some portion of or all of the deferred tax assets will not be realized. In making such determination, the Group considers factors including future reversals of existing taxable temporary differences, future profitability, and tax planning strategies. If events were to occur in the future that would allow the Group to realize more of its deferred tax assets than the presently recorded net amount, an adjustment would be made to the deferred tax assets that would increase income for the period when those events occurred. If events were to occur in the future that would require the Group to realize less of its deferred tax assets than the presently recorded net amount, an adjustment would be made to the valuation allowance against deferred tax assets that would decrease income for the period when those events occurred. Significant management judgment is required in determining income tax expense and deferred tax assets and liabilities.

The Group's deferred tax assets are related to net operating losses and temporary differences between accounting basis and tax basis for its China-based Subsidiaries and VIEs, which are subject to corporate income tax in the PRC under the PRC Corporate Income Tax Law (the "CIT Law").

PRC Withholding Tax on Dividends

The CIT Law imposes a 10% withholding income tax on dividends distributed by foreign invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the "Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income," if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to a withholding tax rate of 10%.

PRC Value Added Tax

On May 1, 2016, the transition from the imposition of PRC business tax to the imposition of VAT was expanded to all industries in China, and all of the Sohu Group's revenues have been subject to VAT since that date. To record VAT payable, the Group adopted the net presentation method, which presents the difference between the output VAT (at rates of 6% or 17% for the year ended December 31, 2017 and for the period from January 1, 2018 to April 30, 2018, at rates of 6% or 16% for the period from May 1, 2018 to March 31, 2019, and at rates of 6% or 13% after April 1, 2019) and the available input VAT amount (at the rate applicable to the supplier).

U.S. Corporate Income Tax

Sohu.com Inc., which was formerly the top-tier publicly-traded parent company of the Sohu Group, was dissolved and liquidated on May 31, 2018. Sohu.com Inc. was a Delaware corporation that was subject to U.S. federal corporate income tax on its taxable income at a rate of 21% for taxable years beginning after December 31, 2017 and of up to 35% for prior tax years. U.S. federal tax legislation signed into law on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act (the "U.S. TCJA"), significantly modified the U.S. Internal Revenue Code by, among other things, reducing the maximum statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a partial territorial tax system with a one-time transition tax (the "Toll Charge") on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings.

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Certain activities conducted in the PRC resulted in U.S. corporate income taxes being imposed on Sohu.com Inc. when its subsidiaries that were controlled foreign corporations (“CFCs”) generated income that was subject to Subpart F of the U.S. Internal Revenue Code (“Subpart F”). Generally, passive income, such as rents, royalties, interest, dividends, and gains from disposal of the company’s investments, is among the types of income subject to taxation under Subpart F. Any income taxable under Subpart F was taxable in the U.S. at the applicable federal corporate income tax rate. Subpart F income also included certain income from intra-Group transactions between Sohu.com Inc.’s non-U.S. subsidiaries and VIEs and Changyou’s non-U.S. subsidiaries and VIEs or Sogou’s non-U.S. subsidiaries and VIEs, or where Sohu.com Inc.’s non-U.S. subsidiaries or VIEs made an “investment in U.S. property,” such as holding the stock in, or making a loan to, a U.S. corporation. Under a provision of the U.S. tax code commonly referred to as the CFC look-through rule, Sohu.com Inc. did not have to treat dividends received by its CFC subsidiaries as Subpart F income includible in Sohu.com Inc.’s taxable income in the U.S.

To the extent that portions of Sohu.com Inc.’s U.S. taxable income, such as Subpart F income or global intangible low-taxed income (“GILTI”), as applicable, had been determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may have been entitled to claim foreign tax credits to offset its U.S. income tax liabilities. Following the enactment of the U.S. TCJA, if dividends that Sohu.com Inc. received from its subsidiaries after January 1, 2018 were determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. would generally not have been required to pay U.S. corporate income tax on those dividends. Liabilities for U.S. corporate income tax were accrued in the Company’s consolidated statements of comprehensive income and estimated tax payments were made when required by U.S. law.

Treatment of Toll Charge Related to the U.S. TCJA

Beginning in the fourth quarter of 2017, the Sohu Group had recognized a provisional amount of income tax expense for the Toll Charge of \$219 million, which represented management’s estimate of the amount of the Toll Charge that would have been payable by Sohu.com Inc. based on the deemed repatriation to the United States of its share of previously deferred earnings of certain of its non-U.S. subsidiaries, offset by a reduction of \$4 million in liability for deferred U.S. income tax, as a result of the U.S. TCJA. The Sohu Group included the provisional amount of the Toll Charge of \$219 million in its interim financial statements through the quarter ended September 30, 2018, in reliance on Staff Accounting Bulletin No. 118 (“SAB 118”).

For the fourth quarter of 2018, the Sohu Group’s management re-evaluated the impact on the Sohu Group of the Toll Charge under the U.S. TCJA. Management determined that it was more likely than not, based on the technical merits, that the tax position that the Sohu Group had no Toll Charge liability would be sustained. The Group recognized a tax benefit in the amount of \$77 million, which was the largest amount that management determined to be greater than 50% likely to be realized upon settlement with the U.S. IRS. As a result, as of December 31, 2018, the Sohu Group had an unrecognized tax benefit in the amount of \$142 million, which represented the difference between the tax benefit recognized in the fourth quarter of 2018 and management’s previous estimate of the Toll Charge. The estimate remained unchanged as of December 31, 2019. In addition, the Sohu Group accrued \$2 million and \$8 million, respectively, in interest on the unrecognized tax benefit for the years of 2018 and 2019.

The tax benefit recognized and the unrecognized tax benefit in relation to the Toll Charge may be subject to further adjustment in subsequent periods based on facts and circumstances that arose after December 31, 2019, such as any IRS assessments upon audit and management’s further judgment and estimates.

Uncertain Tax Positions

The Sohu Group is subject to various taxes in different jurisdictions, but primarily the PRC. Management reviews regularly the adequacy of the provisions for taxes as they relate to the Group’s income and transactions. In order to assess uncertain tax positions, the Group applies a more likely than not threshold and a two-step approach for tax position measurement and financial statement recognition. For the two-step approach, the first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon settlement.

Net Income /(Loss) per Share

Basic net income /(loss) per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net income /(loss) per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potential ordinary shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income /(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income /(loss) per share.

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Additionally, for purposes of calculating the numerator of diluted net income /(loss) per share, the net income /(loss) attributable to the Sohu Group is calculated as discussed below. The adjustment will not be made if there is an anti-dilutive effect.

Sogou's net income /(loss) attributable to Sohu

Before Sogou's IPO

Before Sogou's IPO, Sogou's net income /(loss) attributable to Sohu was determined using the percentage that the weighted average number of Sogou shares held by Sohu represented of the weighted average number of Sogou Pre-IPO Preferred Shares and Sogou Pre-IPO Ordinary Shares outstanding, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and was not determined by allocating Sogou's net income /(loss) to Sohu using the methodology for the calculation of net income /(loss) attributable to the Sogou noncontrolling shareholders.

After Sogou's IPO

After Sogou's IPO, Sogou's net income /(loss) attributable to Sohu is determined using the percentage that the weighted average number of Sogou shares held by Sohu represents of the weighted average number of Sogou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Sogou, which is used for the calculation of basic net income per share.

In the calculation of Sohu's diluted net income /(loss) per share, assuming a dilutive effect, the percentage of Sohu's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested Sogou share options with the performance targets achieved as well as vested but unexercised Sogou share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of Sohu's diluted income /(loss) per share. As a result, Sogou's net income /(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income /(loss) per share.

Changyou's net income /(loss) attributable to Sohu

Prior to the completion of the Changyou Merger on April 17, 2020, Changyou's net income /(loss) attributable to Sohu is determined using the percentage that the weighted average number of Changyou shares held by Sohu represents of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

In the calculation of Sohu's diluted net income /(loss) per share, assuming a dilutive effect, all of Changyou's existing unvested restricted share units and share options, and vested restricted share units and share options that have not yet been settled, are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu in Changyou to decrease. As a result, Changyou's net income /(loss) attributable to Sohu on a diluted basis decreased accordingly. Assuming an anti-dilutive effect, all of these Changyou restricted share units and share options are excluded from the calculation of Sohu's diluted net income /(loss) per share. As a result, Changyou's net income /(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income /(loss) per share.

Fair Value of Financial Instruments

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1 - observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - include other inputs that are directly or indirectly observable in the market place.

Level 3 - unobservable inputs which are supported by little or no market activity.

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The Sohu Group's financial instruments consist primarily of cash equivalents, restricted cash, short-term investments, accounts receivable, financing receivables, prepaid and other current assets, long-term investments, restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term bank loans and long-term accounts payable.

Cash Equivalents

The Sohu Group's cash equivalents mainly consist of time deposits with original maturities of three months or less, and highly liquid investments that are readily convertible to known amounts of cash.

Short-term Investments

For investments in financial instruments with a variable interest rate indexed to the performance of underlying assets, the Sohu Group elected the fair value method at the date of initial recognition and carried these investments subsequently at fair value. Changes in fair values are reflected in the consolidated statements of comprehensive income.

Accounts Receivable, Net

The carrying value of accounts receivable is reduced by an allowance that reflects the Sohu Group's best estimate of the amounts that will not be collected. The Group makes estimations of the collectability of accounts receivable. Many factors are considered in estimating the general allowance, including reviewing delinquent accounts receivable, performing an aging analysis and a customer credit analysis, and analyzing historical bad debt records and current economic trends.

Financing Receivables, Net

Financing receivables consist primarily of small consumer loans that Sogou makes to individual borrowers. Sogou funds such loans either through its own capital or through a trust which was jointly established by Sogou and a third-party investor, and is administered by a third-party trust company. As the trust only invests in loans facilitated by Sogou, Sogou has power to direct the activities of the trust. Sogou also has the obligation to absorb losses and the right to receive benefits from the trust that could potentially be significant to the trust. As a result, Sogou is considered the primary beneficiary of the trust and the trust is considered a consolidated VIE (the "Consolidated Trust") under ASC 810.

The financing receivables are recorded at the principal amount and interest accrued, net of allowance for credit losses that reflects Sogou's best estimate of the amounts that will not be collected. Interest on loans is accrued based on the contractual interest rates of the loans when earned. The loan periods granted by Sogou to the borrowers related to the small consumer loans are generally within one year. The allowance for credit losses is determined at a level believed to be reasonable to absorb probable losses inherent in the loan portfolio as of each balance sheet date. The allowance is provided based on an assessment performed on a portfolio basis and is estimated on a quarterly basis or more often as necessary based on the delinquency rate, the aging of the amount due and other relevant factors.

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are initially recognized on the date a foreign exchange forward contract is entered into and are subsequently measured at fair value.

Restricted Time Deposits

Restricted time deposits are valued based on the prevailing interest rates in the market using the discounted cash flow method.

Equity Investments

Investments in entities are recorded as equity investments under long-term investments. For investments in common stock or in-substance common stock of entities over which the Group can exercise significant influence but does not own a majority equity interest or control, the equity method is applied, and the Group adjusts the carrying amount of an investment and recognizes investment income or loss for the Group's share of the earnings or loss of the investee after the date of investment. For those equity investments accounted for other than under the equity method or those that result in consolidation, the fair value method is applied. However, for equity investments that do not have readily determinable fair values, the Group chooses to account for them at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. If this measurement alternative is elected, changes in the carrying value of the equity investments will be required to be made whenever there are observable price changes in transactions for identical or similar investments of the same issuer. The implementation guidance notes that an entity should make a "reasonable effort" to identify price changes that are known or that can reasonably be known.

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The Group assesses investments for impairment by considering factors including, but not limited to, current economic and market conditions, operating performance of the companies, including current earnings trends and undiscounted cash flows, and other company-specific information, such as recent financing rounds. The fair value determination, particularly for investments in privately-held companies whose revenue model is still unclear, requires significant judgment to determine appropriate estimates and assumptions. Changes in these estimates and assumptions could affect the calculation of the fair value of the investments. If the assessment indicates that an impairment exists, the Group estimates the fair value of the investment and writes down the asset to its fair value, taking the corresponding charge to the consolidated statements of comprehensive income/(loss).

Long-Lived Assets

Long-lived assets include fixed assets and intangible assets.

Fixed Assets

Fixed assets mainly comprise office buildings, leasehold improvements, building improvements, vehicles, office furniture and computer equipment, and hardware. Fixed assets are recorded at cost less accumulated depreciation with no residual value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Fixed Assets	Estimated Useful Lives (years)
Office buildings	36-47
Leasehold improvements	Lesser of term of the lease or the estimated useful lives of the assets
Vehicles	4-10
Office furniture	5
Computer equipment and hardware	2-5

Expenditure for maintenance and repairs is expensed as incurred.

The gain or loss on the disposal of fixed assets is the difference between the net sale proceeds and the carrying value of the relevant assets and is recognized in operating expenses in the consolidated statements of comprehensive income.

Intangible Assets

Intangible assets mainly comprise purchased video content, operating rights for licensed games, domain names and trademarks, computer software, and developed technologies. Intangible assets are recorded at cost less accumulated amortization with no residual value. Amortization of intangible assets other than purchased video content is computed using the straight-line method over their estimated useful lives. Amortization of purchased video content is computed based on the trend in viewership accumulation over the shorter of the applicable license period or two years.

The estimated useful lives of the Group's intangible assets are listed below:

Intangible Assets	Estimated Useful Lives (years)
Purchased video content	1 month to 2 years
Computer software	1-5
Developed technologies	3-10
Domain names and trademarks	4-30
Operating rights for licensed games	over the contract terms

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Sohu Video enters into nonmonetary transactions to exchange online broadcasting rights for purchased video content with other online video broadcasting companies. Under *ASC 845*, the cost of a nonmonetary asset acquired in exchange for another nonmonetary asset is the fair value of the asset surrendered to obtain the acquired nonmonetary asset, and a gain or loss should be recognized on the exchange. The fair value of the asset received should be used to measure the cost if the fair value of the asset received is more reliable than the fair value of the asset surrendered. The Sohu Group records these nonmonetary exchanges at the fair values of the online broadcasting rights for purchased video content and recognize any net gain or loss from such exchange transactions.

Impairment of Long-lived Assets other than Purchased Video Content

In accordance with *ASC 360-10-35*, the Sohu Group reviews the carrying values of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows independent of other assets. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of the long-lived assets is not recoverable, the carrying amount of such assets is reduced to fair value. The estimation of future cash flows requires significant management judgment based on the Group's historical results and anticipated results and is subject to many factors. The discount rate that is commensurate with the risk inherent in the Group's business model is determined by its management.

Impairment of Purchased Video Content

Purchased video content is stated at the lower of cost less accumulated amortization, or net realizable value ("NRV").

In accordance with *ASC 920-350-35*, if management's expectations of the programming usefulness of a program, series, package, or program segment are revised downward, it may be necessary to write down unamortized cost to estimated NRV. A write-down from unamortized cost to a lower estimated NRV establishes a new cost basis. Accordingly, the Group measures the video content's impairment loss by comparing the content's carrying value to its NRV. An impairment loss will be recorded if the carrying value of video content is higher than its NRV. The impairment to be recognized is measured by the amount by which the carrying value of video content exceeds its NRV.

Lease

The Sohu Group adopted ASU No. 2016-02, *Leases (Topic 842)*, at the beginning of the first quarter of 2019 using the modified retrospective method, and did not restate comparable periods. Results and disclosure requirements for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts have not been adjusted and continue to be reported in accordance with the Sohu Group's historical accounting under Topic 840.

The Sohu Group elected the package of practical expedients permitted under the transition guidance, which allowed the Sohu Group to carry forward the historical lease classification, the assessment on whether an existing or expired contract contains a lease, and the treatment of initial direct costs. The Sohu Group also elected to keep leases with an initial term of 12 months or less off the balance sheet.

Under the new lease guidance, the Sohu Group determines if an arrangement is or contains a lease at inception. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of remaining lease payments over the lease terms. The Sohu Group only considers payments that are fixed and determinable at the time of lease commencement. The adoption of the new lease guidance resulted in recognition of \$25.3 million of right-of-use assets and \$22.9 million of lease liabilities as of January 1, 2019. The adoption did not impact the beginning retained earnings, or prior year consolidated statements of comprehensive income and consolidated statements of cash flows.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Sohu Group's acquisitions of interests in its subsidiaries and consolidated VIEs. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports in its financial statements provisional amounts for the items for which the accounting is incomplete. If a measurement period adjustment is identified, the Group recognizes the adjustment as part of the acquisition accounting. The Sohu Group increases or decreases the provisional amounts of identifiable assets or liabilities by means of increases or decreases in goodwill for measurement period adjustments.

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In accordance with ASC 350, the Group does not amortize goodwill, but tests it for impairment. The Group tests goodwill for impairment at the reporting unit level on an annual basis as of October 1, and between annual tests when an event occurs or circumstances change that could indicate that the asset might be impaired. Under ASC 350-20-35, the Group has the option to choose whether it will apply a qualitative assessment first and then a quantitative assessment, if necessary, or to apply a quantitative assessment directly. For reporting units applying a qualitative assessment first, the Group starts the goodwill impairment test by assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is mandatory. Otherwise, no further testing is required. The quantitative impairment test consists of a comparison of the fair value of the reporting unit with its carrying value. For reporting units directly applying the quantitative assessment, the Group performs the two-step goodwill impairment test by first quantitatively comparing the fair values of those reporting units to their carrying amounts, including goodwill. After performing the assessment, if the carrying amounts of the reporting units are higher than their fair value, the Group performs the second step of the quantitative goodwill impairment test by comparing the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill, and if the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Application of a goodwill impairment test requires significant management judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. The Group estimates fair value using the income approach and the market approach. The judgment in estimating the fair value of reporting units includes estimating future cash flows, determining appropriate discount rates, control premium, comparable companies' multipliers, and making other assumptions. Changes in these estimates and assumptions could materially affect the determination of fair value for each reporting unit.

Comprehensive Income

Comprehensive income is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments from owners and distributions to owners. Accumulated other comprehensive income, as presented on the Sohu Group's consolidated balance sheets, includes a cumulative foreign currency translation adjustment, and change in unrealized gains /(losses) on equity securities classified as available-for-sale before the adoption of ASU 2016-01.

Functional Currency and Foreign Currency Translation

An entity's functional currency is the currency of the primary economic environment in which it operates, normally that is the currency of the environment in which the entity primarily generates and expends cash. Management's judgment is essential to determine the functional currency by assessing various indicators, such as cash flows, sales price and market, expenses, financing and intra-Group transactions and arrangements. The functional currency of Sohu.com Limited, and its predecessor Sohu.com Inc., is the U.S. dollar. The functional currency of the Sohu Group's subsidiaries in the U.S., the Cayman Islands, the British Virgin Islands and Hong Kong is the U.S. dollar. The functional currencies of the Sohu Group's subsidiaries and VIEs in other countries are the national currencies of those countries, rather than the U.S. dollar.

Foreign currency transactions denominated in currencies other than the functional currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are re-measured at the applicable rates of exchange in effect at that date. Gains and losses resulting from foreign currency re-measurement are included in the consolidated statements of comprehensive income.

Financial statements of entities with a functional currency other than the U.S. dollar are translated into U.S. dollars, which is the reporting currency. Assets and liabilities are translated at the current exchange rate in effect at the balance sheet date, and revenues and expenses are translated at the average of the exchange rates in effect during the reporting period. Shareholders' equity accounts are translated using the historical exchange rates at the date the entry to shareholders' equity was recorded, except for the change in retained earnings during the year, which is translated using the historical exchange rates used to translate each period's income statement. Differences resulting from translating a foreign currency to the reporting currency are recorded in accumulated other comprehensive income in the consolidated balance sheets.

Impact of Recently Issued Accounting Pronouncements

Leases (Topic 842). In February, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This guidance requires an entity to recognize both assets and liabilities arising from finance and operating leases, along with additional qualitative and quantitative disclosures. ASU No. 2016-02 requires a lessee to recognize a liability in its balance sheet to make lease payments (a “lease liability”) and a right-of-use asset representing its right to use the underlying asset for the lease term. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest comparative period presented, or at the beginning of the period of adoption. The Sohu Group adopted ASU 2016-02 at the beginning of the first quarter of fiscal year 2019, using the modified retrospective method and not restating comparable periods. The Sohu Group recorded right-of-use assets of approximately \$25.3 million and lease liabilities of approximately \$22.9 million on ASU 2016-02’s adoption date of January 1, 2019, primarily related to the Sohu Group’s leased office space. See “Summary of Significant Accounting Policies – Lease” above and Note 12—Lease.

Compensation-Stock Compensation (Topic 718). In June 2018, the FASB issue ASU No. 2018-07, *Compensation-Stock Compensation (Topic 718)*, which provides guidance concerning amendments to nonemployee share-based payment accounting. The amendments covered by the guidance are effective for publicly-traded business entities for fiscal years beginning after December 15, 2018, including interim periods within the applicable fiscal year. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, but no earlier than the date of an entity’s adoption of Topic 606. The adoption of ASU 2018-07 did not have a material impact on the Sohu Group’s consolidated financial statements.

Other accounting standards adopted beginning January 1, 2019 do not have a significant impact on the Sohu Group’s consolidated financial statements.

Impact of Recently Issued Accounting Pronouncements not Yet Adopted

Financial Instruments-Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost. ASU 2016-13 is required to be adopted at the beginning of the first quarter of 2020 using a modified retrospective approach. The adoption of this guidance will result in a change in the provision policy, primarily for receivables. The Sohu Group expects to record approximately \$6.7 million increase to allowance for credit losses on ASU 2016-13’s adoption date of January 1, 2020.

Simplifying the Test for Goodwill Impairment. In January 2017, the FASB issued ASU No. 2017-04, “*Simplifying the Test for Goodwill Impairment.*” The guidance removes Step 2 of the goodwill impairment test, which requires a hypothetical purchase price allocation. A goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value, not to exceed the carrying amount of goodwill. The guidance should be adopted on a prospective basis for the annual or any interim goodwill impairment tests beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Sohu Group does not expect this guidance to have a material impact on its consolidated financial statements.

Simplifying the accounting for income taxes. In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740)—Simplifying the Accounting for Income Taxes*. ASU No. 2019-12 removes certain exceptions to the general principles in Topic 740 and provides for consistent application of and simplifies generally accepted accounting principles for other areas of Topic 740 by clarifying and amending existing guidance. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The method of adoption varies depending on the component of the new rule that is being adopted. Early application is permitted. The Sohu Group does not expect to adopt ASU 2019-12 early and is currently evaluating the impact of adopting this standard on its consolidated financial statements.

Cloud computing. In 2018, the FASB issued new guidance on a customer’s accounting for implementation, set-up, and other upfront costs incurred in a cloud computing arrangement that is hosted by the vendor (i.e., a service contract). Under the new guidance, customers will apply the same criteria for capitalizing implementation costs as they would for an arrangement that has a software license. The guidance is effective for annual reporting periods beginning after December 15, 2019, including interim reporting periods within those fiscal years. The Sohu Group does not expect this guidance to have a material impact on its consolidated financial statements.

Fair value measurement disclosure requirements. In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement (“ASU 2018-13”)* which eliminates, adds and modifies certain disclosure requirements for fair value measurements. Under the guidance, public companies will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. The guidance is effective for all entities for fiscal years beginning after December 15, 2019 and for interim periods within those fiscal years, but entities are permitted to early adopt either the entire standard or only the provisions that eliminate or modify the requirements. The Sohu Group does not expect this guidance to have a material impact on its consolidated financial statements.

3. DISCONTINUED OPERATIONS

In May 2010, Changyou acquired 50% of the equity interests in Shanghai Jingmao Culture Communication Co., Ltd. (“Shanghai Jingmao”) and an affiliate of Shanghai Jingmao, which were primarily engaged in the cinema advertising business. In January 2011, Changyou acquired the remaining 50% of the equity interests in Shanghai Jingmao and its affiliate for total consideration of approximately \$3.0 million. In the fourth quarter of 2011, a full impairment loss of \$5.2 million on goodwill was recognized for the cinema advertising business.

During the second quarter of 2019, after assessing the collectability of the assets of the cinema advertising business, including receivables and prepayments, Changyou recognized a \$17.0 million asset impairment charge for the cinema advertising business.

Changyou ceased operating the cinema advertising business and wound down the business in August 2019 as a result of a Chinese court in Shanghai having granted a petition by Shanghai Jingmao for bankruptcy relief on August 12, 2019. Accordingly, the results of operations for Changyou’s cinema advertising business have been excluded from Changyou’s results from continuing operations in the condensed consolidated statements of operations and are presented in separate line items as discontinued operations. Retrospective adjustments to the historical statements have been made in order to provide a consistent basis of comparison. Additionally, as of December 31, 2018, the related assets and liabilities associated with the discontinued operations were classified as assets/liabilities associated with discontinued operations in the consolidated balance sheets to provide comparable financial information. Changyou recognized \$nil disposal gain/loss for the year ended December 31, 2019. However, Changyou may recognize disposal gain/loss in the future, depending on developments in the bankruptcy proceedings in the Chinese court.

The following tables set forth the assets, liabilities, results of operations and cash flows of discontinued operations, that were included in the Group’s consolidated financial statements (in thousands):

	<u>As of December 31, 2018</u>
ASSETS	
Current assets:	
Cash and cash equivalents	229
Restricted cash	2,435
Accounts receivable, net	16,761
Prepaid and other current assets	14,899
Total current assets associated with discontinued operations	34,324
Non-current assets:	
Fixed assets, net	351
Intangible assets, net	47
Total non-current assets associated with discontinued operations	398
Total assets associated with discontinued operations	<u>34,722</u>
LIABILITIES	
Current liabilities:	
Payable to Changyou	72,319
Accounts payable	9,210
Receipts in advance and deferred revenue	4,378
Accrued salary and benefits	4,888
Accrued liabilities to suppliers	9,632
Tax payables	496
Other short-term liabilities	182
Total current liabilities associated with discontinued operations	101,105
Total liabilities associated with discontinued operations	<u>101,105</u>

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	Year Ended December 31,		
	2017	2018	2019(1)
Revenues	\$ 91,419	\$ 70,202	\$ 37,323
Cost of revenues	84,944	89,233	43,857
Gross profit	6,475	(19,031)	(6,534)
Operating expenses:			
Sales and marketing	22,622	20,288	8,807
General and administrative	3,833	4,965	18,583
Total operating expenses	26,455	25,253	27,390
Operating profit	(19,980)	(44,284)	(33,924)
Interest income	0	6	7
Other income /(expense), net	(39)	(557)	61
Income before income tax expense	(20,019)	(44,835)	(33,856)
Income tax expense	512	0	142
Net loss from discontinued operations, net of tax	(20,531)	(44,835)	(33,998)

	Year Ended December 31,		
	2017	2018	2019(1)
Net cash provided by discontinued operating activities	\$ 1,062	\$ 3,422	\$ 9,341
Net cash provided used in discontinued investing activities	(954)	(718)	(10,808)
Net cash provided by/(used in) discontinued financing activities	0	0	0

Note (1): Includes the financial results of the discontinued operations from January 1, 2019 to August 12, 2019.

4. SEGMENT INFORMATION

The Sohu Group's segments are business units that offer different services and are reviewed separately by the CODM, or the decision making group, in deciding how to allocate resources and in assessing performance. The Group's CODM is the Company's Chief Executive Officer. There are three segments in the Group, consisting of the Sohu segment, the Sogou segment, and the Changyou segment.

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The following tables present summary information by segment (in thousands):

	Year Ended December 31, 2017				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 374,696	\$ 908,357	\$ 488,842	\$ (2,306)	\$ 1,769,589
Segment cost of revenues	(414,526)	(456,861)	(78,769)	86	(950,070)
Segment gross profit	(39,830)	451,496	410,073	(2,220)	819,519
SBC (2) in cost of revenues	415	(540)	(73)	0	(198)
Gross profit	(39,415)	450,956	410,000	(2,220)	819,321
Operating expenses:					
Product development (3)	(113,590)	(156,359)	(124,869)	6,192	(388,626)
Sales and marketing (1) (3)	(199,304)	(152,121)	(37,083)	4,000	(384,508)
General and administrative (3)	(44,563)	(25,407)	(33,385)	130	(103,225)
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	0	(86,882)	0	(86,882)
SBC (2) in operating expenses	(765)	(27,193)	(17,320)	0	(45,278)
Total operating expenses	(358,222)	(361,080)	(299,539)	10,322	(1,008,519)
Operating profit /(loss)	(397,637)	89,876	110,461	8,102	(189,198)
Other income /(expense) (3)	4,694	692	9,413	(8,102)	6,697
Interest income (4)	7,344	9,126	32,319	(24,651)	24,138
Interest expense (4)	(24,367)	0	(4,372)	24,651	(4,088)
Exchange difference	(2,107)	(7,082)	(5,196)	0	(14,385)
Income /(loss) before income tax expense	(412,073)	92,612	142,625	0	(176,836)
Income tax expense	(217,959)	(14,422)	(40,255)	0	(272,636)
Net income /(loss) from continuing operations	(630,032)	78,190	102,370	0	(449,472)
Net loss from discontinued operations	0	0	(20,531)	0	(20,531)
Net income /(loss)	<u>\$(630,032)</u>	<u>\$ 78,190</u>	<u>\$ 81,839</u>	<u>\$ 0</u>	<u>\$ (470,003)</u>

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou, and Changyou segments.

Note (2): "SBC" stands for share-based compensation expense.

Note (3): The elimination mainly consists of leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): The elimination represents interest income/ (expense) resulting from intra-Group loans between the Sohu segment and the Changyou segment.

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	Year Ended December 31, 2018				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 274,670	\$ 1,124,158	\$ 415,561	\$ (1,562)	\$ 1,812,827
Segment cost of revenues	(218,184)	(692,801)	(71,626)	56	(982,555)
Segment gross profit	56,486	431,357	343,935	(1,506)	830,272
SBC (2) in cost of revenues	707	(669)	31	0	69
Gross profit	57,193	430,688	343,966	(1,506)	830,341
Operating expenses:					
Product development (3)	(123,743)	(191,426)	(126,593)	6,733	(435,029)
Sales and marketing (1) (3)	(203,307)	(144,867)	(34,512)	2,801	(379,885)
General and administrative (3)	(48,664)	(36,177)	(28,657)	362	(113,136)
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	0	0	(16,369)	0	(16,369)
SBC (2) in operating expenses	4,940	(13,535)	6,430	0	(2,165)
Total operating expenses	(370,774)	(386,005)	(199,701)	9,896	(946,584)
Operating profit /(loss)	(313,581)	44,683	144,265	8,390	(116,243)
Other income /(expense) (3)	345,416	41,489	23,436	(345,617)	64,724
Interest income (4)	14,001	8,037	34,403	(32,367)	24,074
Interest expense (4)	(39,709)	0	(10,197)	32,368	(17,538)
Exchange difference	1,981	5,725	1,320	0	9,026
Income /(loss) before income tax expense	8,108	99,934	193,227	(337,226)	(35,957)
Income tax benefit /(expense)	79,053	(1,153)	(64,467)	0	13,433
Net income /(loss) from continuing operations	87,161	98,781	128,760	(337,226)	(22,524)
Net loss from discontinued operations	0	0	(44,835)	0	(44,835)
Net income /(loss)	\$ 87,161	\$ 98,781	\$ 83,925	\$ (337,226)	\$ (67,359)

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou, and Changyou segments.

Note (2): "SBC" stands for share-based compensation expense.

Note (3): The elimination mainly consists of the distribution by Changyou of a dividend to Sohu in 2018 and leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): The elimination represents interest income /(expense) resulting from intra-Group loans between the Sohu segment and the Changyou segment.

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	Year Ended December 31, 2019				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Revenues (1)	\$ 218,442	\$ 1,172,252	\$ 455,380	\$ (627)	\$ 1,845,447
Segment cost of revenues	(148,258)	(737,981)	(95,268)	28	(981,479)
Segment gross profit	70,184	434,271	360,112	(599)	863,968
SBC (2) in cost of revenues	(23)	(473)	(120)	0	(616)
Gross profit	70,161	433,798	359,992	(599)	863,352
Operating expenses:					
Product development (3)	(113,762)	(179,705)	(119,726)	6,142	(407,051)
Sales and marketing (1) (3)	(155,226)	(134,565)	(49,768)	2,117	(337,442)
General and administrative (3)	(32,218)	(39,665)	(22,074)	358	(93,599)
Goodwill impairment and impairment of intangible assets acquired as part of business acquisitions	(7,245)	0	0	0	(7,245)
SBC (2) in operating expenses	(1,022)	(15,428)	(1,185)	0	(17,635)
Total operating expenses	(309,473)	(369,363)	(192,753)	8,617	(862,972)
Operating profit /(loss)	(239,312)	64,435	167,239	8,018	380
Other income /(expense) (3)	331,599	21,126	14,477	(345,254)	21,948
Interest income (4)	24,361	4,443	39,441	(57,699)	10,546
Interest expense (4)	(46,730)	0	(25,339)	57,699	(14,370)
Exchange difference	(445)	1,849	1,875	0	3,279
Income /(loss) before income tax expense	69,473	91,853	197,693	(337,236)	21,783
Income tax benefit /(expense)	(8,351)	(2,748)	(20,077)	0	(31,176)
Net income /(loss) from continuing operations	61,122	89,105	177,616	(337,236)	(9,393)
Net loss from discontinued operations	0	0	(33,998)	0	(33,998)
Net income /(loss)	\$ 61,122	\$ 89,105	\$ 143,618	\$ (337,236)	\$ (43,391)

Note (1): The elimination mainly consists of revenues and expenses generated from marketing services among the Sohu, Sogou, and Changyou segments.

Note (2): "SBC" stands for share-based compensation expense.

Note (3): The elimination mainly consists of the distribution by Changyou of a dividend to Sohu in 2019 and leasing income and expenses generated from a building that Sohu leases to Sogou.

Note (4): The elimination represents interest income /(expense) resulting from intra-Group loans between the Sohu segment and the Changyou segment.

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	As of December 31, 2018				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 180,005	\$ 185,175	\$ 454,305	\$ 0	\$ 819,485
Account and financing receivables, net	78,383	145,401	40,627	0	264,411
Fixed assets, net	186,756	147,495	170,396	0	504,647
Total assets (1)	\$1,319,490	\$1,462,844	\$2,037,803	\$(1,449,290)	\$3,370,847

Note (1): The elimination for segment assets mainly consists of elimination of intra-Group loans between Sohu and Changyou, and elimination of long-term investments in subsidiaries and consolidated VIEs.

	As of December 31, 2019				
	Sohu	Sogou	Changyou	Eliminations	Consolidated
Cash and cash equivalents	\$ 68,229	\$ 142,464	\$ 94,433	\$ 0	\$ 305,126
Account and financing receivables, net	70,252	134,635	55,829	0	260,716
Fixed assets, net	177,978	110,006	159,713	(9)	447,688
Total assets (1)	\$1,721,801	\$1,522,402	\$1,871,685	\$(2,426,098)	\$2,689,790

Note (1): The elimination for segment assets mainly consists of elimination of intra-Group loans between Sohu and Changyou, and elimination of long-term investments in subsidiaries and consolidated VIEs.

5. SHARE-BASED COMPENSATION EXPENSE

Sohu (excluding Sohu Video), Sogou, Changyou, and Sohu Video have incentive plans for the granting of share-based awards, including share options and restricted share units, to members of the boards of directors, management and other key employees.

Share-based compensation expense was recognized in costs and expenses for the years ended December 31, 2017, 2018 and 2019 as follows (in thousands):

Share-based compensation expense	Year Ended December 31,		
	2017	2018	2019
Cost of revenues	\$ 198	\$ (69)	\$ 615
Product development expenses	23,547	6,131	12,063
Sales and marketing expenses	5,915	405	3,398
General and administrative expenses	15,817	(4,372)	2,175
	<u>\$45,477</u>	<u>\$2,095</u>	<u>\$18,251</u>

Share-based compensation expense was recognized for share awards of Sohu (excluding Sohu Video), Sogou, Changyou and Sohu Video as follows (in thousands):

Share-based compensation expense	Year Ended December 31,		
	2017	2018	2019
For Sohu (excluding Sohu Video) share-based awards	\$ 652	\$ (5,100)	\$ 1,940
For Sogou share-based awards (1)	27,729	14,204	15,901
For Changyou share-based awards	17,394	(6,461)	1,305
For Sohu Video share-based awards	(298)	(548)	(895)
	<u>\$45,477</u>	<u>\$2,095</u>	<u>\$18,251</u>

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

Note (1): For the years ended December 31, 2017 and 2018, compensation expense for Sogou share-based awards also included compensation expense for Tencent restricted share units that Tencent had granted to employees who transferred to Sogou with the Soso search and search-related businesses. All of such restricted share units vested before January 1, 2019.

There was no capitalized share-based compensation expense for the years ended December 31, 2019, 2018 and 2017.

6. ADVERTISING AND PROMOTIONAL EXPENSES, INCLUDED IN SALES AND MARKETING EXPENSES

Advertising and promotional expenses are included in sales and marketing expenses, and generally represent the expenses of promotions to create or stimulate a positive image of the Sohu Group or a desire to subscribe for the Group's products and services. Advertising expenses are expensed as incurred. For the years ended December 31, 2019, 2018 and 2017, advertising and promotional expenses recognized in the consolidated statements of comprehensive income were \$211.1 million, \$238.7 million and \$248.9 million, respectively.

7. OTHER INCOME /(EXPENSE), NET

The following table summarizes the Sohu Group's other income /(expense) (in thousands):

	Year Ended December 31,		
	2017	2018	2019
Gain from the changes in fair value of financial instruments (1)	6,665	40,054	41,014
Government grant	2,160	5,428	6,386
Investment income /(expense) (2)	(2,051)	14,565	3,004
Donations	(218)	(70)	(754)
Write-off of unpaid long-term accounts payable	2,031	0	0
Impairment loss on available-for-sale equity securities (3)	(5,754)	0	0
Impairment loss on equity investments (4)	0	(2,605)	(34,119)
Others	3,864	7,352	6,417
	<u>\$6,697</u>	<u>\$64,724</u>	<u>\$ 21,948</u>

Note (1): The increase for 2018 compared to 2017 mainly consisted of \$33.4 million in income earned from investments in financial instruments.

Note (2): The increase for 2018 compared to 2017 mainly consisted of \$17.8 million in investment income recognized in the third quarter of 2018 by Sogou due to the observable change in the price of Zhihu Technology Limited ("Zhihu") after the adoption of ASU 2016-01, offset by a \$3.6 million investment loss representing a change in the fair value of Hylink Digital Solution Co., Ltd ("Hylink").

Note (3): Before the adoption of ASU 2016-01, the Group recognized an other than temporary impairment loss of \$5.8 million in the third quarter of 2017 that was related to Keyeast Co., Ltd. ("Keyeast"), an investment measured as available-for-sale equity securities.

Note (4): In the fourth quarter of 2019, the Sohu Group recognized impairment losses of \$34.1 million for equity investments.

8. BALANCE SHEET COMPONENTS (IN THOUSANDS)

	As of December 31,	
	2018	2019
Account and financing receivables, net		
Accounts receivable	\$233,258	210,069
Financing receivables	46,238	66,858
Allowance for doubtful accounts and credit losses	(15,085)	(16,211)
	<u>\$264,411</u>	<u>260,716</u>

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The following table presents the movement of allowances for doubtful accounts and credit losses for the years of 2017, 2018 and 2019:

	Balance at the beginning of year	Additional provision for bad debt, net of recoveries	Write-offs	Exchange difference	Balance at the end of year
2017	4,274	8,891	(8,634)	340	4,871
2018	4,871	14,568	(3,848)	(506)	15,085
2019	15,085	20,344	(19,978)	760	16,211

	As of December 31,	
	2018	2019
Prepaid and other current assets		
Matching loan due from a related party (See Note 9)	\$ 31,607	\$ 33,329
Prepaid taxes	29,452	30,068
Receivables from third-party payment service providers	14,012	14,221
Prepaid content and license	30,033	13,330
Prepaid cost of revenue	3,568	8,343
Inventory	12,657	4,186
Receivables from third party payment platforms	8,844	3,435
Prepaid rental deposit	4,978	3,113
Interest receivable from bank deposits with original maturities of three months or less	3,645	2,264
Employee advances	2,259	1,693
Prepaid office rent and facilities expenses	2,886	735
Due from discontinued associated company (1)	72,337	0
Others	9,466	9,615
	<u>\$225,744</u>	<u>\$124,332</u>

Note (1): As of December 31, 2018, Changyou had a receivable of \$72,319 due from a discontinued associated company. In 2019, Changyou estimated an allowance of \$72,319 for the receivable, which potentially might not be collected upon the liquidation of the discontinued associated company. Changyou will continually assess the allowance based on developments in bankruptcy proceedings with respect to the discontinued company in a Chinese court.

Prepaid non-current assets		
Prepaid PRC income tax for the sale of assets associated with 17173.com by Sohu to Changyou	\$ 2,870	\$ 1,882
Others	237	0
	<u>\$ 3,107</u>	<u>\$ 1,882</u>
Other short-term liabilities		
Contract deposits from advertisers	\$ 40,073	\$ 34,459
Matching loans due to a related party (See Note 9)	32,719	33,536
Contingent liability related to Shanghai Jingmao liquidation (1)	0	23,900
Deposits related to Focus	21,648	19,101
Lease liabilities	0	8,616
Payable to a third-party investor in the Consolidated Trust	0	8,601
Depository payable reimbursement	4,985	3,697
Early exercise of Sogou share options for trust arrangements	2,702	2,702
Accrued liabilities to suppliers	3,288	2,209
Consideration payable for equity investment	5,960	740
Others	12,546	11,750
	<u>\$123,921</u>	<u>\$149,311</u>

Note (1): The contingent liability represents the aggregate of estimated potential payments to third parties in connection with the liquidation of Shanghai Jingmao. The stated amount of the contingent liability reflects Changyou's best estimate as of December 31, 2019 pursuant to ASC 450-20. Changyou may revise this estimate in the future based on developments in PRC bankruptcy court proceedings regarding Shanghai Jingmao.

Receipts in advance and deferred revenue		
Receipts in advance relating to:		
brand advertising business	\$ 10,069	\$ 7,097
search and search-related business	65,465	67,756
online game business	14,635	5,524
other business	3,602	6,490
Total receipts in advance	93,771	86,867
Deferred revenue	26,633	31,355
	<u>\$120,404</u>	<u>\$118,222</u>

9. RELATED PARTY TRANSACTIONS

Under an agreement between Sohu and Fox Financial Technology Group Limited (“Fox Financial,” formerly known as “SoEasy Internet Finance Group Limited”) entered into in August 2014, Sohu invested \$4.8 million and \$16.1 million, respectively, in Fox Financial in August 2014 and April 2015. In February 2016, Sohu invested an additional \$10.5 million in Fox Financial.

Changyou’s Loan Arrangements with Fox Financial

Commencing in April 2015, certain subsidiaries of Changyou and certain subsidiaries of Fox Financial entered into a series of loan agreements pursuant to which the subsidiaries of Changyou were entitled to draw down HK dollar-denominated or U.S. dollar-denominated loans from the Fox Financial subsidiaries and the Fox Financial subsidiaries were entitled to draw down equivalent RMB-denominated loans from the subsidiaries of Changyou, to facilitate each other’s business operations. All of the loans carry a fixed rate of interest which approximates the current market interest rate.

In December 2018 and 2019, Changyou entered into supplemental agreements with Fox Financial pursuant to which all accrued and unpaid interest on the loans as of December 31, 2018 and December 31, 2019 was added to the principal of the corresponding loans. Due to the depreciation of the RMB against the U.S. dollar in 2018, the principal amounts of the Changyou’s outstanding RMB-denominated loans to Fox Financial as of December 31, 2018 were adjusted upward to amounts equal to the product of the principal amounts of Fox Financials’ outstanding U.S. dollar denominated loans to Changyou as of December 31, 2018, multiplied by the monthly average RMB to U.S. dollar exchange rate published by the Bank of China for the month of December 2018. As a result of such adjustment, Changyou advanced additional RMB-denominated loans in the principal amount of RMB8.2 million (approximately \$1.2 million) to Fox Financial in January 2019.

In December 2019, Changyou entered into a supplemental agreement with Fox Financial which states that Fox Financial undertakes and agrees to provide to Changyou a guaranty of the repayment obligation of Fox Financial and to deposit an amount equal to the US dollar denominated loan principal and corresponding interest owed by Changyou to Fox Financial as a security deposit. If Fox Financial fails to repay the loan principal and corresponding interest based on RMB owed to Changyou, then the security deposit will be applied to repayment of the loan principal and corresponding interest owed to Changyou. The security deposit will be required to be replenished by Fox Financial if it is insufficient to repay the loan principal and corresponding interest of the RMB denominated loan owed to Changyou, and any remaining surplus after the repayment of the RMB denominated loan principal and interest will be returned to Fox Financial. The parties entered into an additional supplemental agreement, in which Changyou undertakes and agrees to provide to Fox Financial a guaranty of Changyou’s repayment obligation and to deposit an amount equal to the RMB denominated loan principal and corresponding interest owed by Fox Financial to Changyou as a security deposit. If Changyou fails to repay the loan principal and corresponding interest, then the security deposit will be applied to repayment of the loan principal and corresponding interest owed to Fox Financial. The security deposit will be required to be replenished by Changyou if it is insufficient to repay the loan principal and corresponding interest to Fox Financial, and the remaining security deposit (if any) will be returned to Changyou if there is any surplus after the repayment of the US dollar denominated loan principal and interest.

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As of December 31, 2018 and December, 2019, Changyou had U.S. dollar-denominated loans payable to Fox Financial in a total amount of approximately \$32.7 million and \$33.5 million, respectively, and RMB-denominated loans receivable from Fox Financial in a total amount of approximately \$31.6 million and \$33.3 million, respectively. For the year ended December 31, 2018 and 2019, Changyou incurred interest expense of \$0.5 million and 0.8 million, respectively, in connection with the loans payable and earned interest income of \$1.1 million and \$1.0 million, respectively, in connection with the loans receivable.

10. INTRA-GROUP LOAN AND SHARE PLEDGE AGREEMENT

On October 24, 2016, Sohu Media, a subsidiary of the Company, entered into a loan agreement (the “Loan Agreement”) with AmazGame, a subsidiary of Changyou, pursuant to which Sohu Media may borrow from time to time from AmazGame up to RMB1.0 billion (or approximately \$148.6 million). Principal amounts outstanding under the Loan Agreement bear interest at an annual rate of 6%. The outstanding principal of each advance will be due one year from the date of the advance, subject to extension for an additional year with the consent of AmazGame.

On October 24, 2016, the Company’s indirect wholly-owned subsidiary Sohu.com (Game) Limited (“Sohu Game”) and Changyou entered into a share pledge agreement (the “Share Pledge Agreement”) pursuant to which Sohu Game pledged to Changyou Class B ordinary shares of Changyou held by Sohu Game. As of December 31, 2019, the number of Class B ordinary shares pledged by Sohu Game to Changyou was 43,823,946. On January 13, 2020, in connection with the organization of Changyou Merger Co. Limited (“Changyou Merger Co.”) as a wholly-owned subsidiary of Sohu Game for purposes of the Changyou Merger, Sohu Game transferred to Changyou Merger Co. all of the issued and outstanding Changyou Class B ordinary shares held by Sohu Game, including the Changyou Class B ordinary shares subject to the Sohu Share Pledge Agreement. Simultaneously with that contribution, the Sohu Share Pledge Agreement was revised to substitute Changyou Merger Co. as the pledgor in place of Sohu Game. Prior to April 17, the effectiveness of the Changyou Merger, Changyou executed and delivered to Changyou Merger Co. a Deed of Release providing for the release and discharge of Changyou Merger Co. from all obligations under the Share Pledge Agreement.

In December 2016, March 2017 and April 2017, Sohu Media received RMB500.0 million (or approximately \$72.1 million), RMB200.0 million (or \$30.6 million) and RMB300.0 million (or \$45.9 million), respectively, from AmazGame. As of December 31, 2017, the total outstanding balance of the loan was RMB1.0 billion (or \$153.0 million). In January 2018, Sohu Media entered into a supplementary agreement with AmazGame and Video Tianjin, a subsidiary of the Company, pursuant to which Sohu Media assigned and transferred the entire principal amount outstanding and all the related rights and obligations under the Loan Agreement to Video Tianjin. In both December 2018 and December 2019, Video Tianjin and AmazGame entered into agreements extending the due date of each advance for an additional year. As of December 31, 2018 and December 31, 2019, the total outstanding balance of the loan was RMB1.0 billion (or \$145.7 million) and RMB1.0 billion (or \$143.3 million), respectively. The intra-Group loan has been eliminated upon consolidation.

11. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

U.S. GAAP establishes a three-tier hierarchy to prioritize the inputs used in the valuation methodologies in measuring the fair value of financial instruments. This hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three-tier fair value hierarchy is:

Level 1 - observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - include other inputs that are directly or indirectly observable in the market place.

Level 3 - unobservable inputs which are supported by little or no market activity.

The Sohu Group’s financial instruments consist primarily of cash equivalents, restricted cash, short-term investments, accounts receivable, financing receivables, prepaid and other current assets, long-term investments, restricted time deposits, accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans, other short-term liabilities, long-term bank loans and long-term accounts payable.

[Table of Contents](#)**Financial Instruments Measured at Fair Value**

The following table sets forth the financial instruments, measured at fair value by level within the fair value hierarchy, as of December 31, 2018 (in thousands):

Items	As of December 31, 2018	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 595,703	\$ 0	\$ 595,703	\$ 0
Short-term investments	1,041,395	0	1,041,395	0
Restricted time deposits	244,179	0	244,179	0
Equity investments with readily determinable fair values	6,790	6,790	0	0

The following table sets forth the financial instruments, measured at fair value by level within the fair value hierarchy, as of December 31, 2019 (in thousands):

Items	As of December 31, 2019	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 219,977	\$ 0	\$ 219,977	\$ 0
Short-term investments	1,316,833	0	1,316,833	0
Restricted time deposits	240	0	240	0
Equity investments with readily determinable fair values	9,320	9,320	0	0

Cash Equivalents

The Sohu Group's cash equivalents mainly consist of time deposits with original maturities of three months or less, notice deposits, and highly liquid investments that are readily convertible to known amounts of cash. The fair values of cash equivalents are determined based on the pervasive interest rates in the market. The Group classifies the valuation techniques that use the pervasive interest rates input as Level 2 of fair value measurements. Generally, there are no quoted prices in active markets for identical cash equivalents at the reporting date. In order to determine the fair value, the Group must use the discounted cash flow method and observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Short-term Investments

In accordance with ASC 825, for investments in financial instruments with a variable interest rate indexed to performance of underlying assets, the Sohu Group elected the fair value method at the date of initial recognition and carried these investments at fair value. Changes in the fair value are reflected in the consolidated statements of comprehensive income as other income/(expense). To estimate fair value, the Group refers to the quoted rate of return provided by banks at the end of each period using the discounted cash flow method. The Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

As of December 31, 2019 and December 31, 2018, the Sohu Group's investment in these financial instruments was \$1.3 billion and \$1.0 billion, respectively. The investment instruments were issued by commercial banks in China, and have a variable interest rate indexed to performance of underlying assets. Since these investments' maturity dates are within one year, they are classified as short-term investments. For the years ended December 31, 2019 and 2018, the Sohu Group recorded a gain from changes in the fair value of short-term investments in the amounts of \$41.0 million and \$40.1 million in the consolidated statements of comprehensive income, respectively.

Foreign Exchange Forward Contracts

In September 2016 and January 2017, Changyou entered into foreign exchange forward contracts with banks in aggregate notional amounts of \$100 million and \$50 million, respectively. Changyou entered into such foreign exchange forward contracts in compliance with its risk management policy for the purpose of eliminating the negative impact on earnings and equity resulting from fluctuations in the exchange rate between the U.S. dollar and the RMB. The instruments are marked-to-market at each period-end with the associated changes in fair value recognized in the line item “Other income /(expense), net” in the consolidated statements of comprehensive income and “Other short-term liabilities” or “Prepaid and other current assets” in the consolidated balance sheets. The net cash inflow and outflow related to the settlement of the forward contracts are recorded in the line item “Other investing activities” under “Cash flows from investing activities” in the consolidated statements of cash flows.

In January 2018, Changyou settled the remaining foreign exchange forward contracts with a realized loss of \$0.2 million recognized in the consolidated statements of comprehensive income for the year ended December 31, 2018. For the years ended December 31, 2019 and 2018, the Sohu Group recorded cash outflows related to the forward contracts of nil and \$0.9 million, respectively, in the consolidated statements of cash flows. As of both December 31, 2019 and 2018, the carrying values of the foreign exchange forward contracts recognized in other short-term liabilities were nil.

The Group estimated the fair values of foreign exchange forward contracts using the Black-Scholes model. The fair values of the forward contracts were estimated based on quoted forward exchange prices at the reporting date. The Group classifies the fair value measurement of the forward contracts based on such inputs as Level 2 of fair value measurements.

Restricted Time Deposits

Restricted time deposits are valued based on the prevailing interest rates in the market using the discounted cash flow method. The Sohu Group classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

Changyou Loans from Offshore Banks, Secured by Time Deposits

In 2018, Changyou drew down loans from the Hong Kong branches of PRC banks, which were secured by an equivalent or greater amount of RMB deposits by Changyou in the PRC branches of the banks. The loans from the Hong Kong branches of the lending banks were classified as short-term or long-term bank loans based on the loans’ payment terms. For the years ended December 31, 2019 and 2018, interest income from the restricted time deposits securing the loans were \$0.5 million and \$1.0 million, respectively, and expense for interest on the loans was \$2.1 million and \$1.4 million, respectively.

Equity Investments

ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The main provisions require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value through earnings, unless they qualify for a measurement alternative. The new guidance required modified retrospective application to all outstanding instruments beginning January 1, 2018, with a cumulative effect adjustment recorded to opening accumulated deficit as of the beginning of the first period in which the guidance becomes effective. However, changes to the accounting for equity securities without a readily determinable fair value will be applied prospectively.

The Group measures equity investments under the equity method and equity investments without readily determinable fair values at fair value on a non-recurring basis when an impairment charge is to be recognized. As of December 31, 2018 and 2019, certain investments were measured using significant unobservable inputs (Level 3) and written down from their respective carrying values to their fair values, considering the stage of development, the business plan, the financial condition, the sufficiency of funding and the operating performance of the investee companies, with impairment charges incurred and recorded in other income for the years then ended. The Group recognized an impairment loss of \$5.8 million for an investment measured as available-for-sale equity securities in 2017. The Group recognized impairment losses of \$2.6 million and \$34.1 million, respectively, for investments without readily determinable fair values and equity method investments in 2018 and 2019.

Equity Investments Accounted for Using the Equity Method

For investments in common stock or in-substance common stock of entities over which the Group can exercise significant influence but does not own a majority equity interest or control, the equity method is applied, and the Group adjusts the carrying amount of an investment and recognizes investment income or loss for the Group’s share of the earnings or loss of the investee after the date of investment. The Group measures equity investments under the equity method at fair value on a non-recurring basis only if an impairment charge is to be recognized. The Group classifies these non-recurring fair value measurements as Level 3 of fair value measurement

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Equity Investments with Readily Determinable Fair Values

Effective as of January 1, 2018, all equity investments in unconsolidated entities (other than those accounted for using the equity method of accounting) will generally be measured at fair value through earnings. There will no longer be an available-for-sale classification (changes in fair value previously reported in other comprehensive income) for equity securities with readily determinable fair values.

Equity investments with readily determinable fair values are valued using the market approach based on the quoted prices in active markets at the reporting date. The Group classifies the valuation techniques that use these inputs as Level 1 of fair value measurements.

Equity Investments without Readily Determinable Fair Values

Based on ASU 2016-01, an entity will be able to elect to record equity investments without readily determinable fair values and not accounted for by the equity method at cost, less impairment, adjusted for subsequent observable price changes. Entities that elect this measurement alternative will report changes in the carrying value of the equity investments in current earnings.

If this measurement alternative is elected, changes in the carrying value of the equity investment will be required to be made whenever there are observable price changes in transactions for identical or similar investments of the same issuer. The implementation guidance notes that an entity should make a “reasonable effort” to identify price changes that are known or that can reasonably be known. When observable price changes were identified, the Group used the back-solve method to re-measure the fair value of the investments and to determine the amount that should be recorded as upward or downward adjustments. The back-solve method requires considering the rights and preferences of each classes of equity and solving for the total equity value that is consistent with a recent transaction of the subject company’s securities. This method requires making assumptions on future outcomes available to the subject company, the probability of each scenario, expected time to liquidity events, volatility and risk-free rate. The Group classifies this non-recurring fair value measurement as Level 3 of fair value measurement.

Short-term Receivables and Payables

Accounts receivable and prepaid and other current assets are financial assets with carrying values that approximate fair value due to their short-term nature. Short-term accounts payable, accrued liabilities, receipts in advance and deferred revenue, short-term bank loans and other short-term liabilities are financial liabilities with carrying values that approximate fair value due to their short-term nature. For short-term receivables and payables, the Group estimated fair values using the discounted cash flow method. The Group classifies the valuation technique as Level 2 of fair value measurements.

Short-term Bank Loans

For short-term bank loans, the rates of interest under the agreements with the lending banks were determined based on the prevailing interest rates in the market. The Sohu Group estimated fair values using the discounted cash flow method and classifies the valuation techniques that use these inputs as Level 2 of fair value measurements.

- Factoring contract with recourse with HongKong and Shanghai Banking Corporation Limited (“HSBC”)

In May 2017, Sohu entered into a factoring contract with recourse with HSBC, pursuant to which Sohu may borrow from HSBC from time to time up to a combined aggregate of RMB180.0 million (or \$26.2 million), which is the upper limit reviewed by HSBC at least annually. The loan is secured by up to RMB198.0 million (or \$28.8 million) of Sohu’s accounts receivable and guaranteed by Sohu Media. Interest accrues on the principal amounts of the loans outstanding at an annual rate agreed to by HSBC and Sohu upon drawdown. In June 2019, Sohu terminated the factoring contract with recourse with HSBC, and the accounts receivable of Sohu was released from the pledge. As of both December 31, 2019 and December 31, 2018, the total outstanding balance of the loan was nil.

- Credit agreements with Ping An Bank Co., Ltd. (“Ping An Bank”)

In May 2017, Sohu entered into credit agreements with Ping An Bank pursuant to which Sohu was entitled to borrow from Ping An Bank from time to time until May 18, 2020 up to a combined aggregate of RMB2.50 billion (or \$364.3 million). The loan was initially secured by pledges of Sohu’s two buildings and guaranteed by Sohu Game. The initial interest rate for the loans was an annual rate equal to 115% of the rate published by the PBOC. In July 2017, Sohu entered into an amendment of its loan arrangements with Ping An Bank pursuant to which interest on outstanding principal amounts accrued at a rate designated separately upon each drawdown based on the benchmark loan rate published by the PBOC with reference to then prevailing market interest rates. In July 2017, Sohu drew down from Ping An Bank pursuant to the loan arrangements a loan with a term of 12 months in the amount of RMB400.0 million (or approximately \$58.3 million) and an interest rate of 6.525% per annum, which was 150% of the rate published by the PBOC as of the date of the drawdown. In September 2017, Sohu entered into another amendment of its loan arrangements with Ping An Bank pursuant to which the maximum amount that Sohu was entitled to borrow was reduced from RMB2.50 billion (or \$364.3 million) to RMB600 million (or \$87.4 million), and one of Sohu’s buildings, which serves as Sohu’s corporate headquarters, was released from the pledge. In April 2018, Sohu repaid all of the outstanding balance under the loan arrangements with Ping An Bank and the other building of Sohu was released from the pledge. As of both December 31, 2019 and December 31, 2018, the total outstanding balance of the loan was nil.

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- Credit agreements with Industrial and Commercial Bank of China Limited (“ICBC”)

In September 2017, Sohu entered into credit agreements with ICBC pursuant to which Sohu was entitled to borrow from ICBC from time to time until March 31, 2018 up to a combined aggregate of RMB800 million (or \$116.6 million). The loan is secured by the pledge of Sohu’s building which serves as Sohu’s corporate headquarters in Beijing. Interest accrues on the principal amounts of the loans outstanding at an annual rate equal to the Loan Prime Rate (“LPR”) published by the National Interbank Funding Center, plus 1.2%. The outstanding principal amount of the loan will be payable in four equal installments, with the first installment payable 18 months after the drawdown and the other three installments payable semi-annually at the end of each of the three successive six-month periods after the first installment payment.

As of December 31, 2019 and December 31, 2018, the total outstanding balance of the loan was RMB400 million (or \$57.3 million) and RMB800 million (or \$116.6 million), respectively. As of December 31, 2019, RMB400 million (or \$57.3 million) was classified as a short-term bank loan based on the loan’s repayment terms.

- Credit agreements with the China Merchants Bank Co., Ltd. (“CMB”)

In April 2018, Sohu entered into credit agreements with CMB pursuant to which Sohu was entitled to borrow from CMB from time to time until March 22, 2021 up to an aggregate of RMB700 million (or approximately \$102.0 million)(the “CMB Loan”).

In April, 2018, Sohu made an initial drawdown under the CMB Loan with a term of 12 months in the amount of RMB400 million (or \$58.3 million) (the “First Drawdown”). The proceeds of the First Drawdown were used to repay in full the outstanding balance and all accrued and unpaid interest under credit agreements between Sohu and Ping An Bank. The CMB Loan was secured by a pledge of Sohu’s building, which was released from the pledge after Ping An Bank received such repayment. Interest accrued on the outstanding principal balance at a rate of 6% per year. In April 2019, the outstanding principal amount of the First Drawdown was repaid in full.

In June, 2018, Sohu made a drawdown under the CMB Loan with a term of 24 months in the amount of RMB300 million (or approximately \$43.7 million) (the “Subsequent Drawdown”). Interest accrued on the outstanding principal balance at a rate of 6% per year. The outstanding principal amount of the Subsequent Drawdown was payable in four installments. The first installment of RMB45 million (or \$6.7 million) was paid in December 2018; the second and third installments of RMB90 million (or \$13.1 million) in the aggregate were paid early in June 2019; and the fourth installment of RMB165 million (or \$23.3million) was paid early in July 2019.

In April 2019 and May 2019, Sohu made drawdowns under the CMB Loan with a term of 12 months in the aggregate amount of RMB399 million (\$59.3 million). Interest accrues on the outstanding principal balances at a rate of 5.1% per year. The outstanding principal amount of each drawdown will be due and payable 12 months after such drawdown.

As of December 31, 2019 and December 31, 2018, the total outstanding balance of the CMB loan was RMB399 million (or \$57.2 million) and RMB655 million (or \$95.4 million), respectively. As of December 31, 2019, RMB399 million (or \$57.2 million) was classified as short-term bank loans based on the loan’s repayment terms.

Long-term Payables

Long-term payables mainly consist of long-term accounts payable, long-term bank loans, long-term tax liabilities and deferred tax liabilities (see Note 16).

Long-term accounts payable are financial liabilities with carrying values that approximate fair value due to any changes in fair value, after considering the discount rate, being immaterial. For long-term accounts payable, the Group estimated fair values using the discounted cash flow method. The Sohu Group classifies the valuation technique as Level 2 of fair value measurements.

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Assets Measured at Fair Value on a Nonrecurring Basis

The following table sets forth assets measured at fair value on a nonrecurring basis by level within the fair value hierarchy as of December 31, 2018 and 2019 (in thousands)

Items	As of December 31, 2018	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Purchased video content recorded in prepaid and other assets	\$ 5,504	\$ 0	\$ 0	\$ 5,504
Intangible assets, net	24,071	0	0	24,071
Goodwill	53,263	0	0	53,263

Items	As of December 31, 2019	Fair value measurements at reporting date using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Purchased video content recorded in prepaid and other assets	\$ 3,115	\$ 0	\$ 0	\$ 3,115
Intangible assets, net	11,437	0	0	11,437
Goodwill	52,923	0	0	52,923

Purchased Video Content Recorded in Prepaid and Other Assets

The impairment losses recognized in prepaid and other assets were mainly due to impairment losses for Sohu Video's purchased video content. See Note 15 - Intangible Assets, Net.

Intangible Assets

Intangible assets mainly comprise purchased video content, operating rights for licensed games, domain names and trademarks, computer software, and developed technologies. The impairment losses recognized for intangible assets were mainly due to impairment losses for the domain name related to the 56.com Website and Sohu Video's purchased video content. See Note 15 - Intangible Assets, Net.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable assets and liabilities acquired as a result of the Group's acquisitions of interests in its subsidiaries and consolidated VIEs. See Note 14 - Goodwill.

12. LEASE

The Group has entered into operating lease agreements, primarily for offices in China with lease periods expiring between 2019 and 2022. The determination of whether an arrangement is or contains a lease is made at the inception of the lease by evaluating whether the arrangement conveys the right to use an identified asset and whether the Group obtains substantially all of the economic benefits from and has the ability to direct the use of the asset. Operating lease assets and liabilities are included on the Group's consolidated balance sheets beginning January 1, 2019. The right-of-use assets are included in other assets, while the current portion of the operating lease liabilities is included in other short-term liabilities and the long-term portion is included in other long-term liabilities. The Group has elected to not recognize lease assets and lease liabilities for leases with a term of twelve months or less on the consolidated balance sheets.

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Operating lease assets and liabilities are recognized at the present value of the future lease payments at the lease commencement date. The Group uses its incremental borrowing rate in determining the present value of the future lease payments, because the interest rate implicit in most of the leases is not readily determinable. The Group estimates its incremental borrowing rate for each leased asset based on the interest rate the Group would incur to borrow an amount equal to the lease payments on a collateralized basis over a similar term in a similar economic environment.

Certain lease agreements contain an option for the Group to renew a lease for a term agreed to by the Group and the lessor or an option to terminate a lease earlier than the maturity date. The Group considers these options, which may be elected at the Group's sole discretion, in determining the lease term on a lease-by-lease basis. The Group's lease agreements generally do not contain any residual value guarantees or material restrictive covenants. Certain of the Group's leases contain free or escalating rent payment terms. Operating lease expense is recognized on a straight-line basis over the lease term.

The Group's lease agreements generally contain lease and non-lease components. Non-lease components consist primarily of payments for maintenance and utilities. The Group has identified separate lease and non-lease components, allocated the contractual considerations between components based on the terms specified in the lease agreements, and accounted for the lease components separately from the non-lease components. Payments under the lease arrangements are primarily fixed with no variable payments.

Components of operating lease expense are as follows (in thousands):

	Year Ended December 31, 2019
Operating lease expense	\$ 12,623
Short-term lease expense	263
Total operating lease expense	\$ 12,886

Supplemental cash flow information related to leases are as follows (in thousands):

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 12,164
Right-of-use assets obtained in exchange for lease liabilities:	
Operating leases	\$ 11,332

The following table presents supplemental balance sheet information related to the operating leases (in thousands):

	Year Ended December 31, 2019
Assets:	
Operating lease right-of-use assets	\$ 16,656
Liabilities:	
Current lease liabilities	8,616
Non-current lease liabilities	5,770
Total operating lease liabilities	\$ 14,386

Maturities of lease liabilities under operating leases as of December 31, 2019 are as follows (in thousands):

2020	\$ 8,969
2021	5,380
2022	972
2023	0
2024	0
Thereafter	0
Total future lease payments	15,321
Less: imputed interest	935
Total present value of lease liabilities	\$ 14,386

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The following table presents supplemental information for comparative periods of future minimum rental payments under the operating leases as of December 31, 2018 (in thousands):

2019	\$12,367
2020	10,311
2021	6,032
2022	809
2023	270
Thereafter	0
Total minimum lease payments (1)	<u>\$29,789</u>

Note (1): Amounts are based on ASC 840, which was superseded upon the Group's adoption of ASC 842 on January 1, 2019. Rental expenses under operating leases were \$17.2 million and \$14.7 million for the years ended December 31, 2017, and 2018, respectively.

As of December 31, 2019, operating leases recognized in lease liabilities had a weighted average remaining lease term of 2.0 years and a weighted average discount rate of 4.9%. As of December 31, 2019, the Group had no lease contracts that had been entered into but were not yet commenced.

13. FIXED ASSETS

The following table summarizes the Sohu Group's fixed assets (in thousands):

	As of December 31,	
	2018	2019
Office buildings	\$ 372,723	\$ 366,686
Computer equipment and hardware	418,198	414,532
Leasehold and building improvements	48,364	47,262
Office furniture	8,768	9,091
Vehicles	3,812	3,595
Fixed assets, gross	851,865	841,166
Accumulated depreciation	(347,218)	(393,478)
Fixed assets, net	<u>\$ 504,647</u>	<u>\$ 447,688</u>

For the years ended December 31, 2019, 2018 and 2017, depreciation expenses for fixed assets were \$92.9 million, \$92.8 million and \$82.9 million, respectively.

14. GOODWILL

Changes in the carrying value of goodwill by segment are as follows (in thousands):

	<u>Sohu</u>	<u>Sogou</u>	<u>Changyou</u>	<u>Total</u>
Balance as of December 31, 2017				
Goodwill	73,941	5,908	181,421	261,270
Accumulated impairment losses	(35,788)	0	(153,917)	(189,705)
	<u>\$ 38,153</u>	<u>\$ 5,908</u>	<u>\$ 27,504</u>	<u>\$ 71,565</u>
Transactions in 2018				
Foreign currency translation adjustment	(772)	(283)	(878)	(1,933)
Impairment losses	0	0	(16,369)	(16,369)
Balance as of December 31, 2018	<u>\$ 37,381</u>	<u>\$ 5,625</u>	<u>\$ 10,257</u>	<u>\$ 53,263</u>
Balance as of December 31, 2018				
Goodwill	69,627	5,625	180,543	255,795
Accumulated impairment losses	(32,246)	0	(170,286)	(202,532)
	<u>\$ 37,381</u>	<u>\$ 5,625</u>	<u>\$ 10,257</u>	<u>\$ 53,263</u>
Transactions in 2019				
Foreign currency translation adjustment	(249)	(91)	0	(340)
Impairment losses	0	0	0	0
Balance as of December 31, 2019	<u>\$ 37,132</u>	<u>\$ 5,534</u>	<u>\$ 10,257</u>	<u>\$ 52,923</u>
Balance as of December 31, 2019				
Goodwill	69,378	5,534	180,543	255,455
Accumulated impairment losses	(32,246)	0	(170,286)	(202,532)
	<u>\$ 37,132</u>	<u>\$ 5,534</u>	<u>\$ 10,257</u>	<u>\$ 52,923</u>

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There was one reporting unit under the Sohu segment and one reporting unit under the Sogou segment. After Changyou ceased operations of RaidCall and the cinema advertising business, the reporting units under the Changyou segment consisted of the Changyou online game business and the 17173.com Website.

In the fourth quarter of 2019, the Sohu Group tested goodwill for impairment at the reporting unit level. The Group performed impairment tests using the qualitative and quantitative methods. For the Sohu and Sogou segments, impairment tests were conducted by quantitatively comparing the fair values of the reporting units to their carrying amounts. The Sohu and Sogou segments estimated the fair values by weighting the results from the income approach and market approach. The valuation approach considers a number of factors that include expected future cash flows, growth rates, discount rates, and market price, and requires Sohu and Sogou to make certain assumptions and estimates regarding industry economic factors and future profitability of the business. For the Changyou segment, Changyou first qualitatively assessed whether it was more likely than not that the fair values of the reporting segments were less than their carrying amounts. For those reporting units where it was more likely than not that their fair values were less than their carrying amounts, Changyou performed the first step of a two-step quantitative goodwill impairment test. Changyou estimated the fair values using the income approach considering factors that included expected future cash flows, growth rates and discount rates.

In March 2019 and August 2019, respectively, Changyou ceased its RaidCall and cinema advertising business operations. Accordingly, there were no impairments for these two units, as the carrying values of both RaidCall and the cinema advertising business were nil before their cessation. As of December 31, 2019, for the Sohu and Sogou segments and the businesses in the Changyou segment, management concluded that the fair values of the reporting units exceeded their carrying values, indicating that the goodwill of the reporting units was not impaired.

In the fourth quarter of 2018, Changyou recognized a \$16.4 million impairment loss for goodwill relating to the 17173.com Website, primarily due to (i) the launch of new initiatives for the 17173.com Website having fallen behind schedule in the fourth quarter of 2018 and the profit outlook for the 17173.com Website being uncertain, and (ii) the relevant Chinese authority's temporary suspension between April and December of 2018 of its review of, and issuance of publishing and authorization codes for, online games, which resulted in declines in the number of new games launched and the related demand from game developers and operators for online advertising services on the 17173.com Website, both of which Changyou's management determined had a material adverse impact on Changyou's ability to generate revenues and net income from the 17173.com Website. As of December 31, 2018, for the Sohu and Sogou segments, and the businesses in the Changyou segment other than the 17173.com Website, management concluded that the fair values of the reporting units exceeded their carrying values, indicating that the goodwill of the reporting units was not impaired.

15. INTANGIBLE ASSETS, NET

Items	As of December 31, 2018			Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization	Impairment	
Purchased video content	\$ 177,307	\$ (156,198)	\$ (18,556)	\$ 2,553
Operating rights for licensed games	46,237	(22,239)	(11,776)	12,222
Domain names and trademarks	28,054	(11,124)	(9,341)	7,589
Computer software	15,550	(13,948)	0	1,602
Developed technologies	8,902	(1,463)	(7,439)	0
Others	6,141	(4,171)	(1,865)	105
Total	<u>\$ 282,191</u>	<u>\$ (209,143)</u>	<u>\$ (48,977)</u>	<u>\$ 24,071</u>

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Items	As of December 31, 2019			Net Carrying Amount
	Gross Carrying Amount	Accumulated Amortization	Impairment	
Purchased video content	\$217,610	\$ (179,167)	\$ (35,940)	\$ 2,503
Operating rights for licensed games	47,226	(27,992)	(12,365)	6,869
Domain names and trademarks	27,644	(11,210)	(16,176)	258
Computer software	16,231	(14,515)	0	1,716
Developed technologies	8,773	(1,441)	(7,332)	0
Others	6,044	(4,118)	(1,835)	91
Total	<u>\$323,528</u>	<u>\$ (238,443)</u>	<u>\$ (73,648)</u>	<u>\$11,437</u>

Impairment Losses

In 2019, Sohu recognized a \$7.2 million impairment loss for a domain name related to the 56.com Website, mainly due to enhanced restrictions that Chinese regulatory authorities imposed on the broadcasting industry, which had an adverse effect on the operation of the 56.com Website. Also in 2019, Sohu recognized a \$4.0 million impairment loss related to Sohu Video's purchased video content pursuant to the Sohu Group's policy on impairment of overseas content.

In 2018, Sohu recognized \$10.4 million in losses related to Sohu Video's purchased video content, of which \$9.8 million was recognized as impairment of intangible assets and \$0.6 million was recognized as impairment of prepaid and other current assets, as Sohu Video's revenues for 2018 did not meet management's expectations.

In 2017, Sohu recognized \$70.6 million in losses related to Sohu Video's purchased video content, of which \$43.1 million was recognized as impairment of intangible assets and \$27.5 million was recognized as impairment of prepaid and other current assets. The impairment losses incurred were mainly due to Sohu Video's restructuring of its sales team and a strategy shift from purchasing expensive head content to self-producing content, as a result, revenues for 2017 did not meet management's expectations. Also in 2017, Changyou recognized a \$3.4 million impairment loss related to intangible assets for its MoboTap business, mainly due to reinforced restrictions that Chinese regulatory authorities imposed on online card and board games, which had an adverse impact on MoboTap's current performance, and also increased the uncertainty for its future operations and cash flow.

Amortization

In 2019, 2018 and 2017, amortization of intangible assets was \$39.5 million, \$59.3 million and \$140.2 million, respectively.

As of December 31, 2019, amortization expenses for future periods are estimated to be as follows:

For the year ending December 31,	(in thousands)
2020	7,042
2021	3,414
2022	515
2023	300
2024	99
Thereafter	67
Total expected amortization expense	<u>\$ 11,437</u>

16. TAXATION

Income Tax

PRC Corporate Income Tax

The majority of the subsidiaries and VIEs of the Sohu Group are based in mainland China and are subject to income taxes in the PRC. These China-based subsidiaries and VIEs conduct substantially all of the Sohu Group's operations, and generate most of the Sohu Group's income or losses. The CIT Law applies an income tax rate of 25% to all enterprises but grants preferential tax treatment to HNTEs, "Software Enterprises," and KNSEs.

Principal Entities Qualified as HNTEs

Under preferential tax treatment, HNTEs can enjoy an income tax rate of 15%, but need to re-apply every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification as an HNTE in any year, the enterprise cannot enjoy the 15% preferential tax rate in that year, and must instead use the regular 25% CIT rate.

As of December 31, 2019, the following principal entities of the Sohu Group were qualified as HNTEs and were entitled to an income tax rate of 15%.

For Sohu's Business

- Sohu New Momentum. Sohu New Momentum re-applied for HNTE qualification and received approval in December 2019. Sohu New Momentum is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Sohu Internet and Video Tianjin. Sohu Internet and Video Tianjin qualified as HNTEs for the years 2018 through 2020, and will need to re-apply for HNTE qualification in 2021.
- Sohu Media. Sohu Media qualified as an HNTE for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.

For Sogou's Business

- Sogou Network. Sogou Network re-applied for HNTE qualification and received approval in December 2019. Sogou Network is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Sogou Information. Sogou Information qualified as an HNTE for the years 2018 through 2020, and will need to re-apply for HNTE qualification in 2021.
- Sogou Technology. Sogou Technology qualified as an HNTE for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.

For Changyou's Business

- Gamespace. Gamespace re-applied for HNTE qualification and received approval in October 2019. Gamespace is entitled to continue to enjoy the beneficial tax rate as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Changyou Chuangxiang. Changyou Chuangxiang applied for HNTE qualification and received approval in October 2019. Changyou Chuangxiang is entitled to enjoy the beneficial tax rate as an HNTE for the years 2019 through 2021, and will need to re-apply for HNTE qualification in 2022.
- Gamease and AmazGame. Gamease and AmazGame qualified as HNTEs for the years 2017 through 2019, and will need to re-apply for HNTE qualification in 2020.

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Principal Entities Qualified as Software Enterprises and KNSEs

The CIT Law and its implementing regulations provide that a Software Enterprise is entitled to an income tax exemption for two years beginning with its first profitable year and a 50% reduction to a rate of 12.5% for the subsequent three years. An entity that qualifies as a KNSE is entitled to a further reduced preferential income tax rate of 10%. Enterprises wishing to enjoy the status of a Software Enterprise or a KNSE must perform a self-assessment each year to ensure they meet the criteria for qualification and file required supporting documents with the tax authorities before using the preferential CIT rates. These enterprises will be subject to the tax authorities' assessment each year as to whether they are entitled to use the relevant preferential CIT treatments. If at any time during the preferential tax treatment years an enterprise uses the preferential CIT rates but the relevant authorities determine that it fails to meet applicable criteria for qualification, the relevant authorities may revoke the enterprise's Software Enterprise/KNSE status.

For Changyou's Business

- AmazGame. In 2019, AmazGame completed a self-assessment and filed required supporting documents for KNSE status for 2018. Also in 2019, AmazGame was qualified as a KNSE after the relevant government authorities' assessment and became entitled to a preferential income tax rate of 10% for 2018. AmazGame will follow the same process in 2020 for KNSE status for 2019.
- Changyou Chuangxiang. In 2019, Changyou Chuangxiang completed a self-assessment, filed required supporting documents, was qualified as a Software Enterprise, and became entitled to the second year of an income tax exemption for 2018. Changyou Chuangxiang will follow the same process in 2020 to entitle it to the third year of an income tax exemption for 2019.

U.S. Corporate Income Tax

Sohu.com Inc., which was formerly the top-tier publicly-traded parent company of the Sohu Group, was dissolved and liquidated on May 31, 2018. Sohu.com Inc. was a Delaware corporation that was subject to U.S. federal corporate income tax on its taxable income at a rate of 21% for taxable years beginning after December 31, 2017 and of up to 35% for prior tax years. U.S. federal tax legislation signed into law on December 22, 2017, commonly referred to as the Tax Cuts and Jobs Act (the "U.S. TCJA"), significantly modified the U.S. Internal Revenue Code by, among other things, reducing the maximum statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a partial territorial tax system with a one-time Toll Charge on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings.

Certain activities conducted in the PRC resulted in U.S. corporate income taxes being imposed on Sohu.com Inc. when its subsidiaries that were controlled foreign corporations ("CFCs") generated income that was subject to Subpart F of the U.S. Internal Revenue Code ("Subpart F"). Generally, passive income, such as rents, royalties, interest, dividends, and gains from disposal of the company's investments, is among the types of income subject to taxation under Subpart F. Any income taxable under Subpart F was taxable in the U.S. at the applicable federal corporate income tax rate. Subpart F income also included certain income from intra-Group transactions between Sohu.com Inc.'s non-U.S. subsidiaries and VIEs and Changyou's non-U.S. subsidiaries and VIEs or Sogou's non-U.S. subsidiaries and VIEs, or where Sohu.com Inc.'s non-U.S. subsidiaries or VIEs made an "investment in U.S. property," such as holding the stock in, or making a loan to, a U.S. corporation. Under a provision of the U.S. tax code commonly referred to as the CFC look-through rule, Sohu.com Inc. did not have to treat dividends received by its CFC subsidiaries as Subpart F income includible in Sohu.com Inc.'s taxable income in the U.S.

To the extent that portions of Sohu.com Inc.'s U.S. taxable income, such as Subpart F income or GILTI, as applicable, had been determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. may have been entitled to claim foreign tax credits to offset its U.S. income tax liabilities. Following the enactment of the U.S. TCJA, if dividends that Sohu.com Inc. received from its subsidiaries after January 1, 2018 were determined to be from sources outside of the U.S., subject to certain limitations, Sohu.com Inc. would generally not have been required to pay U.S. corporate income tax on those dividends. Liabilities for U.S. corporate income tax were accrued in the Company's consolidated statements of comprehensive income and estimated tax payments were made when required by U.S. law.

Treatment of Toll Charge Related to the U.S. TCJA

Beginning in the fourth quarter of 2017, the Sohu Group had recognized a provisional amount of income tax expense for the Toll Charge of \$219 million, which represented management's estimate of the amount of the Toll Charge that would have been payable by Sohu.com Inc. based on the deemed repatriation to the United States of its share of previously deferred earnings of certain of its non-U.S. subsidiaries, offset by a reduction of \$4 million in liability for deferred U.S. income tax, as a result of the U.S. TCJA. The Sohu Group included the provisional amount of the Toll Charge of \$219 million in its interim financial statements through the quarter ended September 30, 2018, in reliance on SAB 118.

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For the fourth quarter of 2018, the Sohu Group's management re-evaluated the impact on the Sohu Group of the Toll Charge under the U.S. TCJA. Management determined that it was more likely than not, based on the technical merits, that the tax position that the Sohu Group had no Toll Charge liability would be sustained. The Group recognized a tax benefit in the amount of \$77 million, which was the largest amount that management determined to be greater than 50% likely to be realized upon settlement with the U.S. IRS. As a result, as of December 31, 2018, the Sohu Group had an unrecognized tax benefit in the amount of \$142 million, which represented the difference between the tax benefit recognized in the fourth quarter of 2018 and management's previous estimate of the Toll Charge. The estimate remained unchanged as of December 31, 2019. In addition, the Sohu Group accrued \$2 million and \$8 million, respectively, in interest on the unrecognized tax benefit for the years of 2018 and 2019.

The tax benefit recognized and the unrecognized tax benefit in relation to the Toll Charge may be subject to further adjustment in subsequent periods based on facts and circumstances that arose after December 31, 2019, such as any IRS assessments upon audit and management's further judgment and estimates.

Cayman Island Tax

Under the current tax laws of the Cayman Islands, the Group is not subject to tax on its income or capital gains. In addition, no Cayman Islands withholding tax will be imposed upon the payment of dividends by the Group to its shareholders.

Hong Kong Tax

The Group's subsidiaries incorporated in Hong Kong are subject to profits tax in Hong Kong at the rate of 16.5% for each of the years ended December 31, 2017, 2018 and 2019.

Composition of Income Tax Expense

Sohu.com Inc., which was the former top-tier entity of the Sohu Group, was a Delaware corporation that was subject to United States income tax. On May 31, 2018, Sohu.com Inc. was dissolved and liquidated and Sohu.com Limited became the top-tier entity of the Sohu Group. Sohu.com Limited is not subject to income or capital gains tax under the current laws of the Cayman Islands. There are no other taxes likely to be material to Sohu.com Limited levied by the government of the Cayman Islands.

The components of income before income taxes are as follows (in thousands):

	Year ended December 31,		
	2017	2018	2019
Income /(loss) before income tax expense			
Income /(loss) from China operations	\$ (55,874)	\$ (2,865)	\$ (4,390)
Income /(loss) from non-China operations	(120,962)	(33,092)	26,173
Total income /(loss) before income tax expense	<u>\$(176,836)</u>	<u>\$(35,957)</u>	<u>\$21,783</u>
Income tax expense applicable to China operations			
Current tax	\$ 56,938	\$ 15,040	\$14,510
Deferred tax	343	49,598	8,455
Subtotal income tax expense applicable to China operations	57,281	64,638	22,965
Non-China income tax expense/(benefit)	214,737	(78,540)	7,887
Non-China withholding tax expense	618	469	324
Total income tax expense	<u>\$ 272,636</u>	<u>\$(13,433)</u>	<u>\$31,176</u>

In 2019, of the 31.2 million total income tax expense, \$23.0 million was for PRC tax, resulting primarily from accrued regular income tax expense of \$41.5 million, offset by a reversal of PRC income tax expense of \$19.5 million by Changyou due to preferential tax rates that Changyou's subsidiaries were entitled to as KNSE and Software enterprises, and \$8 million was for U.S. corporate income tax, resulting primarily from accrued interest on an unrecognized tax benefit.

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For the fourth quarter of 2018, the Sohu Group's management re-evaluated the impact on the Sohu Group of the Toll Charge under the U.S. TCJA. Management determined that it was more likely than not, based on the technical merits, that the tax position that the Sohu Group had no Toll Charge liability would be sustained. The Group recognized a tax benefit in the amount of \$77 million, which was the largest amount that management determined to be greater than 50% likely to be realized upon settlement with the U.S. IRS. As a result, as of December 31, 2018 the Sohu Group had an unrecognized tax benefit in the amount of \$142 million, which represented the difference between the tax benefit recognized in the fourth quarter of 2018 and management's previous estimate of the Toll Charge. In addition, the Sohu Group accrued \$2 million in interest on the unrecognized tax benefit.

In 2017, of the \$272.6 million income tax expense, \$55.9 million was for PRC tax, mainly attributable to the Sohu Group's business operations, and \$214.7 million was for U.S. corporate income tax, resulting primarily from the Company's recognition in the fourth quarter of 2017 of \$219 million for the Toll Charge, which represented management's estimate of the amount of the Toll Charge that would have been payable by Sohu.com Inc. based on the deemed repatriation to the United States of Sohu.com Inc.'s share of previously deferred earnings of certain non-U.S. subsidiaries of Sohu.com Inc., offset by a reduction of \$4 million in liability for deferred U.S. income tax as a result of the U.S. TCJA. See "Treatment of Toll Charge Related to the U.S. TCJA" above.

The combined effects of the income tax exemption and reduction available to the Group are as follows (in thousands, except per share data):

	Year Ended December 31,		
	2017	2018	2019
Tax holiday effect	\$17,736	\$28,385	\$10,110
Basic net income per share effect	0.46	0.73	0.26

Effective Tax Rate

The CIT Law applies an income tax rate of 25% to all enterprises, but grants preferential tax treatment to HNTes, Software Enterprises, and KNSEs.

The U.S. TCJA significantly modified the U.S. Internal Revenue Code by, among other things, reducing the statutory U.S. federal corporate income tax rate from 35% to 21% for taxable years beginning after December 31, 2017; limiting and/or eliminating many business deductions; migrating the U.S. to a territorial tax system with a one-time Toll Charge on a mandatory deemed repatriation of previously deferred foreign earnings of certain foreign subsidiaries; subject to certain limitations, generally eliminating U.S. corporate income tax on dividends from foreign subsidiaries; and providing for new taxes on certain foreign earnings.

The following is reconciliation between the statutory rate and the Group's effective tax rate. For 2017, the statutory rate represented the U.S. statutory rate of 35%, and for 2018 and 2019, the statutory rate represented the PRC statutory rate of 25%. The table does not reflect any accruals related to the Toll Charge. See "U.S. Corporate Income Tax" and "Treatment of Toll Charge Related to the U.S. TCJA."

	Year Ended December 31,		
	2017	2018	2019
Statutory Rate:	35%	25%	25%
Effect of tax holidays applicable to subsidiaries and consolidated VIEs (1)	10%	79%	(46%)
Tax differential from statutory rate applicable to subsidiaries and consolidated VIEs	(14%)	(6%)	(12%)
Effect of withholding taxes (2)	(2%)	(147%)	40%
Changes in valuation allowance for deferred tax assets	(56%)	(128%)	260%
Research and development super-deduction	9%	66%	(142%)
Others	(13%)	(55%)	(17%)
	<u>(31%)</u>	<u>(166%)</u>	<u>108%</u>

Note (1): The reversal of income tax for preferential income tax rates that Changyou's and Sogou's subsidiaries and VIEs were entitled to as KNSEs or Software Enterprises for 2017, 2018 and 2019 was included in the "Effect of tax holidays applicable to subsidiaries and consolidated VIEs" in the above table.

Note (2): The change was mainly due to additional income withholding tax of \$47 million that was recognized in the first quarter of 2018 due to a revised policy for Changyou's PRC subsidiaries with respect to their distribution of cash dividends. The revised policy was adopted to facilitate the distribution of a special cash dividend in the aggregate amount of approximately \$500.0 million that was declared by Changyou's Board of Directors on April 5, 2018.

PRC Withholding Tax on Dividends

The CIT Law imposes a 10% withholding income tax on dividends distributed by foreign invested enterprises in the PRC to their immediate holding companies outside Mainland China. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign holding company. A holding company in Hong Kong, for example, will be subject to a 5% withholding tax rate under an arrangement between the PRC and the Hong Kong Special Administrative Region on the “Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income,” if such holding company is considered a non-PRC resident enterprise and holds at least 25% of the equity interests in the PRC foreign invested enterprise distributing the dividends, subject to approval of the PRC local tax authority. However, if the Hong Kong holding company is not considered to be the beneficial owner of such dividends under applicable PRC tax regulations, such dividend will remain subject to a withholding tax rate of 10%.

Before 2018, in order to fund the distribution of a dividend to shareholders of the Sohu Group’s majority-owned subsidiary Changyou, Changyou’s management determined to cause one of its PRC subsidiaries to declare and distribute a cash dividend of all of its stand-alone 2012 earnings and half of its stand-alone subsequent years’ earnings to its direct overseas parent company, Changyou HK, and adopted as a policy for such subsequent years for its PRC subsidiaries a limit on payment of dividends to their direct overseas parent companies of one-half of such PRC subsidiaries’ earnings. In 2018, in order to facilitate the distribution of a special cash dividend of \$500.0 million declared by Changyou’s board of directors on April 5, 2018, Changyou revised its policy for its PRC subsidiaries with respect to their distribution of cash dividends. Under the revised policy, all of Changyou’s PRC subsidiaries (not including Changyou’s VIEs and their subsidiaries) will be able to distribute their cumulative available and undistributed earnings to their direct overseas parent companies in future periods. The change resulted in Changyou’s accrual of additional withholding income taxes of approximately \$47 million for the period before December 31, 2017, which was recognized in the Sohu Group’s consolidated financial statements for the quarter ended March 31, 2018. As of December 31, 2019, the Sohu Group had accrued deferred tax liabilities related to Changyou in the amount of \$86.8 million for PRC withholding tax.

With the exception of that dividend, the Sohu Group does not intend to have any of its PRC subsidiaries or VIEs distribute any undistributed profits of such subsidiaries or VIEs to their direct overseas parent companies, but rather intends that such profits will be permanently reinvested by such subsidiaries and VIEs for their PRC operations. As of December 31, 2019, the total amount of undistributed profits from the PRC subsidiaries and VIEs for which no withholding tax had been accrued was \$743.9 million, and the unrecognized tax liabilities were \$74.4 million.

PRC Value-Added Tax

On May 1, 2016, the transition from the imposition of PRC business tax to the imposition of VAT was expanded to all industries in China, and as a result all of the Sohu Group’s revenues have been subject to VAT since that date. To record VAT payable, the Group adopted the net presentation method, which presents the difference between the output VAT (at rates of 6% or 17% for the year ended December 31, 2017 and for the period from January 1, 2018 to April 30, 2018, at rates of 6% or 16% for the period from May 1, 2018 to March 31, 2019, and at rates of 6% or 13% after April 1, 2019) and the available input VAT amount (at the rate applicable to the supplier).

Deferred Tax Assets and Liabilities

Significant components of the Group’s deferred tax assets and liabilities consist of the following (in thousands):

	As of December 31,	
	2018	2019
Deferred tax assets:		
Net operating loss from operations	\$ 257,955	\$ 290,266
Accrued bonus and commissions	26,704	25,457
Provision for inventory and doubtful receivables	3,931	7,517
Intangible assets transfer	1,524	916
Others	9,250	18,132
Total deferred tax assets	299,364	342,288
Less: Valuation allowance	(272,008)	(311,813)
Net deferred tax assets	\$ 27,356	\$ 30,475
Deferred tax liabilities		
Withholding tax for Dividend	\$ (79,824)	\$ (86,834)
Intangible assets from business acquisitions	(1,087)	0
Others	(4,353)	(9,070)
Total deferred tax liabilities	\$ (85,264)	\$ (95,904)

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Net deferred tax assets are recorded under other assets in the consolidated balance sheets. As of December 31, 2019, the Group had net operating losses from PRC entities of approximately \$1.43 billion available to offset against future net profit for income tax purposes. The Group anticipates that it is more likely than not that these net operating losses may not be utilized based on its estimate of the operation performance of these PRC entities; therefore, \$283.4 million in deferred tax assets generated from net operating losses were offset by a valuation allowance.

The following table sets forth the movement of the valuation allowances for deferred tax assets for the years presented (in thousands):

	For the Year Ended December 31,		
	2017	2018	2019
Beginning balance	\$214,531	250,096	272,008
Provision for the year	56,259	41,405	52,939
Reversal for the year	(33,392)	(7,726)	(8,650)
Foreign currency translation adjustment	12,698	(11,767)	(4,484)
Ending balance	<u>\$250,096</u>	<u>272,008</u>	<u>311,813</u>

In 2019, \$15.9 million of PRC net operating losses generated from previous years expired. Pursuant to a public announcement issued by the PRC State Administration of Taxation in August 2018, net operating losses of entities not qualified as HNTEs will expire between 2020 and 2024 if not utilized and those of entities qualified as HNTEs will expire in 2029.

Uncertain Tax Positions

The following table summarizes the Group's unrecognized tax benefit from January 1, 2017 to December 31, 2019 (in thousands):

	As of December 31,		
	2017	2018	2019
Beginning balance	\$32,682	\$ 31,138	\$174,363
Increases /(decreases) related to prior year tax positions	(1,544)	(1,190)	7,300
Increases related to current year tax positions	0	144,415	0
Ending balance	<u>\$31,138</u>	<u>\$174,363</u>	<u>\$181,663</u>

The increase in 2019 was mainly due to \$8 million interest recognized in connection with an unrecognized tax benefit for the year ended December 31, 2019.

The increase in 2018 was mainly due to an unrecognized tax benefit in the amount of \$142 million, which represented the difference between the tax benefit recognized in the fourth quarter of 2018 in relation to the Toll Charge and management's previous estimate of the Toll Charge that would have been due by Sohu.com Inc. if it had not been dissolved and liquidated on May 31, 2018. The Group recognized interest in the amount of \$2 million in connection with the unrecognized tax benefit for the year ended December 31, 2018. The Group did not have any significant penalties associated with tax positions for the year ended December 31, 2018.

The material jurisdictions in which the Group is subject to potential examination include China and the United States. In general, the PRC tax authorities have up to five years, and the U.S. IRS has up to three years and in certain cases up to six years, to conduct examinations of the tax filings of the Group.

17. COMMITMENTS AND CONTINGENCIES

Commitments

The following table sets forth the Group's commitments as of December 31, 2019 (in thousands):

	2020	2021	2022	2023	2024	Thereafter	Total Payments Required
Purchase of bandwidth	\$50,405	352	0	0	0	0	50,757
Operating rights for licensed games and titles of games in development	12,806	600	0	0	0	0	13,406
Purchase of content and services – video	7,429	2,013	0	0	0	0	9,442
Purchase of content and services – others	5,526	180	53	18	0	0	5,777
Goods purchases	5,633	0	0	0	0	0	5,633
Operating lease obligations	3,020	93	10	0	0	0	3,123
Interest payment commitment	2,164	0	0	0	0	0	2,164
Others	3,127	460	0	0	0	0	3,587
Total Payments Required	\$90,110	3,698	63	18	0	0	93,889

Litigation

The Sohu Group is a party to various litigation matters which it considers routine and incidental to its business. The Sohu Group records a liability when the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. The Sohu Group evaluates, on a regular basis, developments in litigation matters that could affect the amount of liability that has been previously accrued and makes adjustments as appropriate. Management believes that the total liabilities to the Sohu Group that may arise as a result of currently pending legal proceedings will not have a material adverse effect on the Group's business, results of operations, financial condition and cash flows. Sogou is currently involved in several lawsuits in PRC courts where its competitors instituted proceedings or asserted counterclaims against the Sogou or the Sogou instituted proceedings or asserted counterclaims against its competitors. There are also two putative class action lawsuits that have been filed against Sogou in the United States, one in a State court in the State of California and one in the United States District Court for the Southern District of New York, that allege violations of U.S. securities laws in connection with Sogou's IPO in 2017. As of December 31, 2019, Sohu and Changyou had no significant litigation contingencies, and Sogou had recorded estimated liabilities of \$6.5 million for litigation contingencies as a component of accrued liabilities related to its currently pending proceedings.

PRC Law and Regulations

The Chinese market in which the Sohu Group operates poses certain macro-economic and regulatory risks and uncertainties. These uncertainties extend to the ability to operate an Internet business and to conduct brand advertising, search and search-related advertising, online game, and other services in the PRC. Though the PRC has, since 1978, implemented a wide range of market-oriented economic reforms, continued reforms and progress towards a full market-oriented economy are uncertain. In addition, the telecommunication, information, and media industries remain highly regulated. Restrictions are currently in place and are unclear with respect to which segments of these industries foreign-owned entities, like the Sohu Group, may operate. The Chinese government may issue from time to time new laws or new interpretations of existing laws to regulate areas such as telecommunication, information and media. The Sohu Group's legal structure and scope of operations in China could be subject to restrictions, which could result in limits on its ability to conduct business in the PRC. Certain risks related to PRC law that could affect the Sohu Group's VIE structure are discussed in Note 18 - VIEs.

Regulatory risks also encompass interpretation by PRC tax authorities of current tax law, including the applicability of certain preferential tax treatments.

The Sohu Group's sales, purchase and expense transactions are generally denominated in RMB and a significant portion of its assets and liabilities are denominated in RMB. The RMB is not freely convertible into foreign currencies. In China, foreign exchange transactions are required by law to be transacted only by authorized financial institutions. Remittances in currencies other than RMB by its subsidiaries in China may require certain supporting documentation in order to effect the remittance.

18. VIEs

Background

PRC laws and regulations prohibit or restrict foreign ownership of companies that operate Internet information and content, Internet access, online games, mobile, value added telecommunications and certain other businesses in which the Sohu Group is engaged or could be deemed to be engaged. Consequently, the Sohu Group conducts certain of its operations and businesses in the PRC through its VIEs. The Sohu Group consolidates in its consolidated financial statements all of the VIEs of which the Group is the primary beneficiary.

VIEs Consolidated within the Sohu Group

The Sohu Group adopted the guidance of accounting for VIEs, which requires VIEs to be consolidated by the primary beneficiary of the entity. Management made evaluations of the relationships between the Sohu Group and its VIEs and the economic benefit flow of contractual arrangements with the VIEs. In connection with such evaluation, management also took into account the fact that, as a result of contractual arrangements with its consolidated VIEs, the Sohu Group controls the shareholders' voting interests in those VIEs. As a result of such evaluation, the management concluded that the Sohu Group is the primary beneficiary of the VIEs which the Group consolidates.

All of the consolidated VIEs are incorporated and operated in the PRC, and the Group's principal VIEs are directly or indirectly owned by Dr. Charles Zhang, the Sohu Group's Chairman and Chief Executive Officer, or other executive officers and employees of the Sohu Group identified below. Capital for the consolidated VIEs was funded by the Sohu Group through loans provided to Dr. Charles Zhang and other executive officers and employees, and was initially recorded as loans to related parties. These loans are eliminated for accounting purposes against the capital of the VIEs upon consolidation.

Under contractual agreements with the Sohu Group, Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs are required to transfer their ownership in these entities to the Group, if permitted by PRC laws and regulations, or, if not so permitted, to designees of the Group at any time as requested by the Group to repay the loans outstanding. All voting rights of the consolidated VIEs are assigned to the Sohu Group, and the Group has the right to designate all directors and senior management personnel of the consolidated VIEs, and also has the obligation to absorb losses of the consolidated VIEs. Dr. Charles Zhang and those other executive officers and employees of the Sohu Group who are shareholders of the consolidated VIEs have pledged their shares in the consolidated VIEs as collateral for the loans. As of December 31, 2019, the aggregate amount of these loans was \$7.7 million.

Under its contractual arrangements with the consolidated VIEs, the Sohu Group has the power to direct activities of the VIEs, and can have assets transferred freely out of the VIEs without any restrictions. Therefore, the Group considers that there is no asset of a consolidated VIE that can be used only to settle obligations of the VIEs, except for registered capital and PRC statutory reserves of the VIEs. As of December 31, 2019, the registered capital and PRC statutory reserves of the consolidated VIEs totaled \$83.5 million. As all of the consolidated VIEs are incorporated as limited liability companies under the PRC Company Law, creditors of the consolidated VIEs do not have recourse to the general credit of the Sohu Group for any of the liabilities of the consolidated VIEs. Currently there is no contractual arrangement that could require the Sohu Group to provide additional financial support to the consolidated VIEs. As the Sohu Group is conducting certain business in the PRC mainly through the consolidated VIEs, the Group may provide such support on a discretionary basis in the future, which could expose the Group to a loss.

The Sohu Group classified the consolidated VIEs within the Sohu Group as principal VIEs or immaterial VIEs based on certain criteria, such as the VIEs' total assets or revenues. The following is a summary of the principal VIEs within the Sohu Group:

Basic Information for Principal VIEs and Subsidiaries of Principal VIEs

For Sohu's Business

- High Century
High Century was incorporated in 2001. As of December 31, 2019, Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.
- Heng Da Yi Tong
Heng Da Yi Tong was incorporated in 2002. As of December 31, 2019, Dr. Charles Zhang and Wei Li held 80% and 20% interests, respectively, in this entity.
- Sohu Internet

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Sohu Internet was incorporated in 2003. As of December 31, 2019, High Century held a 100% interest in this entity.

- Donglin

Donglin was incorporated in 2010. As of December 31, 2019, Sohu Internet held a 100% interest in this entity.

- Tianjin Jinhu

Tianjin Jinhu was incorporated in 2011. In October 2016, Ye Deng transferred its 50% equity interest in Tianjin Jinhu to Xiufeng Deng. As of December 31, 2019, Xiufeng Deng and Xuemei Zhang each held a 50% interest in this entity.

- Focus Interactive

Focus Interactive was incorporated in July 2014. As of December 31, 2019, Heng Da Yi Tong held 100% of the equity interests in this entity.

For Sogou's Business

- Sogou Information

Sogou Information was incorporated in 2005. As of December 31, 2019, Xiaochuan Wang, Sogou's Chief Executive Officer, High Century and Tencent held 10%, 45% and 45% interests, respectively, in this entity.

- Chengdu Easypay

Chengdu Easypay was incorporated in 2015. As of December 31, 2019, Sogou Information and Beijing Shi Ji Si Su Technology Co., Ltd. ("Shi Ji Si Su"), a subsidiary of Sogou Information, held 9% and 91% interests, respectively, in this entity.

For Changyou's Business

- Gamease

Gamease was incorporated in 2007. As of December 31, 2019, High Century held a 100% interest in this entity.

- Shanghai ICE

Shanghai ICE was acquired by Changyou in 2010. As of December 31, 2019, Gamease held a 100% interest in this entity.

- Guanyou Gamespace

Guanyou Gamespace was incorporated in 2010. As of December 31, 2019, Beijing Changyou Star Digital Technology Co., Ltd ("Changyou Star") held a 100% interest in this entity.

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The following financial information of the Sohu Group's consolidated VIEs (including subsidiaries of VIEs) is included in the accompanying consolidated financial statements (in thousands):

	As of December 31,	
	2018	2019
ASSETS:		
Cash and cash equivalents	\$ 65,864	\$ 52,744
Restricted cash	697	6,474
Account and financing receivables, net	122,884	140,300
Prepaid and other current assets	20,554	17,528
Short-term investments	7,305	7,192
Intra-Group receivables due from the Company's subsidiaries	390,157	420,103
Total current assets	<u>607,461</u>	<u>644,341</u>
Long-term investments, net	45,871	43,657
Fixed assets, net	1,793	1,400
Intangible assets, net	18,240	6,832
Goodwill	36,353	36,194
Other non-current assets	1,925	16,656
Total assets	<u>\$ 711,643</u>	<u>\$ 749,080</u>
LIABILITIES:		
Accounts payable	\$ 84,749	\$ 74,781
Accrued liabilities	60,555	64,874
Receipts in advance and deferred revenue	43,020	47,735
Other current liabilities	86,851	80,859
Intra-Group payables due to the Company's subsidiaries	273,672	300,601
Total current liabilities	<u>548,847</u>	<u>568,850</u>
Long-term tax liabilities	13,554	13,220
Deferred tax liabilities	2,239	1,998
Intra-Group payables due to the Company's subsidiaries	18,897	18,599
Other long-term liabilities	0	1,130
Total liabilities	<u>\$ 583,537</u>	<u>\$ 603,797</u>

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	As of December 31,		
	2017	2018	2019
Net revenue	\$881,284	\$923,131	\$1,013,452
Net income /(loss)	\$ 34,910	\$ (18,436)	\$ 18,116

	Year ended December 31,		
	2017	2018	2019
Net cash provided by /(used in) operating activities	\$(52,351)	\$ 69,925	\$ (7,084)
Net cash used in investing activities	(14,020)	(49,271)	(18,481)
Net cash provided by /(used in) financing activities	\$ (131)	\$ 650	\$ 8,601

Summary of Significant Agreements Currently in Effect

Agreements between Subsidiaries, Consolidated VIEs and Nominee Shareholders

Loan and share pledge agreement between Sohu Media and the shareholders of High Century: The agreement provides for loans to the shareholders of High Century for them to make contributions to the registered capital of High Century in exchange for the equity interests in High Century, and the shareholders pledge those equity interests to Sohu Media as security for the loans. The agreement includes powers of attorney that give Sohu Media the power to appoint nominees to act on behalf of the shareholders of High Century in connection with all actions to be taken by High Century. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in High Century, which are held by the Sohu Group's legal department and may be completed and effected at Sohu Media's election.

Loan and share pledge agreement between Sohu Focus HK and the shareholders of Heng Da Yi Tong: The agreement provides for loans to the shareholders of Heng Da Yi Tong for them to make contributions to the registered capital of Heng Da Yi Tong in exchange for the equity interests in Heng Da Yi Tong, and the shareholders pledge those equity interests to Focus HK as security for the loans. The agreement includes powers of attorney that give Focus HK the power to appoint nominees to act on behalf of the shareholders of Heng Da Yi Tong in connection with all actions to be taken by Heng Da Yi Tong. Pursuant to the agreement, the shareholders executed in blank transfers of their equity interests in Heng Da Yi Tong, which are held by the Sohu Group's legal department and may be completed and effected at Focus HK's election.

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Loan agreements and equity pledge agreements between Video Tianjin and the shareholders of Tianjin Jinhui. The loan agreements provide for loans to the shareholders of Tianjin Jinhui for them to make contributions to the registered capital of Tianjin Jinhui in exchange for the equity interests in Tianjin Jinhui. Under the equity pledge agreements, the shareholders of Tianjin Jinhui pledge to Video Tianjin their equity interests in Tianjin Jinhui to secure the performance of their obligations under the loan agreements and Tianjin Jinhui's obligations to Video Tianjin under their business agreements. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to Video Tianjin their equity interests in Tianjin Jinhui.

Exclusive equity interest purchase right agreements between Video Tianjin, Tianjin Jinhui and the shareholders of Tianjin Jinhui. Pursuant to these agreements, Video Tianjin and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Tianjin Jinhui all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Video Tianjin, Tianjin Jinhui and the shareholders of Tianjin Jinhui. The agreement sets forth the right of Video Tianjin to control the actions of the shareholders of Tianjin Jinhui. The agreement has a term of 10 years, renewable at the request of Video Tianjin.

Powers of Attorney executed by the shareholders of Tianjin Jinhui in favor of Video Tianjin with a term of 10 years, extendable at the request of Video Tianjin. These powers of attorney give Video Tianjin the right to appoint nominees to act on behalf of each of the Tianjin Jinhui shareholders in connection with all actions to be taken by Tianjin Jinhui.

Loan and share pledge agreements between Sogou Technology and the shareholders of Sogou Information. The loan agreement provides for a loan to Xiaochuan Wang, the individual shareholder of Sogou Information, to be used by him to make contributions to the registered capital of Sogou Information in exchange for his equity interest in Sogou Information. The loan is interest free and is repayable on demand, but the shareholder may repay the loan only by transferring to Sogou Technology his equity interest in Sogou Information. Under the pledge agreement, all of the shareholders of Sogou Information pledge their equity interests to Sogou Technology to secure the performance of their obligations under the various VIE-related agreements. If any shareholder of Sogou Information breaches any of his or its obligations under any VIE-related agreements, Sogou Technology is entitled to exercise its right as the beneficiary under the share pledge agreement. The share pledge agreement terminates only after all of the obligations of the shareholders under the various VIE-related agreements are no longer in effect.

Exclusive equity interest purchase right agreements between Sogou Technology, Sogou Information and the shareholders of Sogou Information. Pursuant to these agreements, Sogou Technology and any third party designated by it have the right, exercisable at any time when it becomes legal to do so under PRC law, to purchase from the shareholders of Sogou Information all or any part of their equity interests at the lowest purchase price permissible under PRC law.

Business operation agreement among Sogou Technology, Sogou Information and the shareholders of Sogou Information. The agreement sets forth the right of Sogou Technology to control the actions of the shareholders of Sogou Information. The agreement has a term of 10 years, renewable at the request of Sogou Technology.

Powers of Attorney executed by the shareholders of Sogou Information in favor of Sogou Technology with a term of 10 years, extendable at the request of Sogou Technology. These powers of attorney give Sogou Technology the right to appoint nominees to act on behalf of each of the three Sogou Information shareholders in connection with all actions to be taken by Sogou Information.

Loan agreements and equity pledge agreements between AmazGame and the sole shareholder of Gamease and between Gamespace and the sole shareholder of Guanyou Gamespace. The loan agreements provide for loans to the respective shareholders of Gamease and Guanyou Gamespace for the shareholders to make contributions to the registered capital of Gamease and Guanyou Gamespace in exchange for 100% of the equity interests in Gamease and Guanyou Gamespace. The loans are interest free and are repayable on demand, but the shareholders can only repay the loans by transferring to AmazGame and Gamespace, as the case may be, their equity interests in Gamease and Guanyou Gamespace. Under the equity pledge agreements, the respective shareholders of Gamease and Guanyou Gamespace pledge to AmazGame and Gamespace, their equity interests in Gamease and Guanyou Gamespace to secure the performance of their obligations under the loan agreements and Gamease's and Guanyou Gamespace's obligations to AmazGame and Gamespace under the various VIE-related agreements. If the shareholders breach their obligations under any VIE-related agreements (Gamease's or Guanyou Gamespace's breach of any of its obligations under the various applicable VIE-related agreements will be treated as its shareholder's breach of its obligations), including the equity pledge agreements, AmazGame and Gamespace are entitled to exercise their rights as the beneficiaries under the applicable equity pledge agreements, including all rights the respective shareholders have as shareholders of Gamease or Guanyou Gamespace.

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Equity interest purchase right agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right, exercisable at any time if and when it is legal to do so under PRC law, to purchase from the respective shareholders of Gamease and Guanyou Gamespace all or any part of their equity interests in Gamease and Guanyou Gamespace at a purchase price equal to their initial contributions to the registered capital of Gamease and Guanyou Gamespace.

Powers of attorney executed by the sole shareholder of Gamease in favor of AmazGame and by the sole shareholder of Guanyou Gamespace in favor of Gamespace, with a term of 10 years. These powers of attorney give the respective boards of directors of AmazGame and Gamespace the right to appoint nominees to act on behalf of their respective shareholders in connection with all actions to be taken by Gamease and Guanyou Gamespace.

Business operation agreements among AmazGame, Gamease and the sole shareholder of Gamease and among Gamespace, Guanyou Gamespace and the sole shareholder of Guanyou Gamespace. These agreements set forth the right of AmazGame and Gamespace to control the actions of Gamease and Guanyou Gamespace, as the case may be, and the respective shareholders of Gamease and Guanyou Gamespace. Each agreement has a term of 10 years.

Business Arrangements between Subsidiaries and Consolidated VIEs

Exclusive technology consulting and service agreement between Sohu Era and Sohu Internet. Pursuant to this agreement Sohu Era has the right to provide technical consultation and other related services to Sohu Internet, in exchange for a percentage of the gross revenue of Sohu Internet. The agreement has an initial term of two years, and is renewable at the request of Sohu Era.

Exclusive technology consulting and service agreement between Video Tianjin and Tianjin Jinhu. Pursuant to this agreement Video Tianjin has the right to provide technical consultation and other related services to Tianjin Jinhu in exchange for a fee. The agreement has a term of 10 years and is renewable at the request of Video Tianjin.

Exclusive technology consulting and service agreement between Sogou Technology and Sogou Information. Pursuant to this agreement Sogou Technology has the right to provide technical consultation and other related services to Sogou Information in exchange for a fee. The agreement has a term of 10 years and is renewable at the request of Sogou Technology.

Technology support and utilization agreements between AmazGame and Gamease and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace have the right to provide certain product development and application services and technology support to Gamease and Guanyou Gamespace, respectively, for a fee equal to a predetermined percentage, subject to adjustment by AmazGame or Gamespace at any time, of Gamease's and Guanyou Gamespace's respective revenues. Each agreement terminates only when AmazGame or Gamespace is dissolved.

Services and maintenance agreements between AmazGame and Gamease, and between Gamespace and Guanyou Gamespace. Pursuant to these agreements, AmazGame and Gamespace, respectively, provide marketing, staffing, business operation and maintenance services to Gamease and Guanyou Gamespace, respectively, in exchange for a fee equal to the cost of providing such services plus a predetermined margin. Each agreement terminates only when AmazGame or Gamespace, as the case may be, is dissolved.

Certain of the contractual arrangements described above between the VIEs and the related wholly-owned subsidiaries of the Sohu Group are silent regarding renewals. However, because the VIEs are controlled by the Sohu Group through powers of attorney granted to the Sohu Group by the shareholders of the VIEs, the contractual arrangements can be, and are expected to be, renewed at the subsidiaries' election.

VIE-Related Risks

It is possible that the Sohu Group's operation of certain of its operations and businesses through VIEs could be found by PRC authorities to be in violation of PRC law and regulations prohibiting or restricting foreign ownership of companies that engage in such operations and businesses. If a finding were made by PRC authorities that the Sohu Group's operation of certain of its operations and businesses through VIEs is prohibited, regulatory authorities with jurisdiction over the licensing and operation of such operations and businesses would have broad discretion in dealing with such a violation, including levying fines, confiscating the Sohu Group's income, revoking the business or operating licenses of the affected businesses, requiring the Sohu Group to restructure its ownership structure or operations, or requiring the Sohu Group to discontinue all or any portion of its operations. Any of these actions could cause significant disruption to the Sohu Group's business operations, and have a severe adverse impact on the Sohu Group's cash flows, financial position, and operating performance. The Sohu Group's management considers the possibility of such a finding by PRC regulatory authorities to be remote.

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In addition, it is possible that the contracts among the Sohu Group, the Sohu Group's VIEs and shareholders of its VIEs would not be enforceable in China if PRC government authorities or courts were to find that such contracts contravene PRC law and regulations or are otherwise not enforceable for public policy reasons. In the event that the Sohu Group was unable to enforce these contractual arrangements, the Sohu Group would not be able to exert effective control over the affected VIEs. Consequently, such VIEs' results of operations, assets and liabilities would not be included in the Sohu Group's consolidated financial statements. If such were the case, the Sohu Group's cash flows, financial position and operating performance would be severely adversely affected. The Sohu Group's contractual arrangements with respect to its consolidated VIEs are in place. The Sohu Group's management believes that such contracts are enforceable, and considers the possibility remote that PRC regulatory authorities with jurisdiction over the Sohu Group's operations and contractual relationships would find the contracts to be unenforceable.

The Sohu Group's operations and businesses rely on the operations and businesses of its VIEs, which hold certain recognized and unrecognized revenue-producing assets. The recognized revenue-producing assets include goodwill and intangible assets acquired through business acquisitions. Goodwill primarily represents the expected synergies from combining an acquired business with the Sohu Group. Intangible assets acquired through business acquisitions mainly consist of customer relationships, non-compete agreements, user bases, copyrights, trademarks and developed technologies. Unrecognized revenue-producing assets mainly consist of licenses and intellectual property. Licenses include operations licenses, such as Internet information service licenses and licenses for providing content. Intellectual property developed by the Sohu Group mainly consists of patents, copyrights, trademarks, and domain names. The Sohu Group's operations and businesses may be adversely impacted if the Sohu Group loses the ability to use and enjoy assets held by these VIEs.

19. SOHU.COM LIMITED SHAREHOLDERS' EQUITY

Summary of the Company's outstanding shares (in thousands):

	Number of Outstanding Shares		
	As of December 31,		
	2017	2018	2019
Balance, beginning of year	38,742	38,898	39,229
Issuance:	156	331	40
Balance, end of year	<u>38,898</u>	<u>39,229</u>	<u>39,269</u>

Share Incentive Plans

Sohu (excluding Sohu Video), Sogou, Changyou, and Sohu Video have incentive plans for the granting of share-based awards, including options and restricted share units, to their directors, management and other key employees.

1) Sohu.com Limited Share-based Awards

Sohu's 2018 Share Incentive Plan

On July 2, 2010, Sohu.com Inc.'s shareholders adopted the 2010 Stock Incentive Plan, which provides for the issuance of up to 1,500,000 shares of Sohu.com Inc.'s common stock, including stock issued pursuant to the vesting and settlement of restricted stock units and pursuant to the exercise of stock options. The maximum term of any share-based award granted under the Sohu 2010 Stock Incentive Plan is ten years from the grant date.

On April 2, 2018, Sohu.com Limited adopted the Sohu 2018 Share Incentive Plan, which provides for the issuance of up to 1,148,565 ordinary shares of Sohu.com Limited. The Sohu 2018 Share Incentive Plan will expire in April 2028.

Upon the dissolution of Sohu.com Inc. on May 31, 2018, Sohu.com Limited assumed all then existing obligations of Sohu.com Inc. with respect to equity incentive awards that had been granted under the Sohu 2010 Stock Incentive Plan and then remained outstanding, and such awards were converted into the right to receive upon exercise or settlement Sohu.com Limited's ordinary shares under the Sohu 2018 Share Incentive Plan rather than shares of the common stock of Sohu.com Inc., subject to the other terms of such outstanding awards.

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As of December 31, 2019, 189,405 shares were available for grant under the Sohu 2018 Share Incentive Plan.

i) Summary of Share Option Activity

In February 2015, May 2016, September 2017 and November 2017, Sohu.com Inc.'s Board of Directors approved contractual grants to members of the Company's management and key employees of options for the purchase of an aggregate of 1,068,000, 13,000, 32,000 and 6,000 shares of common stock of Sohu.com Inc., respectively, under the Sohu 2010 Stock Incentive Plan, with nominal exercise prices of \$0.001, all of which were converted, on May 31, 2018, into the right to receive upon exercise Sohu.com Limited's ordinary shares under the Sohu 2018 Share Incentive Plan. In February 2019 and July 2019, Sohu.com Limited's Board of Directors approved contractual grants to members of the Company's management and key employees of options for the purchase of an aggregate of 20,000 and 477,500 shares of ordinary shares of Sohu.com Limited, respectively, under the Sohu 2018 Share Incentive Plan, with nominal exercise prices of \$0.001. These share options vest and become exercisable in four equal installments over a period of four years, with each installment vesting upon the satisfaction of a service period requirement and certain subjective performance targets. These share options are substantially similar to restricted share units except for the nominal exercise price, which would be zero for restricted share units.

Under ASC 718-10-25 and ASC 718-10-55, no grant date can be established for these options until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards. To determine the fair value of these options, the public market price of the underlying shares at each reporting date is used and a binomial valuation model is applied.

As of December 31, 2019, 703,625 of these options had been granted and had become vested on their respective vesting dates, as a mutual understanding of the subjective performance targets was reached between the Company and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. The cumulative share-based compensation expense for these granted options has been adjusted and fixed based on their aggregate fair values, at their respective grant dates, of \$25.3 million.

A summary of option activity under the Sohu 2018 Share Incentive Plan as of and for the year ended December 31, 2019 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding as of January 1, 2019	42	\$ 0.001		\$
Granted	125	0.001		
Exercised	(39)	0.001		
Forfeited or expired	0			
Outstanding as of December 31, 2019	128	0.001	5.21	1,434
Vested as of December 31, 2019	128	0.001	5.21	1,434
Exercisable as of December 31, 2019	128	0.001	5.21	1,434

Note (1): The aggregated intrinsic value in the preceding table represents the difference between Sohu's closing ADS price of \$11.18 on December 31, 2019 and the nominal exercise price of the options.

For the years ended December 31, 2019, 2018 and 2017, total share-based compensation expense recognized for these options was \$1.9 million, negative \$5.1 million and \$2.4 million, respectively. The negative amounts in the tables above resulted from re-measured compensation expense based on the then-current fair value of the awards on the reporting date. For the years ended December 31, 2019, 2018 and 2017, the total fair values of these Sohu options vested on their respective vesting dates were \$2.5 million, \$5.0 million and \$7.1 million, respectively. For the years ended December 31, 2019, 2018 and 2017, the total intrinsic value of options exercised was \$0.6 million, \$6.2 million and \$6.1 million, respectively.

ii) Summary of restricted stock unit activity

All of the restricted stock/share units previously granted under the Sohu 2018 Share Incentive Plan were vested as of December 31, 2018, as the requisite service period for all these awards had been completed. There has been no share-based compensation expense recognized since then.

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For the years ended December 31, 2019, 2018 and 2017, total share-based compensation expense recognized for restricted stock/share units was nil, nil and negative \$1.7 million, respectively.

As of December 31, 2019, there was nil of unrecognized compensation expense related to unvested restricted stock/share units. The total fair value on their respective vesting dates of restricted stock/share units vested during the years ended December 31, 2019, 2018 and 2017 was nil, nil and \$0.3 million, respectively.

2) Sogou Inc. Share-based Awards

Sogou 2010 Share Incentive Plan

Sogou adopted a share incentive plan on October 20, 2010, which was amended effective August 22, 2014 to increase the aggregate number of Sogou Class A Ordinary Shares issuable under the plan to 41,500,000 (as amended to date, the “Sogou 2010 Share Incentive Plan”). Awards of share rights may be granted under the Sogou 2010 Share Incentive Plan to management and other key employees of Sogou and of any present or future parents or subsidiaries or VIEs of Sogou. The maximum term of any share incentive award granted under the Sogou 2010 Share Incentive Plan is ten years from the grant date. The Sogou 2010 Share Incentive Plan will expire on October 19, 2020.

The options contractually granted under the Sogou 2010 Share Incentive Plan may be placed in one of the following three categories:

- (i) Performance-based options, which vest and become exercisable either in four equal installments or in two to four installments of specified share numbers over their specified vesting periods, with each installment vesting upon a service period requirement being met, as well as the employee grantee’s achievement, as determined by Sogou’s chief executive officer, of performance targets for the corresponding period specified by Sogou’s chief executive officer. For purposes of recognition of share-based compensation expense, each installment is considered to be granted as of the date that the performance targets have been set; or
- (ii) Service-based options, which vest and become exercisable either in four equal installments or in two to four installments of specified share numbers over their specified vesting periods, with each installment vesting only upon a service period requirement being met; or
- (iii) IPO-based options, which were subject to completion of an IPO and vesting/ exercisability in five equal installments, with (i) the first installment vesting upon the expiration of all underwriters’ lockup periods applicable to Sogou’s IPO and (ii) each of the four subsequent installments vesting on the first, second, third, and fourth anniversary dates of the completion of Sogou’s IPO.

A summary of each of the above three categories of Sogou’s share options as of December 31, 2019 is presented below:

	Contractually Granted (in thousands)	Granted (For Purposes of Share- based Compensation Expense) (in thousands)	Vested and Exercisable (in thousands)	Exercised (in thousands)
Performance-based options	29,932	28,059	27,653	26,767
Service-based options	2,031	2,031	951	481
IPO-based options	7,250	7,250	4,370	2,930
Total	<u>39,213</u>	<u>37,340</u>	<u>32,974</u>	<u>30,178</u>

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A summary of Sogou share option activity under the Sogou 2010 Share Incentive Plan as of and for the year ended December 31, 2019 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding as of January 1, 2019	6,445	\$ 0.419	5.29	\$
Granted	1,432	0.001		
Exercised	(500)	0.001		
Forfeited or expired	(215)	0.001		
Outstanding as of December 31, 2019	7,162	0.377	4.45	29,887
Vested as of December 31, 2019 and expected to vest thereafter	6,572	0.411	4.35	27,198
Exercisable as of December 31, 2019	2,796	0.033	4.42	11,819

Note (1): The aggregate intrinsic values in the preceding table represent the difference between Sogou's closing price of \$4.55 per Sogou ADS (each representing one Sogou Class A Ordinary Share) on December 31, 2019 and the exercise prices of the share options.

For the years ended December 31, 2019, 2018 and 2017, total share-based compensation expense recognized for Sogou share options under the Sogou 2010 Share Incentive Plan was \$13.5 million, \$12.5 million and \$23.0 million, respectively. As of December 31, 2019, there was \$2.7 million of unrecognized compensation expense related to unvested Sogou share options. The expense is expected to be recognized over a weighted average period of 1.56 years. For the years ended December 31, 2019, 2018 and 2017, the total intrinsic value of options exercised was \$1.6 million, \$33.2 million, and \$11.1 million, respectively.

Prior to the completion of Sogou's IPO, the fair values of Sogou Class A Ordinary Shares were assessed using the income approach /discounted cash flow method or based on the mid-point of the estimated Sogou IPO price range, in each case with a discount for lack of marketability, because the Sogou Class A Ordinary Shares underlying the award were not publicly traded at the time of grant. The assessment required complex and subjective judgments regarding Sogou's projected financial and operating results, its unique business risks, the liquidity of its ordinary shares and its operating history and prospects at the time the grants were made. After the completion of Sogou's IPO, the fair values of the ordinary shares of Sogou were determined based on the market price of Sogou's ADSs.

The fair value of the Sogou share options granted under the Sogou 2010 Incentive Plan was estimated on the date of grant with the assistance of a qualified professional appraiser, using the binomial valuation model with the following assumptions used:

Assumptions Adopted	2017	2018	2019
Average risk-free interest rate	2.14%~3.00%	3.36%~3.51%	2.60%~2.86%
Exercise multiple	2~3	2	2~3
Expected forfeiture rate (post-vesting)	0%~12%	12%	0%~12%
Weighted average expected option life	7	9	7
Volatility rate	39%~47%	40%~46%	36%~41%
Dividend yield	0%	0%	0%
Weighted average fair value of share options	10.35	12.26	4.05

Sogou estimated the risk-free rate based on the market yields of U.S. Treasury securities with an estimated country-risk differential as of the valuation date. An exercise multiple was estimated as the ratio of the fair value of the Sogou Class A Ordinary Shares over the exercise prices as of the time the options would be expected to be exercised, based on consideration of research studies regarding exercise patterns based on historical statistical data. In Sogou's valuation analysis, a multiple of three was applied for management and a multiple of two was applied for other key employees. Sogou estimated the forfeiture rate to be 0% or 1% for the Sogou share options granted to Sogou management and 12% for the Sogou share options granted to Sogou's other key employees. As Sogou's ordinary shares had been publicly traded for slightly more than two years as of December 31, 2019, the expected volatility at the valuation date was estimated based on the historical volatility of specified comparable companies for the periods before the grant dates with length commensurate with the expected term of the Sogou share options. Sogou has no history or expectation of paying dividends on its ordinary shares. Accordingly, the dividend yield was estimated to be 0%.

Sogou 2017 Share Incentive Plan

In October 2017, Sogou adopted a share incentive plan (the "Sogou 2017 Share Incentive Plan") which provides that the aggregate number of Sogou Class A Ordinary Shares issuable under the plan is 28,000,000. Share incentive awards may be granted under the Sogou 2017 Share Incentive Plan to Sogou's management and employees and of any of its present or future parents or subsidiaries. The maximum term of any share incentive award granted under the Sogou 2017 Share Incentive Plan is ten years from the grant date.

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The options contractually granted under the Sogou 2017 Share Incentive Plan may be placed in one of the following two categories:

- (i) Performance-based options, which vest and become exercisable in four equal installments, with each installment vesting upon a service period requirement being met, as well as the employee grantee's achievement, as determined by Sogou's chief executive officer, of performance targets for the corresponding period specified by Sogou's chief executive officer. For purposes of recognition of share-based compensation expense, each installment is considered to be granted as of the date that the performance targets have been set; or
- (ii) Service-based options, which vest and become exercisable in four equal installments, with each installment vesting only upon a service period requirement being met.

A summary of each of the above two categories of Sogou's share options as of December 31, 2019 is presented below:

	Contractually Granted (in thousands)	Granted (For Purposes of Share- based Compensation Expense) (in thousands)	Vested and Exercisable (in thousands)	Exercised (in thousands)
Performance-based options	140	18	14	0
Service-based options	829	829	155	48
Total	969	847	169	48

A summary of Sogou share option activity under the Sogou 2017 Share Incentive Plan as of and for the year ended December 31, 2019 is presented below:

Options	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding as of January 1, 2019	730	\$ 0.001	9.57	\$
Granted	267	0.001		
Exercised	(48)	0.001		
Forfeited or expired	(151)	0.001		
Outstanding as of December 31, 2019	798	0.001	8.90	3,629
Vested as of December 31, 2019 and expected to vest thereafter	638	0.001	8.87	2,904
Exercisable as of December 31, 2019	121	0.001	8.55	551

Note (1): The aggregate intrinsic value in the preceding table represents the difference between the closing price of \$4.55 per Sogou ADS (each representing one Class A Ordinary Share) on December 31, 2019 and the exercise prices of the share options.

For the years ended December 31, 2019 and 2018, total share-based compensation expense recognized for Sogou share options under the Sogou 2017 Share Incentive Plan was \$2.4 million and \$1.6 million, respectively. As of December 31, 2019 there was \$2.3 million of unrecognized compensation expense related to unvested Sogou share options. The expense is expected to be recognized over a weighted average period of 1.90 years.

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The method used to determine the fair value of the Sogou share options granted under the Sogou 2017 Share Incentive Plan was the same as the method used for the share options granted under the Sogou 2010 Incentive Plan as described above, except for the assumptions used in the binomial valuation model as presented below:

<u>Assumptions Adopted</u>	<u>2018</u>	<u>2019</u>
Average risk-free interest rate	3.41%~3.95%	2.37%~3.45%
Exercise multiple	2	2~3
Expected forfeiture rate (post-vesting)	12%	0%~12%
Weighted average expected option life	10	10
Volatility rate	40%~46%	41%~42%
Dividend yield	0%	0%
Weighted average fair value of share options	10.09	4.87

Sohu Management Sogou Share Option Arrangement

Under an arrangement (the “Sohu Management Sogou Share Option Arrangement”) that was approved by the boards of directors of Sohu and Sogou in March 2011, Sohu has the right to provide to members of Sohu’s Board of Directors, management and other key employees of the Sohu, and certain members of management and other key employees of Sogou the opportunity to purchase from Sohu up to 12,000,000 Sogou Class A Ordinary Shares at a fixed exercise price of \$0.625 or \$0.001 per share. Of these 12,000,000 Sogou Class A Ordinary Shares, 8,800,000 are Sogou Class A Ordinary Shares previously held by Sohu and 3,200,000 are Sogou Class A Ordinary Shares that were newly-issued on April 14, 2011 by Sogou to Sohu at a price of \$0.625 per share, or a total of \$2.0 million. As of December 31, 2019, Sohu had contractually granted options for the purchase of 8,305,000 Sogou Class A Ordinary Shares under the Sohu Management Sogou Share Option Arrangement.

The options contractually granted under the Sohu Management Sogou Share Option Arrangement may be placed in one of the following two categories:

- (i) Performance-based options, which vest and become exercisable in four equal installments, with each installment vesting upon a service period requirement being met, as well as the Sogou Group’s achievement of performance targets for the corresponding period. All of these options vested and became exercisable before January 1, 2017. For purposes of recognition of share-based compensation expense, each installment is considered to be granted as of the date that the performance targets have been set; or
- (ii) Service-based options, which were granted to members of Sohu’s Board of Directors. All of these share options vested and became exercisable in 2015, as the service period requirement had been met.

A summary of the above two categories of Sogou’s share options as of December 31, 2019 is presented below:

	<u>Contractually Granted (in thousands)</u>	<u>Granted (For Purposes of Share- based Compensation Expense) (in thousands)</u>	<u>Vested and Exercisable (in thousands)</u>	<u>Exercised (in thousands)</u>
Performance-based options	8,290	8,290	8,290	8,290
Service-based options	15	15	15	6
Total	8,305	8,305	8,305	8,296

A summary of Sogou share option activity under the Sohu Management Sogou Share Option Arrangement as of and for the year ended December 31, 2019 is presented below:

	<u>Number Of Shares (in thousands)</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Aggregate Intrinsic Value (1) (in thousands)</u>
Outstanding as of January 1, 2019	9	\$ 0.001	6.38	\$
Granted	0			
Exercised	0			
Forfeited or expired	0			
Outstanding as of December 31, 2019	9	0.001	5.38	41
Vested as of December 31, 2019	9	0.001	5.38	41
Exercisable as of December 31, 2019	9	0.001	5.38	41

Note (1): The aggregate intrinsic values in the preceding table represent the difference between the closing price of \$4.55 per Sogou ADS (each representing one Class A Ordinary Share) on December 31, 2019 and the exercise prices of the options.

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As all Sogou share options granted under the Sohu Management Sogou Share Option Arrangement vested before January 1, 2017, no share-based compensation expense was recognized for the years ended December 31, 2019, 2018, and 2017. For the years ended December 31, 2019, 2018, and 2017, the total intrinsic value of options exercised was \$249, nil, and nil, respectively.

Option Modification

In the first and second quarter of 2013, a portion of the Sogou share options granted under the Sogou 2010 Share Incentive Plan and the Sohu Management Sogou Share Option Arrangement were exercised early, and the resulting Sogou ordinary shares were transferred to trusts with the original option grantees as beneficiaries. The trusts will distribute the Sogou ordinary shares to those beneficiaries in installments based on the vesting requirements under the original option agreements. Although these trust arrangements caused a modification of the terms of these Sogou share options, the modification was not considered substantive. Accordingly, no incremental fair value related to these Sogou ordinary shares resulted from the modification, and the remaining share-based compensation expense for these Sogou ordinary shares continued to be recognized over the original remaining vesting period.

As of December 31, 2019, 3,798,000 Sogou Class A Ordinary Shares issued upon the early exercise of options granted under the Sogou 2010 Share Incentive Plan remained unvested in accordance with the vesting requirements under the original option agreements and 1,722,000 Sogou Class A Ordinary Shares had vested but had not been distributed to the beneficiaries. All Sogou Class A Ordinary Shares issued upon such early exercise that have become vested have been included in the disclosures under the headings “Sogou 2010 Share Incentive Plan” and “Sohu Management Sogou Share Option Arrangement” above.

In the first quarter of 2018, Sogou changed the vesting conditions of options for the purchase of 2,181,192 Sogou Class A Ordinary Shares contractually granted under the Sogou 2010 Share Incentive Plan by removing as a condition of vesting Sogou’s achievement of performance targets for the period corresponding to the vesting schedule. Of these options, options for the purchase of 1,601,427 Sogou Class A Ordinary Shares had not been deemed granted, because their performance targets for the current period had not been set, so the removal of the performance targets resulted in these options becoming subject to vesting only upon service-period requirements being met and being deemed granted immediately upon the effectiveness of the changes. For the remaining options for the purchase of 579,765 Sogou Class A Ordinary Shares, which had been deemed granted, the removal of the performance targets constituted a modification. The modification was not considered substantive, because their performance targets had been achieved before the modification. Based on valuation results, no incremental fair value related to these Sogou ordinary shares was recognized in connection with the modification, and the remaining share-based compensation expense for these Sogou ordinary shares continued to be recognized over the remaining vesting period.

3) Changyou.com Limited Share-based Awards

Changyou 2008 Share Incentive Plan

Changyou’s 2008 Share Incentive Plan (the “Changyou 2008 Share Incentive Plan”) originally provided for the issuance of up to 2,000,000 Changyou ordinary shares, including Changyou ordinary shares issued pursuant to the exercise of share options and upon vesting and settlement of restricted share units. The 2,000,000 reserved Changyou ordinary shares became 20,000,000 Changyou ordinary shares in March 2009 when Changyou effected a ten-for-one share split of its ordinary shares. Most of the awards granted under the Changyou 2008 Share Incentive Plan vest over a period of four years. The maximum term of any share right granted under the Changyou 2008 Share Incentive Plan is ten years from the grant date. The Changyou 2008 Share Incentive Plan expired in August 2018 and is no longer available for granting new share-based awards.

All of the restricted Changyou ordinary shares and restricted share units granted under the Changyou 2008 Share Incentive Plan were vested as of December 31, 2017, as the requisite service period for all these awards had been completed. There has been no share-based compensation expense recognized under the Changyou 2008 Share Incentive Plan since then.

Changyou 2014 Share Incentive Plan

On June 27, 2014, Changyou reserved 2,000,000 of its Class A ordinary shares under the Changyou.com Limited 2014 Share Incentive Plan (the “Changyou 2014 Share Incentive Plan”) for the purpose of making share incentive awards to certain members of its management and key employees. On November 2, 2014, Changyou’s Board approved an increase in the number of Class A ordinary shares reserved under the Changyou 2014 Share Incentive Plan from 2,000,000 to 6,000,000. The maximum term of any share right granted under the Changyou 2014 Share Incentive Plan is ten years from the grant date. The Changyou 2014 Share Incentive Plan will terminate in June 2024. As of December 31, 2019, all shares available for grant under the Changyou 2014 Share Incentive Plan had been granted.

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i) Summary of Share Option Activity

On November 2, 2014, Changyou approved the contractual grant of an aggregate of 2,416,000 Class A restricted share units to certain members of its management and certain other employees. On February 16, 2015, Changyou's Board of Directors approved the conversion of 2,400,000 of these Class A restricted share units into options for the purchase of Class A ordinary shares at an exercise price of \$0.01. On June 1, 2015, Changyou's Board of Directors approved the contractual grant of options for the purchase of an aggregate of 1,998,000 Class A ordinary shares to certain members of its management and certain other employees at an exercise price of \$0.01. On July 28, 2016, Changyou's Board of Directors approved the contractual grant of options for the purchase of an aggregate of 100,000 Class A ordinary shares to certain member of its management at an exercise price of \$0.01. On August 26, 2019, Changyou's Board of Directors approved the grant, effective as of October 1, 2019, to a member of Changyou's management and a Changyou employee of options for the purchase of an aggregate of 3,023,000 Class A ordinary shares at an exercise price of \$0.01 per Class A ordinary share. These Changyou share options vest in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and the achievement of certain subjective performance targets. These Changyou share options are substantially similar to restricted share units except for the nominal exercise price, which would be zero for restricted share units.

Under ASC 718-10-25 and ASC 718-10-55, no grant date can be established until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards.

To determine the fair value of these Changyou share options, the public market price of the underlying Changyou Class A ordinary shares at each reporting date is used and a binomial valuation model is applied.

As of December 31, 2019, 2,952,000 of these Changyou share options had been granted and had become vested on their respective vesting dates, as a mutual understanding of the subjective performance targets had been reached between Changyou and the recipients, the targets had been satisfied, and the service period requirements had been fulfilled. The cumulative share-based compensation expense of \$36.4 million for these granted share options was adjusted and fixed based on the aggregate amounts of the fair values of these granted share options at their respective grant dates.

A summary of share option activity under the Changyou 2014 Share Incentive Plan as of and for the year ended December 31, 2018 is presented below:

	Number Of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
Outstanding as of January 1, 2019	601	\$ 0.01	5.98	\$ 5.487
Granted	234	0.01		
Exercised	(762)	0.01		
Forfeited or expired	0			
Outstanding as of December 31, 2019	<u>73</u>	0.01	5.42	357
Vested as of December 31, 2019	<u>73</u>	0.01		357
Exercisable as of December 31, 2019	<u>73</u>	0.01		

Note (1): The aggregate intrinsic value in the preceding table represents the difference between Changyou's closing price of \$9.79 per ADS, or \$4.9 per Class A ordinary share, on December 31, 2019 and the nominal exercise price of the share option.

For the years ended December 31, 2019, 2018 and 2017, total share-based compensation expense recognized for these share options under the Changyou 2014 Share Incentive Plan was negative \$1.9 million, negative \$6.5 million and \$17.4 million, respectively. For the years ended December 31, 2019, 2018 and 2017, the total fair values of these Changyou share options vested on their respective vesting dates were \$1.0 million, \$5.7 million and \$14.8 million, respectively. For the years ended December 31, 2019, 2018 and 2017, the total intrinsic value of share options exercised was \$6.6 million, \$14.9 million and \$10.3 million, respectively.

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Changyou 2019 Share Incentive Plan

On August 3, 2019, Changyou adopted and reserved for issuance 3,000,000 Class A ordinary shares under a new share incentive plan (the “Changyou 2019 Share Incentive Plan”). On August 26, 2019, Changyou’s Board of Directors approved the grant, effective as of October 1, 2019, to certain members of the Changyou’s management and certain other employees of options for the purchase of an aggregate of 1,909,000 Class A ordinary shares at an exercise price of \$0.01. These Changyou share options vest in four equal installments over a period of four years, with each installment vesting upon satisfaction of a service period requirement and the achievement of certain subjective performance targets.

Under ASC 718-10-25 and ASC 718-10-55, no grant date can be established until a mutual understanding is reached between the Company and the recipients clarifying the subjective performance requirements. If the service inception date preceded the grant date, compensation expense should be accrued beginning on the service inception date, and re-measured on each subsequent reporting date before the grant date is established, based on the then-current fair value of the awards.

To determine the fair value of these Changyou share options, the public market price of the underlying Changyou Class A ordinary shares at each reporting date is used and a binomial valuation model is applied.

As of December 31, 2019, none of the Changyou share options granted under the Changyou 2019 Share Incentive Plan had vested. The cumulative share-based compensation expense of \$3.2 million for these granted share options was adjusted and fixed based on the aggregate amounts of the fair values of these granted share options at their respective grant dates.

4) Sohu Video Share-based Awards

On January 4, 2012, Sohu Video adopted the Video 2011 Share Incentive Plan, under which 25,000,000 ordinary shares of Sohu Video are reserved for the purpose of making share incentive awards to management and key employees of Sohu Video and to Sohu management. The maximum term of any share incentive award granted under the Video 2011 Share Incentive Plan is ten years from the grant date. The Video 2011 Share Incentive Plan will expire on January 3, 2022. As of December 31, 2019, grants of options for the purchase of 16,368,200 ordinary shares of Sohu Video had been contractually made and were subject to vesting in four equal installments, with each installment vesting upon a service period requirement being met, as well as Sohu Video’s achievement of performance targets for the corresponding period. For purposes of ASC 718-10-25, as of December 31, 2019, no grant date had occurred, because the broader terms and conditions of the option awards had neither been finalized nor mutually agreed upon with the recipients. As of December 31, 2019, options for the purchase of 4,972,800 Sohu Video ordinary shares were vested.

For the years ended December 31, 2019, 2018 and 2017, total share-based compensation expense recognized for vested Sohu Video options under the Video 2011 Share Incentive Plan was negative \$0.9 million, negative \$0.5 million and \$0.3 million, respectively.

The fair value as of December 31, 2019 of the Sohu Video options contractually granted to management and key employees of Sohu Video and to Sohu management was estimated on the reporting date using the binomial valuation model, with the following assumptions used:

Assumptions Adopted	2018	2019
Average risk-free interest rate	3.19%	2.44%
Exercise multiple	2.8	2.8
Expected forfeiture rate (post-vesting)	14%	14%
Weighted average expected option life	3.0	2.0
Volatility rate	45.1%	53.9%
Dividend yield	0	0
Fair value	0.53	0.35

20. NONCONTROLLING INTEREST

Prior to the completion of the Changyou Merger on April 17, 2020, the noncontrolling interests in the Sohu Group’s consolidated financial statements primarily consist of noncontrolling interests for Sogou and Changyou.

Noncontrolling Interest in the Consolidated Balance Sheets

As of December 31, 2018 and 2019, noncontrolling interest in the consolidated balance sheets was \$0.96 billion and \$0.88 billion, respectively.

	As of December 31,	
	2018	2019
Sogou	\$686,503	\$726,960
Changyou	277,608	151,503
Total	<u>\$964,111</u>	<u>\$878,463</u>

Noncontrolling Interest of Sogou

As of December 31, 2019 and 2018, noncontrolling interest of Sogou of \$727.0 million and \$686.5 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, representing an economic interest of 66% and 67%, respectively, in Sogou's net assets held by shareholders other than Sohu and reflecting the reclassification of Sogou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest.

Noncontrolling Interest of Changyou

As of December 31, 2019 and 2018, noncontrolling interest of Changyou of \$151.5 million and \$277.6 million, respectively, was recognized in the Sohu Group's consolidated balance sheets, both representing an economic interest of 33% for 2019 and 2018, respectively, in Changyou's net assets held by shareholders other than Sohu and reflecting the reclassification of Changyou's share-based compensation expense from shareholders' additional paid-in capital to noncontrolling interest.

Noncontrolling Interest in the Consolidated Statements of Comprehensive Income /(Loss)

For the years ended December 31, 2019, 2018 and 2017, respectively, the Sohu Group had net income of \$105.9 million, net income of \$92.7 million and net income of \$84.5 million, respectively, attributable to the noncontrolling interest in the consolidated statements of comprehensive income /(loss).

	Year Ended December 31,		
	2017	2018	2019
Sogou	\$77,025	\$65,586	\$ 58,955
Changyou	7,603	27,137	46,990
Other	(105)	0	0
Total	<u>\$84,523</u>	<u>\$92,723</u>	<u>\$105,945</u>

	Year Ended December 31,		
	2017	2018	2019
Net income from continuing operations attributable to noncontrolling shareholders	\$91,076	\$107,318	\$117,177
Net loss from discontinued operations attributable to noncontrolling shareholders	(6,553)	(14,595)	(11,232)
Net income attributable to noncontrolling interest shareholders	<u>\$84,523</u>	<u>\$ 92,723</u>	<u>\$105,945</u>

Noncontrolling Interest of Sogou

For the years ended December 31, 2019, 2018 and 2017, respectively, a \$59.0 million net income, a \$65.6 million net income and a \$77.0 million net income, respectively, attributable to the noncontrolling interest of Sogou was recognized in the Sohu Group's consolidated statements of comprehensive income, representing Sogou's net income /(loss) attributable to shareholders other than Sohu.

Noncontrolling Interest of Changyou

For the years ended December 31, 2019, 2018 and 2017, respectively, a \$47.0 million net income, a \$27.1 million net income and a \$7.6 million net income, respectively, attributable to the noncontrolling interest of Changyou was recognized in the Sohu Group's consolidated statements of comprehensive income /(loss), representing a 33%, 33% and 32%, economic interest, respectively, in Changyou attributable to shareholders other than Sohu.

21. NET INCOME /(LOSS) PER SHARE

Basic net income /(loss) per share is computed using the weighted average number of ordinary shares outstanding during the period. Diluted net income /(loss) per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potential ordinary shares comprise shares issuable upon the exercise or settlement of share-based awards using the treasury stock method. The dilutive effect of share-based awards with performance requirements is not considered before the performance targets are actually met. The computation of diluted net income /(loss) per share does not assume conversion, exercise, or contingent issuance of securities that would have an anti-dilutive effect (i.e. an increase in earnings per share amounts or a decrease in loss per share amounts) on net income /(loss) per share. For the years ended December 31, 2017, 2018 and 2019, 263,497, 292,622 and 140,405 ordinary shares, respectively, potentially issuable upon the exercise or settlement of share-based awards using the treasury stock method were anti-dilutive and excluded from the denominator for calculation of diluted net loss per share.

Additionally, for purposes of calculating the numerator of diluted net income /(loss) per share, the net income /(loss) attributable to the Sohu Group is calculated as discussed below. The adjustment will not be made if there is an anti-dilutive effect.

Sogou's Net Income /(Loss) Attributable to Sohu

Before Sogou's IPO

Before Sogou's IPO, Sogou's net income /(loss) attributable to Sohu was determined using the percentage that the weighted average number of Sogou shares held by Sohu represented of the weighted average number of Sogou Pre-IPO Preferred Shares and Sogou Pre-IPO Ordinary Shares outstanding, shares issuable upon the conversion of convertible preferred shares under the if-converted method, and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and was not determined by allocating Sogou's net income /(loss) to Sohu using the methodology for the calculation of net income /(loss) attributable to the Sogou noncontrolling shareholders.

After Sogou's IPO

After Sogou's IPO, Sogou's net income /(loss) attributable to Sohu is determined using the percentage that the weighted average number of Sogou shares held by Sohu represents of the weighted average number of Sogou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Sogou, which is used for the calculation of basic net income per share.

In the calculation of Sohu's diluted net income /(loss) per share, assuming a dilutive effect, the percentage of Sohu's shareholding in Sogou was calculated by treating convertible preferred shares issued by Sogou as having been converted at the beginning of the period and unvested Sogou share options with the performance targets achieved as well as vested but unexercised Sogou share options as having been exercised during the period. The dilutive effect of share-based awards with a performance requirement was not considered before the performance targets were actually met. The effect of this calculation is presented as "incremental dilution from Sogou" in the table below. Assuming an anti-dilutive effect, all of these Sogou shares and share options are excluded from the calculation of Sohu's diluted income /(loss) per share. As a result, Sogou's net income /(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income /(loss) per share.

For the year ended December 31, 2019, all of the Sogou share options had a dilutive effect, and therefore were included in the calculation of Sohu.com Limited's diluted net income /(loss) per share. This impact is presented as "incremental dilution from Sogou" in the table below.

Changyou's Net Income /(Loss) Attributable to Sohu

Prior to the completion of the Changyou Merger on April 17, 2020, Changyou's net income /(loss) attributable to Sohu is determined using the percentage that the weighted average number of Changyou shares held by Sohu represents of the weighted average number of Changyou ordinary shares and shares issuable upon the exercise or settlement of share-based awards under the treasury stock method, and not by using the percentage held by Sohu of the total economic interest in Changyou, which is used for the calculation of basic net income per share.

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In the calculation of Sohu's diluted net income /(loss) per share, assuming a dilutive effect, all of Changyou's existing unvested restricted share units and share options, and vested restricted share units and share options that have not yet been settled, are treated as vested and settled by Changyou under the treasury stock method, causing the percentage of the weighted average number of shares held by Sohu in Changyou to decrease. As a result, Changyou's net income /(loss) attributable to Sohu on a diluted basis decreased accordingly. The effect of this calculation is presented as "incremental dilution from Changyou" in the table below. Assuming an anti-dilutive effect, all of these Changyou restricted share units and share options are excluded from the calculation of Sohu's diluted net income /(loss) per share. As a result, Changyou's net income /(loss) attributable to Sohu on a diluted basis equals the number used for the calculation of Sohu's basic net income /(loss) per share.

For the year ended December 31, 2019, all of these Changyou restricted share units and share options had a dilutive effect, and therefore were included in the calculation of Sohu.com Limited's diluted net income /(loss) per share. This impact is presented as "incremental dilution from Changyou" in the table below.

The following table presents the calculation of the Sohu Group's basic and diluted net loss per share (in thousands, except per share data).

	Year Ended December 31,		
	2017	2018	2019
Numerator:			
Net loss from continuing operations attributable to Sohu.com Limited, basic	\$(540,548)	\$(129,842)	\$(126,570)
Net loss from discontinued operations attributable to Sohu.com Limited, basic	(13,978)	(30,240)	(22,766)
Net loss attributable to Sohu.com Limited, basic	(554,526)	\$(160,082)	(149,336)
Effect of dilutive securities:			
Incremental dilution from Sogou	(31)	(496)	(606)
Incremental dilution from Changyou	(1,233)	(381)	(507)
Net loss from continuing operations attributable to Sohu.com Limited, diluted	(542,026)	(130,960)	(127,738)
Net loss from discontinued operations attributable to Sohu.com Limited, diluted	(13,764)	(29,999)	(22,711)
Net loss attributable to Sohu.com Limited, diluted	\$(555,790)	\$(160,959)	\$(150,449)
Denominator:			
Weighted average basic ordinary shares outstanding	38,858	38,959	39,249
Effect of dilutive securities:			
Share options and restricted share units	0	0	0
Weighted average diluted ordinary shares outstanding	\$ 38,858	\$ 38,959	\$ 39,249
Basic net loss per share attributable to Sohu.com Limited			
Continuing operations	\$ (13.91)	\$ (3.33)	\$ (3.22)
Discontinued operations	(0.36)	(0.78)	(0.58)
Net loss per share	(14.27)	(4.11)	(3.80)
Diluted net loss per share attributable to Sohu.com Limited			
Continuing operations	\$ (13.95)	\$ (3.36)	\$ (3.25)
Discontinued operations	(0.35)	(0.77)	(0.58)
Net loss per share	(14.30)	(4.13)	(3.83)

22. CHINA CONTRIBUTION PLAN

The Sohu Group's subsidiaries and consolidated VIEs in China participate in a government-mandated multi-employer defined contribution plan pursuant to which certain retirement, medical and other welfare benefits are provided to employees. Chinese labor regulations require the Group's subsidiaries and consolidated VIEs to pay to the local labor bureau a monthly contribution at a stated contribution rate based on the monthly compensation of qualified employees. The relevant local labor bureau is responsible for meeting all retirement benefit obligations; the Group's China-based subsidiaries and consolidated VIEs have no further commitments beyond their monthly contributions. For the years ended December 31, 2019, 2018 and 2017, the Group's China based subsidiaries and consolidated VIEs contributed a total of \$141.4 million, \$150.6 million and \$137.5 million, respectively, to these funds.

23. PROFIT APPROPRIATION

The Sohu Group's China-based subsidiaries and VIEs are required to make appropriations to certain non-distributable reserve funds.

On March 15, 2019, the Standing Committee of the National People's Congress of the PRC issued the *Law of the People's Republic of China on Foreign Investment* (the "Foreign Investment Law"), which took effect on January 1, 2020 and replaced the *Law of the People's Republic of China on Foreign Investment Enterprises*, promulgated on April 12, 1986 and most recently amended on September 3, 2016 (the "Replaced Foreign Investment Enterprises Law"), and certain other laws and regulations relating to foreign investment. On December 12, 2019, the State Council of the PRC also issued the *Implementing Regulations of the Foreign Investment Law*, which became effective on January 1, 2020.

Under the China Foreign Investment Enterprises Laws and its supplemental regulations those of the Group's China-based subsidiaries that are considered under PRC law to be WFOEs are required to make appropriations from their after-tax profit as determined under generally accepted accounting principles in the PRC (the "after-tax-profit under PRC GAAP") to non-distributable reserve funds, including (i) a general reserve fund and (ii) a staff bonus and welfare fund. Each year, at least 10% of the after-tax-profit under PRC GAAP is required to be set aside as general reserve fund until such appropriations for the fund equal 50% of the registered capital of the applicable entity. The appropriation for the other reserve fund is at the Group's discretion as determined by each entity. Alternatively, after January 1, 2020, those China-based subsidiaries of the Group that are wholly foreign-owned enterprises may choose to make appropriations from their after-tax-profit under PRC GAAP to non-distributable reserve funds, including a statutory surplus fund and a discretionary surplus fund, in compliance with the requirements of the Company Law of the PRC (the "Company Law") that apply to PRC domestically-funded enterprises.

Pursuant to the Company Law, those of the Group's China-based subsidiaries that are considered under PRC law to be domestically funded enterprises, as well as the Group's VIEs, are required to make appropriations from their after-tax-profit under PRC GAAP to non-distributable reserve funds, including a statutory surplus fund and a discretionary surplus fund. Each year, at least 10% of the after-tax-profit under PRC GAAP is required to be set aside as statutory surplus fund until such appropriations for the fund equal 50% of the registered capital of the applicable entity. The appropriation for the discretionary surplus fund is at the Company's discretion as determined by each entity.

Upon certain regulatory approvals and subject to certain limitations, the general reserve fund and the statutory surplus fund can be used to offset prior year losses, if any, and can be converted into paid-in capital of the applicable entity.

For the years ended December 31, 2019, 2018 and 2017, the total amount of profits contributed to these funds by the Group was \$10.4 million, \$7.3 million and \$12.0 million, respectively. As of December 31, 2019 and 2018, the total amount of profits contributed to these funds by the Group was \$80.7 million and \$70.3 million, respectively.

As a result of these and other restrictions under PRC laws and regulations, the Group's China-based subsidiaries and VIEs are restricted in their ability to transfer a portion of their net assets in the form of non-distributable reserve funds to the Company in the form of dividends, loans or advances. Even though the Company currently does not require any such dividends, loans or advances from its China-based subsidiaries and VIEs for working capital and other funding purposes, the Company may in the future require additional cash resources from its China-based subsidiaries and VIEs due to changes in business conditions, to fund future acquisitions and development, or to declare and pay dividends to or make distributions to its shareholders.

24. CONCENTRATION RISKS

Because its operations are substantially conducted in the PRC, the Sohu Group is subject to PRC-related political, economic and legal risks. Besides these risks, the Sohu Group may also have the following concentration risks.

Operation Risk

For the years ended December 31, 2019, 2018 and 2017, there were no revenues from customers that individually represent greater than 10% of the total online advertising revenues.

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For the year ended December 31, 2019, revenues from TLBB were \$215.2 million, accounting for approximately 49% of Changyou's online game revenues, approximately 47% of Changyou's total revenues and approximately 12% of the Sohu Group's total revenues. For the year ended December 31, 2019, revenues from Legacy TLBB Mobile were \$101.1 million, accounting for approximately 23% of Changyou's online game revenues, approximately 22% of Changyou's total revenues, and approximately 5% of the Sohu Group's total revenues.

Financial instruments that potentially subject the Sohu Group to concentration risks consist primarily of cash and cash equivalents and short-term investments. Cash and cash equivalents in Sohu Group are mainly denominated in RMB and in U.S. dollars. Short-term investments are denominated in RMB. The Group may experience economic losses and negative impacts on earnings and equity as a result of fluctuations in the exchange rate between the U.S. dollar and the RMB. Moreover, the Chinese government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Group may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency.

Credit Risk

As of December 31, 2019, approximately 64% of the Sohu Group's cash and cash equivalents and short-term investments were held in 23 financial institutions in Mainland China. The remaining cash and cash equivalents and short-term investments were held primarily in financial institutions in Hong Kong and Macao.

As of December 31, 2018, approximately 60% of the Sohu Group's cash and cash equivalents and short-term investments were held in 17 financial institutions in Mainland China. The remaining cash and cash equivalents and short-term investments were held primarily in financial institutions in Hong Kong and Macao.

The Sohu Group holds its cash and bank deposits at Chinese financial institutions that are among the largest and most respected in the PRC and at international financial institutions with high ratings from internationally-recognized rating agencies. The management chooses these institutions because of their reputations and track records for stability, and their known large cash reserves, and management periodically reviews these institutions' reputations, track records, and reported reserves.

Management expects that any additional institutions that the Sohu Group uses for its cash and bank deposits will be chosen with similar criteria for soundness. As a further means of managing its credit risk, the Sohu Group holds its cash and bank deposits in a number of different financial institutions. As of December 31, 2019 and 2018, the Sohu Group held its cash and bank deposits in different financial institutions and held no more than approximately 24% and 35%, respectively, of its total cash at any single institution.

Under PRC law, it is generally required that a commercial bank in the PRC that holds third party cash deposits protect the depositors' rights over and interests in their deposited money; PRC banks are subject to a series of risk control regulatory standards; and PRC bank regulatory authorities are empowered to take over the operation and management of any PRC bank that faces a material credit crisis.

For the credit risk related to accounts receivable, the Sohu Group performs ongoing credit evaluations of its customers and, if necessary, maintains reserves for potential credit losses. Historically, such losses have been within management's expectations.

25. RESTRICTED NET ASSETS

Relevant PRC law and regulations permit payment of dividends by PRC-based operating entities only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. In addition, a PRC-based operating entity is required to annually appropriate 10% of net after-tax income to the statutory surplus reserve fund (see Note 23) prior to payment of any dividends, unless such reserve funds have reached 50% of the entity's registered capital. As a result of these and other restrictions under PRC law and regulations, PRC-based operating entities are restricted in their ability to transfer a portion of their net assets to the Company either in the form of dividends, loans or advances. The Company may in the future require additional cash resources from PRC-based operating entities due to changes in business conditions, to fund future acquisitions and development, or to declare and pay dividends to or distribution to its shareholders. As of December 31, 2019, the Group had restricted net assets in the amount of \$428.5 million.

26. SUBSEQUENT EVENTS

The outbreak of the novel coronavirus disease that has been designated as COVID-19, which emerged in late December 2019 and has spread around the world in 2020, has affected economic activity across many industries in China, including the online advertising industry. Measures imposed by the PRC government, including travel restrictions, school closings, extended holidays, and requirements that most business be conducted remotely, have interrupted the operation of businesses in various areas. This, in turn, has caused a reduction in the Company's advertising revenues, and an increase in traffic acquisition costs of Sogou, both of which have had and could continue to have an adverse effect on the Company's results of operations. As the future extent and effect of the COVID-19 virus in China and the world are difficult to predict, the related financial impact on the Company's future results of operations cannot be reasonably estimated at this time.

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On April 3, 2020, the Company's indirect wholly-owned subsidiary Sohu Game, as borrower, and Sohu.com Limited, as guarantor, entered into a facility agreement (the "Facility Agreement") with ICBC Tokyo pursuant to which ICBC Tokyo agreed to provide a term loan facility of up to \$250 million (the "Term Facility"), subject to customary conditions, to be used to finance the consummation of the Changyou Merger and the related transactions and to pay related fees and expenses associated with the Changyou Merger. The Term Facility will consist of (i) a one-year term facility for term loans of up to \$100 million (the "One-Year Facility") and (ii) a four-year term facility for term loans of up to \$150 million (the "Four-Year Facility"). The outstanding principal amount of the loans under the One-Year Facility will be due in full on the one-year anniversary of the date of the first utilization of the One-Year Facility. The outstanding principal amount of the loans under the Four-Year Facility will be due in installments, with \$7.5 million due and payable at the end of each of the second and third calendar years during the term of the Four-Year Facility and the remaining outstanding principal amount due and payable on the fourth anniversary of the date of the first utilization of the One-Year Facility. The Term Facility will be available for drawdown from the date of the Facility Agreement until six months after the date of the Facility Agreement, and the Term Facility may be drawn in up to three installments by Sohu Game at its election. The Term Facility bears interest at a rate of Three Month LIBOR plus a margin of 1.75%, with LIBOR to be determined by ICBC on the basis of the London InterBank Offered Rate published two business days before the first day of each three calendar month interest period. Accrued interest will be paid every three calendar months on the first day after the end of each such three-month interest period. The obligations of Sohu Game as borrower under the Term Facility are initially fully guaranteed by Sohu.com Limited, and are initially secured by first priority share pledges or mortgages over 97.9% of the outstanding equity interests in Changyou. In addition, Sohu Game is required to cause Changyou, within one (1) month after the initial funding under the Term Facility, to pledge a deposit certificate evidencing an RMB deposit equivalent to not less \$125 million at an exchange rate of \$1.00 = RMB7.20 and, within three months after the initial funding under the Term Facility, to pledge RMB deposit certificates evidencing amounts at least equivalent to the Facility Agreement amount (including the initial \$125 million-equivalent deposit certificate). Upon the effectiveness of such additional pledge, Sohu's guarantee and all share pledges or mortgages over the outstanding equity interests in Changyou will be released and discharged. On April 16, 2020, Sohu Game made a drawdown in the amount of \$192 million under this Term Facility.

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

The Group has performed an evaluation of subsequent events through the date of this report, which is the date the financial statements were issued, with no other material events or transactions needing recognition or disclosure found.

27. ADDITIONAL INFORMATION — CONDENSED FINANCIAL STATEMENTS

The condensed financial statements of Sohu.com Limited have been prepared in accordance with Securities and Exchange Commission Regulation S-X Rule 5-04 and Rule 12-04.

The Company records its investments in subsidiaries and VIEs under the equity method of accounting. Such investments and long-term loans to subsidiaries and VIEs are presented on the balance sheet as "Interests in subsidiaries and VIEs" and the loss of the subsidiaries and VIEs is presented as "Share of loss of subsidiaries and VIEs" in the statement of comprehensive income.

The footnote disclosures contain supplemental information relating to the operations of the Company and, as such, these financial statements should be read in conjunction with the notes to the Consolidated Financial Statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted.

As of December 31, 2018 and 2019, there were no material contingencies, significant provisions for long-term obligations, or guarantees of the Company, except for those, if any, which have been separately disclosed in the consolidated financial statements.

SOHU.COM LIMITED
CONDENSED BALANCE SHEETS
(In thousands)

	<u>As of December 31,</u>	
	<u>2018</u>	<u>2019</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,492	\$ 3,756
Prepaid and other current assets	1,169	744
Due from subsidiaries and VIEs	470,649	530,182
Total current assets	488,310	534,682
Interests in subsidiaries and VIEs	224,679	22,093
Other assets, net	27,736	27,736
Total assets	<u>\$ 740,725</u>	<u>\$ 584,511</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities	7,472	3,757
Long-term liabilities	144,414	152,300
Total liabilities	<u>151,886</u>	<u>156,057</u>
Shareholders' equity:		
Ordinary Shares: \$0.001 par value per share (75,400 shares authorized; 39,229 shares and 39,269 shares, respectively, issued and outstanding as of December 31, 2018 and 2019)	39	39
Additional paid-in capital	958,883	948,201
Accumulated other comprehensive income	24,718	24,351
Accumulated deficit	(394,801)	(544,137)
Total shareholders' equity	<u>588,839</u>	<u>428,454</u>
Total liabilities and shareholders' equity	<u>\$ 740,725</u>	<u>\$ 584,511</u>

SOHU.COM LIMITED
CONDENSED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)

	Year Ended December 31,		
	2017	2018	2019
Revenues	\$ 0	\$ 0	\$ 0
Cost of revenues	0	0	0
Gross profit	0	0	0
Operating expenses:			
General and administrative	8,824	12,206	2,320
Operating loss	(8,824)	(12,206)	(2,320)
Share of loss of subsidiaries and VIEs	(331,106)	(232,307)	(184,092)
Other income /(expense)	71	22	44,738
Interest income	152	5,865	225
Loss before income tax expense/(benefit)	(339,707)	(238,626)	(141,449)
Income tax expense/(benefit)	214,819	(78,544)	7,887
Net loss	(554,526)	(160,082)	(149,336)
Other comprehensive income /(loss)	34,992	(13,494)	24,351
Comprehensive loss	<u><u>\$(519,534)</u></u>	<u><u>\$(173,576)</u></u>	<u><u>\$(124,985)</u></u>

SOHU.COM LIMITED
CONDENSED STATEMENTS OF CASH FLOWS
(In thousands)

	<u>Year Ended December 31,</u>		
	<u>2017</u>	<u>2018</u>	<u>2019</u>
Cash flows from operating activities:			
Net loss	\$(554,526)	\$(160,082)	\$(149,336)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Investment loss from subsidiaries and VIEs	331,106	232,307	184,092
Share-based compensation expense /(benefit)	(814)	(1,916)	395
Others	0	(993)	0
Changes in current assets and liabilities:			
Due from subsidiaries and VIEs	0	(2,963)	(59,533)
Prepaid and other current assets	3,933	(3,996)	425
Tax liabilities	222,350	(79,569)	7,886
Accrued liabilities	(8,194)	1,892	(3,715)
Net cash used in operating activities	<u>(6,145)</u>	<u>(15,320)</u>	<u>(19,786)</u>
Cash flows from investing activities:			
Dividend received	<u>0</u>	<u>0</u>	<u>7,050</u>
Net cash used in operating activities	<u>0</u>	<u>0</u>	<u>7,050</u>
Net decrease in cash, cash equivalents, restricted cash and restricted time deposits	(6,145)	(15,320)	(12,736)
Cash, cash equivalents, restricted cash and restricted time deposits at beginning of year	8,990	2,845	16,732
Cash and cash equivalents, restricted cash and restricted time deposits of Sohu.com Limited at the date of the liquidation of Sohu.com Inc.	<u>0</u>	<u>29,207</u>	<u>0</u>
Cash, cash equivalents, restricted cash and restricted time deposits at end of year	<u>\$ 2,845</u>	<u>\$ 16,732</u>	<u>\$ 3,996</u>
Reconciliation of cash, cash equivalents, and restricted time deposits to the condensed balance sheets:			
Cash and cash equivalents	\$ 2,845	\$ 16,492	\$ 3,756
Restricted time deposits included in other assets	<u>0</u>	<u>240</u>	<u>240</u>
Total cash, cash equivalents, restricted cash and restricted time deposits at end of year	<u>\$ 2,845</u>	<u>\$ 16,732</u>	<u>\$ 3,996</u>

Cooperation Agreement
between
Weixin Official Platform
and
Sogou Search

Party A: Shenzhen Tencent Computer Systems Co., Ltd.

Contact person:

Mailing address:

Tel:

Email:

Party B: Beijing Sogou Information Service Co., Ltd.

Contact person:

Mailing address:

Tel:

E-mail:

Whereas:

1. Party A, Party B and their relevant affiliates entered into a Business Development and Resource Sharing Agreement on September 16, 2013, whereby the parties entered into a strategic cooperation;
2. Party B desires to use public data on Party A's Weixin official platform to provide search services, and both parties have negotiated their intentions in respect of such cooperation;
3. Party A and Party B signed No. 14-SGO-04344, No. 15-SD-10681, No. 17-SD-10269, No. 17-SD-00731, and No. 19-SD-10584 Cooperation Agreements between Weixin Official Platform and Sogou Search (the "Original Agreements") in May 2014 and November 2015 and on March 21, 2017, September 15, 2017 and March 1, 2019 respectively.

NOW THEREFORE, in order to specify the terms of the cooperation, establish data usage specifications, and safeguard the legitimate rights and interests of Weixin official platform users, Party A and Party B hereby enter into the following cooperation agreement in line with the principle of equality and mutual benefits and win-win cooperation:

I. Definitions

Unless otherwise defined in this Agreement, the following terms shall have the following specific meanings:

1. Chinese Law:

Referring to any laws, rules, regulations, judicial interpretations and other legal norms currently in force and promulgated and implemented in the future in jurisdictions of mainland China.

2. Official Platform Data and Contents:

Referring to the public contents on Party A's Weixin official platform, including but not limited to public registration information of official platform subscription accounts and service account operators, and all information publicly distributed by official platform subscription accounts and service account operators through Weixin official platform (different from point-to-point information and region or subscriber specific information), the specific scope of contents of which shall be subject to the assessment and determination by Party A according to law.

3. Sogou Search Services:

Referring to such search services as content retrieval and result response on Sogou search engines, including PC end (www.sogou.com, www.soso.com) and wireless end (including Sogou, Soso mobile web search and Sogou search app client), based on Official Platform Data and Contents.

4. Trade Secrets:

Referring to the technical, financial, commercial and other information owned by either party hereto and/or its subsidiaries or affiliated companies and treated by such party as trade secrets, which have the following characteristics:

- (a) Unknown to the public;
- (b) Able to bring economic benefits to the right owner;
- (c) Being practical; and
- (d) Treated by the right owner as secrets and appropriate protective measures having been taken for it.

5. Force Majeure:

Referring to earthquake, typhoon, fire, flood, war, strike, riot, hacker attack, operator technical failure or change of policy or any other natural or man-made disaster occurred during the term of this Agreement, which is unpredictable (or the occurrence or consequences of which is inevitable even though predictable) and beyond the control of either party and renders the full performance by either party of this Agreement impossible.

6. Official Platform Source Pages:

The source pages (currently bearing a domain suffix of weixin.qq.com) under Weixin official platform, or other pages designated by Weixin official platform.

II. Interpretations

1. Unless explicitly indicated as working days, the term “day” mentioned herein refers to calendar day.
2. The headings contained in this Agreement are for reference purposes only, and shall not affect the meaning or interpretation of any part of this Agreement.
3. As the context requires, the plural shall include the singular and vice versa.
4. A reference to a chapter, clause and paragraph shall be a reference to a chapter, clause and paragraph of this Agreement.

Chapter II Representations and Warranties

III. Legal Status

Each party represents and warrants that, from the signing date of this Agreement:

1. It is qualified to engage in the transaction hereunder, and such transaction complies with its business scope;
2. It has full power to enter into this Agreement and to perform its obligations hereunder;
3. Its authorized representative has sufficient authority to sign this Agreement on its behalf.

IV. Legal Force

1. From the effective date, this Agreement shall be legally binding upon both parties.
2. Each party warrants that its execution and performance of this Agreement and the business transactions carried out pursuant to this Agreement will not violate any Chinese Law.

V. Cooperation Contents and Scope

1. During the term of this Agreement, Party A and Party B will cooperate, based on Official Platform Data and Contents, in providing users in mainland China (excluding Hong Kong, Macao and Taiwan) with Sogou Search Services. Except for Official Platform Data and Contents (limited to data provided by Party A) prescribed herein, Sogou shall not grab, acquire or use other contents involving Weixin or Weixin official platform in any way including through a Spider program or through any third party channels.
2. During the term of this Agreement, in the form of inventory plus regular increment , Party A will provide Party B with Official Platform Data and Contents within mainland China (excluding Hong Kong, Macao and Taiwan) and provide users in mainland China (excluding Hong Kong, Macao and Taiwan) with Sogou Search Services based on the foregoing data. In this Agreement, Incremental Package includes all the articles and contents of the official platform subscription accounts provided by Party A to Party B within mainland China (excluding Hong Kong, Macao and Taiwan) from time to time, unless Party A believes that it is inappropriate to provide pursuant to the applicable laws or regulations or relevant agreements. The specific form in which the service will be displayed and the product scheme of Party B shall be used and put online only after they are confirmed by Party A in writing (including by email). If any technical issues occur to Official Platform Data and Contents, Party A shall provide technical support to fix the issues or provide a fixing proposal. Party A's technical supporting team is listed as follows: Contact person: _____, contact information: _____. Party B's technical supporting team is listed as follows: Contact person: _____, contact information: _____. One Party shall immediately inform the other Party, if any changes to the technical team Contact person.
3. Party A shall furnish the publishing time of Weixin articles and recommended scores of the related articles based on the data regarding thumbs-ups, comments, originality, account followers etc. to Party B, and help Party B optimize the search results. Party A's recommendation data is confidential, and Party B shall not abuse those recommendation data out of the scope of this Agreement or make it public or disclose to any third parties without Party A's prior written consent.
4. During the term of this Agreement, in addition to the cooperation prescribed in this Agreement, Party B will also promote Party A's official platform products in a manner agreed by the parties by utilizing Party B's own user platforms and flow resources.
5. During the term of this Agreement, Party B shall, according to Party A's requirements, provide related popular search words, hit rate, classification, search volume, click rate and other related data of search services based on Official Platform Data and Contents for Party A to manage user operation and improve user experience. Except for the Official Platform Data and Contents searched on Weixin app client pages, the Official Platform Data and Contents search services provided by Party B shall not provide and display to users the reading volume, "like" quantity and other related data. Party A shall keep the above data confidential, and without the prior written consent of Party B, Party A shall not publish, provide or reveal the above data to any third party. In addition, Party B shall take reasonable and effective technical measures to ensure the security of Official Platform Data and Contents provided by Party A, including but not limited to measures to prevent any third party from grabbing, acquiring and using official platform data in Party B's products by artificial or technical means, and Party A shall be entitled to limit, suspend, partially or entirely terminate the provision of official platform data hereunder.

6. During the term of this Agreement, as to default search results, Party B will display the top 100 official platform data search results for viewing. If the user needs to view more search results, the user shall log in with the applicable account. In such a strategy restricting unlogged users of Party B's products from viewing official platform data search results and similar strategies displaying varied search results by logging status, user level and other standards, unless with the written consent of Party A, Party B shall only offer the Weixin authorized logging, and logging in through third-party authorization shall be prohibited.
7. Party A authorizes Party B to provide Sogou Search Services in respect of Official Platform Data and Contents only in mainland China (excluding Hong Kong, Macao and Taiwan) and for noncommercial purposes. The explicit prior written consent of Party A is required if Party B needs to use Official Platform Data and Contents in any other territory, in any other form or for commercial purposes.
8. Neither party is required to pay to the other party or any third party any fees in respect of the cooperation hereunder.
9. Without the consent of Party A, Party B shall not, itself or assist any third party to, develop or put online any ranking lists or influence lists or other ranking products or functions of any Weixin official account or its articles and other information and contents, and shall not use the data, information and contents acquired from the cooperation hereunder to realize such products or functions.
10. Without the consent of Party A, Party B shall not provide subscription systems independent from Weixin official platform (i.e., users may not subscribe or collect data or contents of Weixin official platform through any platform other than Weixin official platform), and shall not use or use in a disguised way data or contents of Weixin official platform to provide any product or service that is the same as or similar to Weixin official platform products, functions or interfaces. Party B also undertakes not to, and not to assist any third party to, put online such functions.

VI. Rights and Obligations of the Parties

1. Each party confirms that the documents it provides to the other party (including but not limited to business registration, tax registration and other commercial documents) are true and free from misrepresentation or fraud.

2. Party A warrants that it has the power to provide Party B with Official Platform Data and Contents according to this Agreement, and to provide Official Platform Data and Contents and updates thereof according to cooperation needs. Party A shall also use reasonable commercial efforts to make sure that data information is timely provided to Party B.
3. Party A shall use reasonable commercial efforts to make sure the data interfaces and data fields it provides meet the invocation timeliness and quality requirements as agreed upon by the parties.
4. When using Official Platform Data and Contents, Party B shall indicate that they are sourced from Party A. Party B is obliged to correctly and completely indicate the data source to be Party A and mark “services provided by Party A”, and such use of Party A’s product name shall be confirmed by Party A in writing.
5. The Official Platform Data and Contents hereunder are for use by Party B in Sogou Search Services only, and without the written permission of Party A, Party B shall not use the related data and contents for any form of sales and commercial utilization other than the purposes prescribed hereby (including but not limited to bidding rank, media stream and recommendation, except for the home page of Sogou Weixin search.), or reveal, provide or permit any third party to use the same in any way.
6. Party B may exhibit Weixin official platform Data and Contents solely in the manner of Weixin Official Platform Source Pages. Without Party A’s written consent, Party B shall not arbitrarily alter official platform Data and Contents provided by Party A, or display the information content of WeChat official platform in any way other than the source pages of WeChat official platform, including but not limited to arbitrarily editing, sorting, alter or tampering Weixin official platform data and content, or exhibit the same in a way other than the typesetting style approved.
7. Party B’s display of plugins or functions auxiliary to Official Platform Source Pages, including link to home page (profile) of Weixin official account, link to Weixin advertisement system, and comment function, must be linked to their source pages, rather than displaying them in any form other than Weixin Official Platform Source Pages, and Party B shall not shelter, insert in, or hinder by pop-up windows in any form any auxiliary plugins or functions. When any user of Party B logs into his Weixin account, his browsing and reading of Weixin official platform information and contents, number of “likes” given and other recording data shall be synchronized with Party A in a way prescribed by Party A. Party B shall make sure such user can normally use “like”, comment and other plugins and functions that are provided by Party A and auxiliary to source pages.
8. When exhibiting official platform data, Party B shall guide and instruct its users to follow the Weixin official account that releases such content, and such guidance and instruction shall be obvious, accurate, effective and clear.

9. During the performance of this Agreement, Party B shall take safe, effective and rigorous measures to prevent any third party other than parties hereto from grabbing, intercepting, acquiring and using official platform data in any way including but not limited to a Spider program. Party A may require Party B to immediately clean up, rectify or effectively upgrade the prevention measure, if Party A is aware of any third party violation. Party B shall actively cooperate with Party A to take corresponding measures. Party B shall make response within 24 hours after receiving Party A's written notice and update Party A the processing status every 48 hours in writing during the handling process. Party A has the right to investigate Party B's liability for breach of contract in accordance with this Agreement, if Party B fails to complete the aforesaid clean-up work with the time frame confirmed by both parties through negotiation or fails to meet the clean-up requirements determined by both parties.
10. During the performance of this Agreement, Party B may not set up any subscription systems independent from Weixin official platform based on Weixin Official Platform Data and Contents.
11. The written consent (including email, Weixin, or QQ discussion group of personnel designated by the parties) from Party A shall be obtained before the name of any product or service relating to Party A (including but not limited to Weixin) as prepared or edited by Party B is put online.
12. Without the approval and consent of Party A, Party B shall not itself use or authorize any third party to use "Weixin", "official account", "official platform" and other terms or expressions in connection with Weixin or Weixin official platform in the name of any existing or future function, application or product. If any existing or future function, application or product of Party B uses any official platform data, the name of which shall be submitted to Party A for examination beforehand, without the approval and consent of Party A, Party B shall not itself use or authorize any third party to use such names. For purposes of this clause, the examination period of Party A will be 5 working days. The failure of Party A to give a reply during the examination period shall be deemed as a rejection.
13. Party B shall immediately rectify its products and services (including but not limited to "Weixin headlines") which have been put online in accordance with the rights, obligations and cooperation terms prescribed hereby. If Party B fails to complete the rectification within the time limit specified by Party A, then Party A shall be entitled to claim for liability for breach of contract according to this Agreement. Moreover, during the rectification period, Party A has the right to suspend providing data to Party B and to request Party B to delete the existing data.

Chapter IV Operations and Security Strategies

VII. Operation Specifications

During the term of this Agreement, Party B shall comply with the provisions of Weixin official platform operation rules, including *Weixin Official Platform Service Agreement*, *Weixin Official Platform Operation Specifications*, *Tencent Service Agreement*, *Software Licensing and Service Agreement of Tencent Weixin* and related specific rules. The related rules are published by Party A on relevant webpages and will be updated according to statutory requirements and operational needs. When any update requires any business adjustment by Party B, Party A shall inform Party B of such in advance.

VIII. Security Strategy Synchronization

1. The cooperation hereunder involves Party A's product operation and backstage security strategies. Party A owns the operation and management power over Official Platform Data and Contents, and the provision, use and strategic adjustment of such data and contents shall be subject to the confirmation of Party A. Party B shall cooperate with Party A in real-time synchronization as notified by Party A (including but not limited to government supervision requirements, and complaint handling), and make sure the Official Platform Data and Contents strategies are at all times consistent with those of Party A. Any content confirmed by Party A to be deleted shall be synchronized by Party B at the same time and kept from exhibition in any way (including snapshot). In addition, Party B shall inform Party A of its strategies in real time.
2. The parties shall establish a security strategy coordination mechanism, and determine security strategies for official account data and contents according to requirements of Party A.

IX. Complaint & Crisis Management

1. Each party shall take responsibility for and clarify system failure or information delay caused by its own reasons. In the event of information transmission delay caused by basic communication platforms of operators, or business breakdown or service cessation caused by change of state laws, regulations, policies or adjustment of operators' policies, which give rise to consumer complaint against Party A, or business breakdown or service cessation caused by technical failure in the process of information transmission, change of state laws, regulations, policies or adjustment of operators' policies, either party shall immediately inform the other party so that the parties can handle the same together.
2. Party A has the right to deal with Official Platform Data and Contents that involve violation of state laws or regulations or infringe upon legitimate rights and interests of others according to government requirements, user complaint and other reasons and to timely inform Party B for synchronous handling, to which Party B shall provide active cooperation and assistance as required by Party A and ensure consistent handling strategies and results.
3. Party B shall be responsible for handling and clarification of user complaint, punishment imposed by operators or other investigation by government agencies due to reasons caused by Party B. Party A shall be responsible for handling and clarification of user complaint, punishment imposed by operators or other investigation by government agencies due to reasons caused by Party A. In addition, each party shall be liable for compensation for the loss incurred therefrom in accordance with the principles above prescribed.
4. Party B shall provide open, explicit and effective complaint handling channels and mechanisms, and shall be responsible for operational liabilities caused by its slackness in handling (within 12 hours after the receipt of a notice from Party A) complaints and other problems.

Chapter V User Privacy Protection

X. User Privacy Protection

1. The parties hereof shall fully respect and protect user privacy security, and shall not disclose nonpublic information of users without the permission of users. Relevant data information shall only be used for Sogou Search Services expressly stipulated herein and shall not be used for any other purposes.
2. Party B shall ensure that privacy protection systems and procedures which are as robust as those of Party A shall be developed in respect of the use of relevant information, so as to ensure that the user privacy information can be effectively protected.

Chapter VI Intellectual Property Protection

XI. Intellectual Property Protection

1. Neither party may use any trademark and logo owned by the other party during the cooperation in this Agreement for any purpose other than those in this Agreement; other use for the purpose of this Agreement other than for the explicit cooperation hereunder must be subject to the prior consent of the right owner.
2. Party B shall use the intellectual property logo and relevant information of the relevant data information for the cooperation hereunder and in compliance with relevant laws and regulations and agreement between the parties, and shall not modify, shield, delete or otherwise change or un-exhibit relevant logos at will.
3. If either party discovers that any third party infringes the intellectual properties or other lawful rights and interests of the cooperation products, it shall promptly notify the other party, and take measures to claim against the infringer.
4. Party A shall own the intellectual properties of Weixin Public Platform and related functions, contents and names according to law. In any case, the intellectual properties owned by Party A shall not be transferred in any form. Any intellectual property of the contents generated from the use of Weixin Public Platform services by a user shall belong to such user or relevant right owner, and Party B shall not infringe the legitimate intellectual properties of the user or relevant right owner.
5. The Parties and their staff undertake that they shall not disparage or otherwise damage the trademark, company name and domain name owned by the other party, nor disparage, copy, distort, destroy or otherwise damage the internet webpage or website of the other party.
6. This Article shall survive the termination of the term of this Agreement or termination of relevant agreements.

XII. General Obligations.

1. The commercial, marketing, technical, business or other material of either party (“Disclosing Party”) that has been or will be disclosed to the other party (“Receiving Party”) before the date of this Agreement and during the term of this Agreement was either designated as confidential information (or similar mark) at the time of disclosure, or disclosed in a confidential circumstance, or commercially reasonably determined by the parties to be confidential information (“Confidential Information”). During the term of this Agreement and three (3) years thereafter, the Receiving Party must: (A) keep Confidential Information confidential; (B) not use Confidential Information for purposes other than the purposes specified in this Agreement; and (C) not disclose to any other person other than employees of such party (or employees of its affiliates, lawyer, accountant or other consultants) on a need-to-know basis for the performance of their duties; provided that the above person shall sign a written confidentiality agreement in which the degree of confidentiality obligation shall not be lower than that of this Article.
2. The obligation stipulated in the preceding Article does not apply to the following information: (A) information that is in the public domain at the time of disclosure or becomes part of the public domain after disclosure, other than as a result of the breach of the confidentiality obligation by the Receiving Party; (B) information that is in the possession of the Receiving Party at the time of disclosure and to which the Receiving Party bears no confidentiality obligation; (C) information obtained by the Receiving Party from a source other than the Disclosing Party through no breach of this Agreement; (D) information provided by the Disclosing Party to a third party without being subject to any confidentiality obligation; or (E) information independently developed by the Receiving Party without using any information disclosed by the Disclosing Party.
3. Upon expiration or termination of this Agreement, or upon request of the Disclosing Party at any time, the Receiving Party shall: (A) return to the other party (or destroy, upon request of the other party) all materials and data containing Confidential Information of the other party, and (B) within ten (10) days after request of the other party, assure to the other party in writing that the above materials have been returned or destroyed.

XIII. Disclosure of Trade Secret

The disclosure of any Trade Secret by either party under any of the following circumstances shall not be deemed as a breach of this Agreement:

Such information is disclosed with the prior written consent of the other party, and disclosed by a party according to the requirement of law to which it is subject, provided that the disclosing party shall inform the other party in writing in advance of the exact nature of the Trade Secret to be disclosed.

XIV. Publicity and Statement

Any intended publicity of any press release, announcement, statement or advertisement of any event in connection with this Agreement or arising from this Agreement (including but not limited to the cooperation relationship between the parties) or promotion of such event shall be submitted to the other party for review and shall be subject to the prior written consent of the other party, but the other party shall not unreasonably withhold or delay such consent. Notwithstanding the foregoing provisions, either party may: (A) subject to the compliance with confidentiality provisions, disclose this Agreement and relevant contents to its shareholders, directors, officers, employees, lawyers, accountants and other professionals, or (B) disclose this Agreement and relevant contents according to the requirements of the securities laws or other relevant laws of its jurisdiction.

Chapter VIII Breach of the Agreement

XV. Liability for Breach of Contract

1. Either party which breaches any obligation stipulated herein shall bear liability for breach of contract, and indemnify the other party for all losses suffered by the other party therefrom.
2. If both parties have fault, the parties shall respectively bear their own liability according to the degree of their respective fault for breach of contract.
3. If Party B breaches this Agreement, Party A shall be entitled to require Party B to modify, rectify, adjust or cease its products or services, and shall be entitled to suspend or terminate the call and push of data content on public platform according to the degree of breach until termination of the cooperation hereunder.
4. If Party B uses any data on public platform in violation of laws and regulations or this Agreement, which causes any loss to a third party, Party B shall promptly clarify and apologize on public media with nationwide influence, and indemnify such third party for the losses suffered by it; where Party B fails to perform this Article, Party A shall be entitled to claim against Party B all expenses incurred by Party A for the settlement, litigation, mediation, arbitration and other dispute resolutions, such as attorney fee, investigation expenses, court costs, arbitration expenses, damages, and compensations.

Chapter IX Taxation

XVI. General Requirements

Either party shall pay its own taxes according to the provisions of Chinese Law.

Chapter X Term and Termination

XVII. Term

This Agreement shall come into force conditioned upon being affixed stamps by the parties. The term of this Agreement commences from March 1, 2020 and expires on February 28, 2021. The parties have the intention of long-term cooperation, and after the expiration of this Agreement Party B has the right to renew this Agreement under the same conditions with written notice in one month prior to the expiry date .

XVIII. Termination

This Agreement shall be immediately terminated upon the occurrence of any of the following circumstance:

1. Either party declares bankruptcy or enters into procedures for liquidation or dissolution.
2. If either party breaches this Agreement, which causes this Agreement to be unable to be performed continually, or the continued performance cannot achieve the purpose of this Agreement, or such breach has infringed the lawful rights and interests of the other party, the other party shall give a 5 working days' prior written notice to such party to terminate this Agreement; otherwise, either party may reserve the right of recourse.
3. In case of new provisions, the parties may sign a supplementary agreement through friendly negotiation, which shall have equal legal effect with this Agreement.
4. If, during the term of this Agreement, the conclusion or performance basis of this Agreement is fundamentally changed due to the issuance of new rules under state laws, regulations, relevant state departments and telecom operators or the change of policy environment, either party may notify the other party to modify the original agreement through negotiation. If the negotiation fails, either party may terminate this Agreement by giving a 5 working days' prior written notice to the other party, and shall not bear any liability.

XIX. Matters after Termination

1. The termination of this Agreement shall not affect the outstanding settlement hereunder or the payment obligation and other obligations or rights of either party accrued before the termination.
2. Notwithstanding the termination of this Agreement, Chapter V and the obligations stipulated therein shall continue to have binding force upon the parties.
3. Upon termination of this Agreement, Party B shall cease acquiring data and content from Party A's public platform within the period required by Party A, and delete existing contents according to the requirement of Party A.

XX. Law

The signing, effectiveness, interpretation and enforcement of this Agreement and resolution of dispute hereunder shall be governed by the laws of the People's Republic of China.

XXI. Negotiation and Mediation

Any dispute arising from this Agreement shall be settled through friendly negotiation between the parties; if negotiation fails, either party may file a lawsuit before the People's Court of Nanshan District, Shenzhen at the domicile of Party A.

Chapter XII Supplementary Provisions

XXII. Waiver

No failure by a party to exercise or timely exercise any right, power or priority under this Agreement shall operate as a waiver of that right, power or priority, nor shall any single or partial exercise of any right, power or priority prevent the future exercise of any right, power or priority.

XXIII. Modification

This agreement shall not be modified unless by a written agreement signed by the parties.

XXIV. Entire Agreement

This Agreement constitutes the entire agreement between the parties and supersedes all previous discussions, negotiations and agreements.

XXV. Successors

This Agreement shall bind upon and inure to the benefit of the parties and their respective lawful successors and assigns.

XXVI. Force Majeure

1. In case of Force Majeure, the performance of obligations of the parties hereunder will be suspended within the affected scope and duration of Force Majeure. Neither party shall bear any liability therefrom.
2. Either party which claims to suffer Force Majeure shall notify the other party no later than 5 working days after the occurrence of Force Majeure, and subsequently a written certification with respect to Force Majeure confirmed by relevant authorities, and shall minimize the impact of Force Majeure to the extent possible.

3. In case of Force Majeure, the parties shall immediately discuss the problem resolution plans. If Force Majeure lasts for more than thirty (30) days, and has a material adverse impact on the performance of this Agreement, either party may terminate this Agreement.

XXVII. Assignment

Without the prior written consent of the other party, neither party may assign this Agreement or its rights and obligations hereunder to any third party in part or in whole.

XXVIII. Notice

Any notice or other communications sent according to this Agreement shall be in writing (including email), and sent to the following address of the parties (including email address) or other address and/or email address subsequently notified by a party to the other party in writing:

If to Party A:

Address:

Email address:

If to Party B:

Address:

Email address:

XXIX: Miscellaneous

1. This Agreement shall be made in two counterparts in Chinese with each party holding one. Such two counterparts shall have the same legal effect.
2. Any matter not mentioned herein shall be subject to the provisions of Chinese Law.
3. Appendixes hereto are integral part of this Agreement. In case of any conflict between the appendixes and this Agreement, this Agreement shall prevail. Any matter not referred to herein shall be subject to the appendixes hereto and the separate written agreements between the parties.

[Remainder of this page intentionally left blank]

Signed by:

Party A (Seal): Shenzhen Tencent Computer Systems Co., Ltd.

Authorized Representative:

Date:

Party B (Seal): Beijing Sogou Information Service Co., Ltd.

Authorized Representative:

Date:

Supplemental Agreement to the Amended and Restated Business Development and Resource Sharing Agreement

This Supplemental Agreement to the Amended and Restated Business Development and Resource Sharing Agreement (“**Supplemental Agreement**”) is made by the following parties on September 20, 2018:

- (1) **Shenzhen Tencent Computer Systems Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, with its legal address at 5/F-10/F, FIYTA Building, High-tech South 1st Road, Hi-tech Park, Nanshan District, Shenzhen (“**Tencent**”);
- (2) **Sohu.com Limited**, a corporation duly established and valid existing under the laws of Cayman Islands, with its legal address at PO Box 309, Ugland House, Grand Cayman, KY 1-1104, Cayman Islands (“**Sohu**”);
- (3) **Sogou Inc.**, a corporation duly established and valid existing under the laws of the Cayman Islands, with its legal address at P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands (“**Sogou Inc.**”);
- (4) **Beijing Sogou Technology Development Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, with its legal address at Room 01, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou China**”);
- (5) **Beijing Sogou Network Technology Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, with legal address at Room 03, 10/F, Building 9, No. 1 Park Wangzhuang Road, Haidian District, Beijing (“**Sogou Network**”);
- (6) **Beijing Sogou Information Service Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, with its legal address at Room 02, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou Information**”);
- (7) **Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.**, a corporation duly established and valid existing under the laws of the People’s Republic of China, with its legal address at 16/F, Tencent Building, Kejizhongyi Road, Yuehai Street, Nanshan District, Shenzhen, Guangdong Province, China (“**Shi Ji Guang Su**”)

The parties mentioned above shall hereinafter be referred to individually as a “**Party**”, and collectively as the “**Parties**”. In particular, **Sogou Inc.**, **Sogou China**, **Sogou Network**, **Sogou Information** and **Shi Ji Guang Su** are collectively referred to as “**Sogou**”.

Whereas,

The Parties entered into the Amended and Restated Business Development and Resource Sharing Agreement (the “**Agreement**”) on September 25, 2017.

Upon amicable consultation, the **Parties** amend relevant provisions of the **Agreement** as follows:

1. Amendment to Long-term Business Cooperation

1.1 The **Parties** agree that except for Clause 1(2) on the long-term business cooperation of the **Agreement**, the validity period of the other provisions of Clause 1 of the **Agreement** shall be extended to September 15th, 2023.

2. Amendment to the Strategic Principles of Business Development and Resource Sharing

2.1 **Tencent** and **Sohu** agree that from September 16, 2018 to September 15, 2023 (“**Cooperation Period**”) respectively, if it sets any default general search engine in its products in the form of embedment or otherwise (different from on-site/in-product search engine), such default general search engine shall be the search engine powered by Sogou. For the purpose hereof, the **Parties** clarify as follows:

- (1) For the purpose of Clause 2.1 hereof, **Tencent** and **Sohu** will not deprive users of their rights of choosing, at their discretion, search product services that compete with **Sogou**.
- (2) General search engine means a search engine whose search contents are from public information on various Internet websites that is available to third-party “Spider” program or from open database on various Internet websites; on-site/in-product search engine means a search engine that only extracts information within the website or products (including public or non-public information) to retrieve and return results.
- (3) The search function inside Weixin/WeChat is not the above-mentioned “general search engine”, and is not subject to the above provision that “such default general search engine shall be the search engine powered by **Sogou**”. However, from September 16, 2018 to September 15, 2019, under equivalent conditions and subject to **Tencent**’s requirements for user experience, **Sogou** Search will be the preferred third-party search function to power such a Weixin/WeChat search function that allows Weixin/WeChat users to access Internet information outside Weixin/WeChat for that period, and that the arrangement herein may be extended for additional successive one-year periods through September 2023.

3. Miscellaneous

3.1 Effectiveness. This **Supplemental Agreement** shall become effective when the Parties hereto sign or seal on the date first written above.

3.2 Validity. This **Supplemental Agreement** shall become an integral part of the **Agreement** when it becomes effective, and shall have the same legal force as the **Agreement**. If there is any discrepancy between the provisions of this **Supplemental Agreement** and the **Agreement**, this **Supplemental Agreement** shall prevail, and the other provisions of the **Agreement** shall remain fully effective.

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- 3.3 Definition and Interpretation. Unless otherwise stated, the words used herein shall have the same meanings set forth in the **Agreement**.
- 3.4 Counterparts. This **Supplemental Agreement** may be made in multiple counterparts. All counterparts shall be originals when they are signed and delivered, and together constitute the same one agreement

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, the Parties hereto have caused this Supplemental Agreement to be executed by their respective authorized representatives on the date and year first written above.

Shenzhen Tencent Computer Systems Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

Sohu.com Limited

(Seal)

Signature: _____
Name: _____
Title: _____

Sogou Inc.

(Seal)

Signature: _____
Name: _____
Title: _____

Beijing Sogou Technology Development Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

Beijing Sogou Network Technology Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

Beijing Sogou Information Service Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

The Second Supplemental Agreement to the Amended and Restated Business

Development and Resource Sharing Agreement

This Second Supplemental Agreement to the Amended and Restated Business Development and Resource Sharing Agreement (“**Supplemental Agreement**”) is made by the following parties on October 24, 2019:

- (1) **Shenzhen Tencent Computer Systems Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with its legal address at 5/F-10/F, FIYTA Building, High-tech South 1st Road, Hi-tech Park, Nanshan District, Shenzhen (“**Tencent**”);
- (2) **Sohu.com Limited**, a corporation duly established and validly existing under the laws of Cayman Islands, with its legal address at PO Box 309, Uglund House, Grand Cayman, KY 1-1104, Cayman Islands (“**Sohu**”);
- (3) **Sogou Inc.**, a corporation duly established and validly existing under the laws of the Cayman Islands, with its legal address at P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands (“**Sogou Inc.**”);
- (4) **Beijing Sogou Technology Development Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with its legal address at Room 01, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou China**”);
- (5) **Beijing Sogou Network Technology Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with legal address at Room 03, 10/F, Building 9, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou Network**”);
- (6) **Beijing Sogou Information Service Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with its legal address at Room 02, 9/F Sohu.com Internet Plaza, No. 1 Park Zhongguancun East Road, Haidian District, Beijing (“**Sogou Information**”);
- (7) **Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.**, a corporation duly established and validly existing under the laws of the People’s Republic of China, with its legal address at 16/F, Tencent Building, Kejizhongyi Road, Yuehai Street, Nanshan District, Shenzhen, Guangdong Province, China (“**Shi Ji Guang Su**”)

The parties mentioned above shall hereinafter be referred to individually as a “**Party**”, and collectively as the “**Parties**”. In particular, **Sogou Inc.**, **Sogou China**, **Sogou Network**, **Sogou Information** and **Shi Ji Guang Su** are collectively referred to as “**Sogou**”.

Whereas,

The **Parties** entered into the Amended and Restated Business Development and Resource Sharing Agreement (the “**Agreement**”) on September 25, 2017, and Supplemental Agreement to the Amended and Restated Business Development and Resource Sharing Agreement (“**First Supplemental Agreement**”) on September 20, 2018.

Upon amicable consultation, the **Parties** amend relevant provisions of the **Frist Supplemental Agreement** as follows:

1. The **Parties** agree to extend the validity period of Subparagraph (3) of Paragraph 1 of Clause 2 “Amendment to the Strategic Principles of Business Development and Resource Sharing” of the First Supplementary Agreement for one year to September 15, 2020, i.e. the Subparagraph is modified as follows: *The search function inside Weixin/WeChat is not the above-mentioned “general search engine”, and is not subject to the above provision that “such default general search engine shall be the search engine powered by Sogou”. However, from September 16, 2019 to September 15, 2020, under equivalent conditions and subject to Tencent’s requirements for user experience, Sogou Search will be the preferred third-party search function to power such a Weixin/WeChat search function that allows Weixin/WeChat users to access Internet information outside Weixin/WeChat for that period. Without prejudice to user experience, the cooperation herein may be extended for additional successive one-year periods during the Cooperation Period.*
2. **Miscellaneous**
 - 2.1 **Effectiveness.** This **Supplemental Agreement** shall become effective when the **Parties** sign or seal on the date first written above.
 - 2.2 **Validity.** This **Supplemental Agreement** shall become an integral part of the **Agreement** and **First Supplementary Agreement** when it becomes effective, and shall have the same legal force as the **Agreement** and the **First Supplementary Agreement**. If there is any discrepancy between the provisions of this **Supplemental Agreement** and the **Agreement** and **the First Supplementary Agreement**, this **Supplemental Agreement** shall prevail, and the other provisions of the **Agreement** and the **First Supplementary Agreement** shall remain fully effective.
 - 2.3 **Definition and Interpretation.** Unless otherwise stated, the words used herein shall have the same meanings set forth in the **Agreement** and the **First Supplementary Agreement**.
 - 2.4 **Counterparts.** This **Supplemental Agreement** may be made in multiple counterparts. All counterparts shall be originals when they are signed and delivered, and together constitute the same one agreement.

(The remainder of this page is intentionally left blank.)

IN WITNESS WHEREOF, the **Parties** hereto have caused this **Supplemental Agreement** to be executed by their respective authorized representatives on the date and year first written above.

Shenzhen Tencent Computer Systems Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

Sohu.com Limited

(Seal)

Signature: _____
Name: _____
Title: _____

Sogou Inc.

(Seal)

Signature: _____
Name: _____
Title: _____

Beijing Sogou Technology Development Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

Beijing Sogou Network Technology Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

Shenzhen Shi Ji Guang Su Information Technology Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

Beijing Sogou Information Service Co., Ltd.

(Seal)

Signature: _____
Name: _____
Title: _____

Contract No.:

SOHU.COM Internet Plaza Office Building Lease

Between

Beijing Sohu New Era Information Technology Co., Ltd.

and

Beijing Sogou Network Technology Co., Ltd.

Lease

Parties: Lessor: Beijing Sohu New Era Information Technology Co., Ltd.
Address: SOHU.com Media Plaza, No. 2 Park, No. 3 Building, South Road of Academy of Sciences, Haidian District, Beijing, China
Legal representative: Charles Zhang
Tel:
Fax:
Lessee: Beijing Sogou Network Technology Co., Ltd.
Address: SOHU.com Internet Plaza, No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C.
Legal representative: Wu Tao
Tel:
Fax:

Date: The Lease was concluded on [December 25, 2019].

The parties hereby enter into the following agreement:

Article 1 Definitions

Object: The Lessor agrees to lease out and the Lessee agrees to take on lease the premises (actual floors) located at 7F, 8F Room 01, and 10F, SOHU.com Internet Plaza No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C., that is, 7F, 8F, and 10F as elevator shows.

As a duly established and validly existing corporation, the Lessor has the authority to enter into the Lease and to perform its obligations hereunder. In addition, the Lessor has full ownership of the Object leased, and has obtained all internal and external approval or registration and filings necessary for the performance of the Lease, consenting to the lease of the Object to the Lessee.

As a duly established and validly existing corporation, the Lessee has the authority to enter into the Lease and to perform its obligations hereunder. The Lessee agrees to take on lease and enjoys the following rights pursuant to the Lease:

- (i) To normally use public inlets and outlets, stairs, platforms, passageways, public restrooms, tea rooms, broom closets, etc. of the building together with the Lessor and other parties enjoying the same rights, provided that, the Lessor may restrict such right to use in a proper way at any time when the above facilities need to be repaired or upon the occurrence of emergency;
- (ii) To share the elevators, central air-conditioning and other equipment serving the office building.

Tenancy term and rent:

The tenancy term is more particularly set forth in Article 3 (“Tenancy Term”). The Lessee shall pay the rent and property management fees as specified in Article 4 hereof within the Tenancy Term in a way specified in Article 6.

Deposit:

The Lessee shall pay the deposit as specified in Article 5 hereof simultaneously with the execution of the Lease in a way specified in Article 6.

Other expenses:

The Lessee shall timely pay the following expenses as per the bills provided by the property management company designated by the Lessor, including but not limited to:

Electricity charges and water rates, over time air conditioning costs, machine room cooling water rates, etc. incurred in the Object.

For specific payment methods, please refer to Article 6 hereof.

Legal expenses:

The parties shall respectively bear their legal expenses.

Application:

The Object leased may only be used by the Lessee for work.

Date of delivery:

_____.

Article 2

Object

Building No.: SOHU.com Internet Plaza No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C. (hereinafter referred to as the “Office Building”)

Floor No.: 7F, 8F Room 01, and 10F (actual floors) of the Office Building, that is, 7F, 8F, and 10F as elevator shows.

Lease area: 7F, 8F, and 10F (actual floors) of the Office Building, that is, 7F, 8F, and 10F as elevator shows, having a total lease area of 6585.88 square meters.

For the specific location, please refer to Annex I.

For delivery standards, please refer to Annex II.

Article 3

Tenancy Term

Term: 36 months

Lease commencement date: January 1, 2020

Termination date: December 31, 2022

(The term includes lease commencement date and termination date)

Article 4

Rent and Property Management Fees

(1) Rent

In consideration of using the Object leased, the Lessee shall pay the following rent:

Rent standard: RMB 11/day/m²

Annual rent: RMB 26,514,752.88

Monthly rent: RMB 2,209,562.74

Second year:

Rent standard: RMB 11/day/m²

Annual rent: RMB 26,442,308.28

Monthly rent: RMB 2,203,525.69

Third year:

Rent standard: RMB 11/day/m²

Annual rent: RMB 26,442,308.28

Monthly rent: RMB 2,203,525.69

(Calculated based on the lease area specified in Article 2 above at the unit price of RMB11/day/m², to be settled in Renminbi)

(2) Property management fees

Subject to the *SOHU.COM Internet Plaza Office Building Property Services Agreement* (subject to the name of the agreement finalized) entered into by and between the Lessee and the property management company designated by the Lessor.

Article 5

Deposit

The deposit for rent will be RMB 6,628,688.22 (equivalent to three months of rent). Since RMB5,228,266.68 of deposit has been paid under the original contract and supplementary contracts No. 16-GNL-ES-05744, 17-GNL-ES-00950 and 18-GNL-ES-01877, the Lessee needs to hand in RMB 1,400,421.54 of deposit hereunder.

The deposit will bear no interest.

Upon the extinguishment or termination of the Lease, the remaining amount after the Lessor deducts unpaid rent, other expenses and other deductible expenses payable by the Lessee shall be returned to the Lessee in one lump sum within 20 working days after termination of the Lease.

Payment of Rent, Property Management Fees, Deposit and Other Expenses

- (1) The rent and property management fees include neither electricity charges and water rates, rent and management fees of parking space leased, over time air conditioning costs, machine room cooling water rates, etc. of the Object leased, nor all government taxes and other expenses payable by the Lessee according to laws or regulations.

During the Tenancy Term, the rent shall be paid by calendar month. In particular, the Lessee shall pay the rent and property management fee for the next month in advance within the first twenty days of each calendar month without any deduction.

The Lessee shall prepay RMB 2,209,562.74 of rent simultaneously with the execution of the Lease.
- (2) Within five working days after the Lease is executed, the Lessee shall pay the deposit to the Lessor in the amount prescribed in Article 5 hereof.
- (3) The Lessee shall pay other expenses then incurred in accordance with the provisions of the Lease, the *SOHU.COM Internet Plaza Office Building Property Services Agreement* (subject to the name of the agreement finalized) entered into with the property management company designated by the Lessor, and the *SOHU.COM Internet Plaza User Manual* and the *SOHU.COM Internet Plaza Decoration Manual* formulated and updated from time to time by the Lessor or the property management company.
- (4) The rent and deposit for the Object leased shall be paid to the following account of the Lessor:
Bank of deposit: China Merchants Bank Co., Ltd., Beijing Branch, Qingnian Road Sub-branch
Account name: Beijing Sohu New Era Information Technology Co., Ltd.
Account number: 010900239210301
- (5) The Lessor shall issue vouchers to the Lessee at the following time in the following way:

The Lessor shall issue a receipt within ten working days after the receipt of deposit paid by the Lessee;

Regarding the rent paid by the Lessee by check, remittance or any other means designated by the Lessor, the Lessor shall issue a formal invoice of corresponding amount within the corresponding Tenancy Term after the related funds reach the bank account designated by the Lessor.

Article 7**Fixtures and Fittings**

The Lessor will provide certain fixtures and fittings for the interior of the Object leased according to Annex II hereto — *SOHU.COM Internet Plaza Office Building Delivery Standards* (subject to the confirmation document signed by the Lessee and the property management company designated by the Lessor), the Lessee shall return such fixtures and fittings in the same shape, conditions and structure as previously delivered upon the termination of the Lease. The initial delivery status shall be subject to the confirmation document signed by the Lessee and the property management company designated by the Lessor.

Article 8**Special Terms****(1) Reception of the Object leased**

The Lessor shall deliver the Object leased to the Lessee in accordance with the delivery conditions prescribed in Annex II hereto and the confirmation document signed by the Lessee and the property management company designated by the Lessor on the delivery date. As the Lessee is already the actual occupier and user of the premises leased, the delivery date will be the lease commencement date, that is to say, the Tenancy Term will commence as from the delivery date.

Simultaneously with the execution of the Lease, the Lessee shall enter into a *SOHU.COM Internet Plaza Office Building Property Services Agreement* with the property management company designated by the Lessor (subject to the name of the agreement finalized).

(2) Decoration

During the Tenancy Term, the Lessee may carry out interior decoration in the Object leased with the prior consent of the Lessor after entering into a *Leased Premise Decoration Security Agreement* (subject to the name of the agreement finalized) with the Lessor or the property management company designated by the Lessor.

(3) Government registration, taxes and other incidental expenses

The Lessor shall go through related registration formalities for the premises leased according to law, to which the Lessee shall offer assistance.

All taxes and dues in connection with the execution, registration and implementation of the Lease shall be governed by the applicable laws and regulations of China (excluding Hong Kong, Macao and Taiwan). In the absence of explicit provisions in Chinese laws and regulations, the taxes and dues shall be respectively borne by the Lessor and the Lessee on their own.

(4) Status of the Object leased

The Lessor has delivered the Object leased to the Lessee in accordance with the standards set forth in Annex II. The Lessee has received the Object according to such standards and confirmed the Object leased to be in good and rentable conditions. Both parties acknowledge that the Object leased conforms to the provisions of the Lease.

(5) Other agreements and covenants

The Lessee agrees to comply with the *SOHU.COM Internet Plaza Property Management Services Entrustment Contract* and the *Constitution of SOHU.COM Internet Plaza's Owners Association* signed by the Lessor. If the Lessor violates any of the aforesaid agreements as a result of the Lessee, the Lessee shall compensate the Lessor for its losses.

Article 9 **Confidentiality** During the Tenancy Term, the Lessor, the Lessee and their respective agents shall keep the trade secrets, financial information and other confidential information of the Lessee and the Lessor confidential, and may not disclose such information to any third party without the consent of the other party.

Article 10 **Others** The Lessee agrees that, the Lessor has the right to sell the premises leased to any third party during the Tenancy Term, and the Lessee promises to waive its right of preemption.

This Lease includes certain annexes and the *Detailed Rules for Office Building Lease*.

(The remainder of this page is intentionally left blank)

Beijing Sohu New Era Information Technology Co., Ltd.

Signature of representative:

Common seal:

Beijing Sogou Network Technology Co., Ltd.

Signature of representative:

Common seal:

(No text on this page, this being the seal and signature page to the SOHU.COM Internet Plaza Office Building Lease)

Signed on: _____ 2019

Annexes to the Lease

Annex I: Location Sketch Map

Annex II: SOHU.COM Internet Plaza Office Building Delivery Standards

Annex III: Photocopy of the Lessor's Business License and Original Power of Attorney

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Detailed Rules

for

Office Building Lease

Between

Beijing Sohu New Era Information Technology Co., Ltd.

and

Beijing Sogou Network Technology Co., Ltd.

I. Rent, Property Management Fees and Other Expenses

The Lessee agrees to accept and perform the following:

(1) Rent and property management fees

To timely pay the rent and property management fees prescribed in Article 4.

(2) Commercial taxes

To pay the taxes or dues payable by the Lessee as prescribed by laws and regulations annually or regularly imposed by the competent department on the Object leased or the Lessee at present or in the future, except the land use fees and house property taxes.

(3) Electricity, water and other charges

To pay the charges of electricity and water used in the Object leased.

(4) Other expenses

The Lessee shall pay to the property management company designated by the Lessor: including but not limited to the expenses of machine room cooling water and over time air-conditioning provided by the property management company designated by the Lessor at the request of the Lessee.

II. Obligations of the Lessee

The Lessee agrees to accept and perform the following:

(1) Compliance with regulations, detailed rules and ordinances, etc.

- (a) Comply with all regulations, rules and requirements of the government or other relevant departments concerning the Lessee's behaviors and operations in the Object leased, as well as all related regulations, rules and requirements regulating the actions, behaviors, affairs or things of the Lessee or its employees, agents, contractors or visitors.

The Lessee shall compensate the Lessor for its losses caused by the Lessee's violation of these regulations, rules and requirements.

- (b) The Lessee shall be responsible for all claims, demands, lawsuits, legal proceedings, judgments, losses and related expenditures that the Lessor may suffer or incur as a result of death, personal injuries or property damages occurred in the Object or occurred during the use of the Object or part thereof caused by the act or negligence of Lessee or its employees, contractors, agents or visitors.

- (c) The Lessee shall be responsible for all losses and damages to the Object leased, the building and all properties in the building caused by the Lessee or its agents, employees, contractors or visitors.
- (2) Decoration, repair and maintenance

(a) Decoration

The Lessee's decoration of the Object leased must comply with the provisions of the *SOHU.COM Internet Plaza Office Building Decoration Manual* (subject to the name of the agreement finalized) formulated and modified from time to time by the property management company designated by the Lessor.

The Lessee shall make sure the decoration and partition of the Object conform to firefighting, security, building or other relevant provisions.

According to the drawings and specifications previously submitted to and approved by the Lessor and the property management company designated by the Lessor in writing, the Lessee shall decorate the interior of the Object at its own expenses.

The interior decoration performed by the Lessee shall be in a good and workmanlike manner and conform to the style of first-class office buildings. The Lessee shall maintain the decoration in the same status during the entire Tenancy Term, except normal wear and tear.

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee must not, by itself or allow to, make any alteration to the approved decoration drawings and specifications as well as the interior design and layout of the Object.

For the avoidance of doubt, the Lessor and the Lessee hereby declare that:

- (i) The Lessor or the property management company designated by the Lessor approving the abovementioned decoration drawings and specifications of the Lessee doesn't exempt the Lessee from applying to the related government authorities of Beijing, at its own cost, for approval of such decoration drawings and specifications already approved by the Lessor or the property management company designated by the Lessor before formally starting interior decorating.
- (ii) The Lessor and the property management company designated by the Lessor shall bear no responsibility for any consequence of the Lessee not complying with the requirements and conditions set forth in the decoration drawings and specifications approved by the related government authorities of Beijing.

(iii) The Lessee shall keep the Lessor harmless from any loss caused by the Lessee not complying with the present clause, including but not limited to legal expenses.

(b) Repair and maintenance

The Lessee shall keep the part of decorations in the Object provided by the Lessor and the part added by the Lessee (including all doors and windows, walls, equipment and facilities and pipelines, etc.) in good, clean and rentable conditions, and shall keep the Object leased and oil paint on the surface intact.

The Lessor shall be responsible for daily repair and maintenance of decoration (decorative surface, strong current, weak current) and electromechanical system (central ventilation system) provided by the Lessor and access control, provided that the Lessee shall bear the corresponding costs, as more specifically agreed upon by the parties.

The Lessee shall repair and maintain the part of decorations added by itself at its own costs and expenses.

The Lessee shall comply with the regulations of the sanitation and provisions of other relevant government departments concerning dedicated sanitation and water facilities (if any) used by the Lessee or its employees, agents or visitors at its own expenses.

(3) Replacement of windows or glass curtain walls

The Lessee shall pay the expenses incurred by the Lessor or the property management company designated by the Lessor for replacement of windows, glass or glass curtain walls accidentally broken or damaged by the Lessee or its employees, contractors, agents or visitors.

(4) Compensation and insurance of losses and damages caused by internal defects

The Lessee shall take full responsibility for losses, property damages, death or personal injuries caused by the acts, faults or negligence of the Lessee or its employees, contractor, agents or visitors expressly or impliedly permitted by the Lessee. The Lessee shall hold the Lessor harmless therefrom. For purposes of this clause, the term "property" includes but is not limited to fixtures and fittings of the Lessor.

To avoid the above risks, the Lessee shall procure and maintain third-party liability insurance from a domestic insurance company. Such insurance shall be purchased in the name of the Lessee and particularly indicate the Lessor as the owner of the building (including the Object leased). From the date of lease commencement date, the Lessee shall furnish the Lessor with a certificate issued by the insurance company within three months, evidencing to the Lessor that appropriate insurance has been purchased. Such certificate shall constitute a part of annexes to the contract.

The insurance contract shall contain a clause prescribing that without the prior written consent of the Lessor, the insurance purchased and its conditions may not be cancelled, modified or restricted.

(5) Access of the Lessor or the property management company designated by the Lessor

When the Lessor or the property management company designated by the Lessor needs to examine or check the status of the interior structures, equipment or facilities in the Object leased by the Lessee and carry out necessary repair or maintenance, with prior notice, the Lessee shall allow the Lessor or the property management company designated by the Lessor and their authorized personnel to enter the Object in reasonable time. When exercising such right, the Lessor or the property management company designated by the Lessor shall try not to cause any interference to the Lessee.

In the case of emergency when it becomes impossible to contact the Lessee in advance, the Lessor and its employees or agents may enter the Object without permission of the Lessee to take necessary measures, provided that the Lessee shall be timely reported afterwards; in the case of especially critical circumstances, the Lessor or the property management company designated by the Lessor may force an entrance to the Object.

In order to better comply with the preceding clause, the Lessee shall inform the Lessor or the property management company designated by the Lessor the security system installed in the Object and its nature.

(6) Notice of repair

The Lessee shall conduct the necessary repair in a reasonable time after the receipt of a notice from the Lessor or the property management company designated by the Lessor requiring repair. If the Lessee fails to do so, the Lessor or the property management company designated by the Lessor shall be entitled to enter the Object, and may forcibly perform the work or repair in emergency circumstances, with all related expenses to be borne by the Lessee.

(7) Informing the Lessor of damage

The Lessee shall timely inform the Lessor and the property management company designated by the Lessor of damage to the Object and personal injuries, and of accidents or defects of water pipes, gas pipes, electric circuits or devices, fixtures or other facilities provided by the Lessor. After the receipt of such a notice, the Lessor or the property management company designated by the Lessor shall respond immediately and perform the repair within three working days. In the instance the Lessee becomes unable to normally use the facilities due to losses caused by the Lessor and response delay of the property management company, the Lessee shall be entitled to engage a third party for repair, with the maintenance costs to be deducted from the rent or other expenses (except repair caused by the Lessee only).

Upon occurrence of fire alarm or other accidents, in addition to calling the police and taking necessary measures immediately, the Lessee shall simultaneously inform the Lessor and the property management company designated by the Lessor.

(8) Directory

When the name on the directory of the building is changed upon the request of the Lessee, the Lessee shall pay the expenses for installation, repair, change or replacement of the Lessee's name on the directory.

(9) Survey

Within six months before the expiration of the Tenancy Term, the Lessee shall allow the Lessor to accompany potential tenants or users to make a survey of the Object in a reasonable time with prior notice, but the Lessor shall try its best to avoid interference with the Lessee's work.

(10) Regulations

The Lessee shall comply with the *SOHU.COM Internet Plaza Property Management Services Entrustment Contract*, the *Constitution of SOHU.COM Internet Plaza's Owners Association* signed by the Lessor, and shall comply with and abide by the regulations formulated by the Lessor and the property management company designated by the Lessor, including but not limited to the *SOHU.COM Internet Plaza User Manual* and the *SOHU.COM Internet Plaza Decoration Manual* (subject to the name of the agreement finalized).

(11) Contractors, employees, agents and visitors

The acts, negligence, omission and fault of all contractors, employees, agents and visitors of the Lessee shall be deemed as those of the Lessee, for which the Lessee shall be responsible to the Lessor.

(12) Return of the Object

Upon the expiration of the Tenancy Term or early termination of the Lease, the Lessee must rehabilitate the Object in the state indicated in the confirmation document signed upon acceptance, including but not limited to rehabilitating the ceiling system, spraying system, smoke detector, fan coil, air-conditioning temperature controller, lamp panel, air supply grille and return air inlet, unless with the consent of the owner.

The Object and all fixtures, fittings and ceilings therein returned by the Lessee must be complete, good, clean, rentable and in a proper maintenance status.

The personal property (including the name boards of the Lessee on doors, walls, etc. of the Object), fixtures and fittings and auxiliary equipment of the Lessee shall be removed as required by the Lessor upon the expiration of the Tenancy Term or early termination of the Lease, with the corresponding expenses to be borne by the Lessee. In addition, the Lessee shall compensate the Lessor any damage caused in the process of removing.

The Lessee shall allow the Lessor to remove from the directory texts and characters relating to the Lessee, and shall compensate the Lessor for its losses caused by the Lessee's failure to do so.

If, when the Lessee returns the Object, there remain some items, fixtures or fittings in the Object, the Lessee hereby declares that it has agreed to waive its ownership of such properties, and allow the Lessor to freely dispose such properties (including but not limited to abandonment, selling off or other means), except as otherwise agreed then by both parties.

The time for the Lessee to return the Object shall be subject to the written document signed by authorized representatives of the parties.

(13) Indemnification upon default

The Lessee shall indemnify and hold the Lessor harmless from losses caused by the following behavior that may be suffered or incurred by the Lessor, including lawsuits, claims, losses, damages and expenses: the Lessee fails to comply with or perform any of its responsibilities hereunder, or the use of the Object by the Lessee (including indoor installation and equipment of electricity and gas), the misconduct taken during the Tenancy Term against the Object, or the negligence or fault of the Lessee.

(14) Protection under severe weather

The Lessee shall take any reasonable preventive measure to prevent the Object from invasion of storm, heavy rain, snow or similar severe weather. Under the above severe weather, the Lessee shall especially make sure all exterior doors and windows are closed.

(15) Cancellation or alteration of industrial and commercial registration

The Lessee shall properly go through the cancellation or alteration of industrial and commercial registration with the unit as registered or business address within 30 days after the expiration of the Tenancy term or the date of early termination hereof.

(16) Maintenance of electrical equipment, pipelines and wirings

If the electrical equipment, wirings or pipelines installed by the Lessee become in danger or unsafe or as reasonably requested by the Lessor or the relevant municipal corporation, the Lessee shall repair or replace the above equipment, wirings or pipelines. At the time of maintenance, the Lessee may engage only the maintenance contractors designated or identified by the Lessor or the property management company designated by the Lessor in writing. The Lessee shall allow the Lessor or the property management company designated by the Lessor to examine the wirings or pipelines installed by the Lessee in the Object, provided that the Lessor or the property management company designated by the Lessor shall send a written request in advance and examine the devices at any reasonable time. The Lessee shall indemnify the Lessor harmless from claims, expenses, damages or lawsuits caused by faults or improper maintenance of electrical equipment, devices, pipelines and wirings installed by the Lessee in the Object.

(17) Sewer cleaning

When the sewer or sanitary fittings or other pipelines are plugged or stop work due to careless or improper use or negligence of the Lessee or its contractors, employees, agents or visitors, the Lessor or the property management company designated by the Lessor shall clean, repair or replace such pipelines first, with all costs incurred therefrom to be borne by the Lessee. Moreover, the Lessee shall undertake all expenses, claims or losses suffered by the Lessor therefrom.

(18) Transportation of waste and garbage

The Lessee shall carry away the waste and garbage generated during the decoration period, and place such waste and garbage in such locations within the building as designated by the Lessor or the property management company designated by the Lessor. If the Lessee uses the waste and garbage cleaning services provided by the Lessor or the property management company designated by the Lessor, the Lessee shall pay the relevant expenses and may not utilize the services provided by any similar contractor.

III. Obligations of the Lessor

The Lessor agrees to accept and perform the following:

(1) Non-interference

Under the premise that the Lessee pays the rent, property management fees and various other expenses in the way and amount prescribed herein and complies with and performs these terms and conditions that the Lessee shall comply with and perform, the Lessor shall make sure the Lessee's peaceful occupation and use of the Object during the Tenancy Term will not be interfered by the Lessor or any person legally claiming its rights through the Lessor (except the circumstances prescribed by Clauses (5) and (6), Article II of these Detailed Rules).

(2) Land use fees

Except the taxes and dues payable by the Lessee according to the Lease and/or relevant Chinese laws and regulations, all other land use fees and property taxes on the building shall be borne by the Lessor.

(3) Roof and main structure

The Lessor shall maintain the structure of the building in a good condition.

(4) Decoration

The Lessor may carry out all necessary decoration and place green plants in public areas of the building when it deems necessary.

(5) Cleaning and waste treatment

The Lessor shall keep the public areas, restrooms and other common parts of the building clean.

The Lessor shall be responsible for cleaning the outer walls of the building (except the part that shall be cleaned by the Lessee or the user).

(6) Shared facilities

The Lessor shall keep all elevators, firefighting and safety facilities, air conditioning equipment and other facilities in the building in a normal operation condition, and regularly repair and maintain the same.

After the receipt of a fault notice from the Lessee, the Lessor shall send certain personnel to repair the facilities in reasonable time (except the part that shall be repaired by the Lessee or the user).

(7) Directory

The Lessor shall provide a standard directory sign in the lobby and corresponding floors of the building and allocate appropriate places for the Lessee to add its name thereon according to unified font or character standards designated by the Lessor, the first installation of which will be free of charge.

(8) Air conditioning

The office building will offer central air conditioning at the following time:

9:00-18:00 from Monday to Friday, excluding other time and public holidays.

If the Lessee requires over-time air conditioning services beyond the above time, it shall notify the property management company designated by the Lessor 24 hours in advance. After the receipt of a reasonable notice from the Lessee, the property management company designated by the Lessor will provide such over-time air conditioning services. The charges of such over-time air conditioning services will be determined by the property management company designated by the Lessor and the Lessee will be informed thereof.

(9) Insurance

The Lessor shall purchase valid insurance for the public areas and shared facilities of the building.

IV. Restrictions and Prohibitions

The Lessee agrees to accept and perform the following:

(1) Installation and variation

- (a) Without the prior written consent of the Lessor and the property management company designated by the Lessor, it may not install, place or vary any fixture, partition or other assets and facilities belonged to the Lessor within the Object or any other part (including but not limited to: furniture, decoration, air conditioning, access control, etc.).

Without the prior written consent of the Lessor and the property management company designated by the Lessor, the Lessee must not install or permit the installation of equipment and fixture on electric power circuits, pipelines and facilities, or install or permit the installation of any equipment, device or machinery which exceeds the originally designed capacity of the floor or requires addition of electric power circuits or pipelines or the power consumption of which will not be measured through the Lessee's electricity meter.

The Lessor or the property management company designated by the Lessor has the right to stipulate the maximum weight and placement location of safe deposit boxes and other heavy equipment. The Lessor or the property management company designated by the Lessor may require the Lessee to put pad in the specified size and material at the bottom to disperse the weight when it deems necessary.

- (b) When performing an approved project, the Lessee shall procure its employees, agent, contractors and workers to fully cooperate with the Lessor, the property management company designated by the Lessor and the Lessor's employees, agent, contractors and workers; and to work with other tenants or contractors working in the building.

The Lessee and its employees, agents, contractors and workers shall abide by and follow all instructions and guidance from the Lessor or the property management company designated by the Lessor.

- (c) When modifying or altering electric circuits, access control, firefighting or air conditioning systems, the Lessee shall use the contractors designated or identified by the Lessor and the property management company designated by the Lessor in writing, and shall bear all corresponding expenses.

(2) Rules for commencement of operations

The Lessee shall obtain and maintain in the entire Tenancy Term the validity of permission or approval (if any) from the government or other related departments on its use or occupation of the Object. Upon the receipt of a notice from the government or any other related department concerning the Object or any service provided in the Object, the Lessee shall inform the Lessor in writing.

(3) Marks

The Lessee may not place or exhibit or allow other to place or exhibit any billboard, mark, ornament, advertisement or other product in or out of the Object, whether equipped with lighting to make it visible from the outside, except:

- (a) The Lessee may, at its own costs, require the Lessor or the property management company designated by the Lessor to arrange the placement of its name (and any future addition or alteration) on the directory in the unified Chinese and English model designed by the Lessor.
- (b) The Lessee may, at its own costs, place its name at the entrance of the Object in the font and size approved by the Lessor. If the Lessee carries on business in another name, it shall notify the Lessor of such name, and may exhibit such name at the entrance only with the written consent of the Lessor. Without the prior written permission of the Lessor, the Lessee may not change the name of its business.

(4) Purpose

The Lessee may not use or allow the use of the Object for any purpose other than office as explicitly prescribed in the Lease.

(5) Illegal or unethical use

The Lessee may not use or allow the use of the Object for any illegal or unethical purpose.

(6) Passage obstruction

The Lessee may not obstruct or allow the obstruction of the entrance, stairs, platforms, passages, escalators, elevators, lobby and other public parts of the office building with boxes, packaging scraps and obstructions in other natures.

When it deems fit, the Lessor has the right to move away the abovementioned debris or other items or things without notice to the Lessee, with all related expenses to be borne by the Lessee.

(7) Wires and cables in public areas

The Lessee may not lay or install attached electric wires, cables or other items and things at the entrance and exit, stairs, passages, lobby and other places in public areas of the building.

(8) Sublease and assignment

Without the written consent of the Lessor, the Lessee may not transfer, sublease, waive or assign the Object leased or any part thereof or any interest thereon, nor make any arrangement or transaction, that results in a non-party to the Lease acquiring or enjoying the right to use, take on lease and occupy the Object leased or any part thereof, regardless of whether rent or other considerations have been paid for such acquisition.

(9) Violation of insurance terms

The Lessee may not carry out or allow others to carry out any act or thing that will or may invalidate the fire insurance, third-party liability insurance and insurance covering other risks of the building.

The Lessee may not carry out or allow others to carry out any act or thing that will increase the premium. If any act or thing conducted or allowed to be conducted by the Lessee increases the premium, the Lessor shall be entitled to recover from the Lessee the increment, without prejudice to any other remedy available to the Lessor.

(10) Air conditioning

Except with the written permission of the Lessor and the property management company designated by the Lessor, the Lessee may not additionally install air conditioning facilities other than those provided by the Lessor.

(11) Parking

The Lessee may not park in parking spaces assigned to other vehicles, public driveways, entrance and exit for vehicles or other areas specified for loading and unloading purposes, nor allow its employees, agents, contractors or visitors to do so.

(12) Use of name

The Lessee may only use the name "SOHU.COM Internet Plaza Office Building" or the name and logo of the building or any part thereof to indicate its address and business location. Without the prior written approval of the Lessor, the Lessee may not use or allow the use of any picture, name or logo or those which are wholly or partially similar to any name and logo of the Lessor, "SOHU.COM Internet Plaza Office Building" and the building to serve its business, operations and other purposes.

(13) No auction or solicitation

The Lessee may not organize or allow the organization of any auction in the Object leased.

The Lessee may not permit any of its employees or agents to solicit any business or hand out any leaflet, circular or publicity material within the redline scope of SOHU.COM Internet Plaza Office Building.

(14) Damage to the main structure, equipment and facilities

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee may not carve on, damage, drill holes on, mark or destroy the doors, windows, walls, beams, structure and any other parts of the Object as well as any sewer line, sanitation and air conditioning facility thereof or allow any foregoing behavior.

(15) Damage to wall surface, ceiling and ground

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee may not drive nails, screws, inlaid hooks, brackets or other similar items on the ceiling, wall surface and ground of the Object leased, nor destroy the ground.

(16) Damage to public areas

The Lessee may not damage, ruin or destroy the feature, stairs and elevators placed in the public areas of the building, including surrounding trees, plants and shrubs, etc.

(17) Disturbance or interference

The Lessee may not cause or allow any possible disturbance to the Lessor, other users or tenants in the building, nor interfere with adjacent user or tenants.

(18) Noise

At no time may the Lessee make or allow the making of any disturbing or stimulating noise in the Object, or make any music or noise (including broadcasting or voice produced by any device or equipment that can generate or copy, receive or record) audible from outside the Object.

(19) Dormitory or home use

The Lessee may not use the Object or any part thereof as dormitory.

(20) Manufacturing and storage of goods

The Lessee may not use or allow the use of the Object for production and manufacturing or storage of goods and commodities, except for the samples and exhibits stored reasonably required for the business permitted hereunder.

(21) Toilet facilities

The Lessee may not use or allow the use of toilet facilities provided by the Lessor in the public areas of the Object or the building for any purposes other than their designed purposes.

The Lessee may not and shall not allow others to throw any irrelevant item into toilet facilities, and shall pay all expenses as required by the Lessor for damage, breakage, blocking or spoil caused by the Lessee's violation of the current clause.

(22) Meal preparation and preventing the disperse of odor

The Lessee may not cook or allow or tolerate anyone to cook any food in the leased units (other than oven heating of food by the Lessee's employees in tea rooms), and may not procure or allow any disgusting smell or odor from generating or emitting.

(23) Animals, pets and spread of pests

The Lessee may not breed or allow others to breed any animal or pet in the Object. The Lessee shall take all measures required by the Lessor to prevent the Object or any part thereof from pest invasion at its own costs, shall hire disinfection companies with Beijing pest control service agency qualifications at its own costs, and shall insecticide on a regular basis as instructed by the Lessor or the property management company designated by the Lessor.

(24) Antenna

The Lessee may not install any antenna on the roof or walls of the building or the ceiling or wall surface of the Object. Moreover, the Lessee may not interfere, move dismantle or change the antenna provided by the Lessor, if any.

(25) Explosives or hazardous articles

The Lessee may not deposit or allow the storage of any weapon, ammunition, potassium nitrate, kerosene or other explosive, inflammable or hazardous articles in the Object.

V. Exceptions

Except due to the fault of the Lessor, the property management company designated by the Lessor or their respective employees or agents, the Lessor shall undertake no responsibility to the Lessee, any user or others upon any of the following circumstances:

(1) Elevators, air conditioning and others

Personal injury or property damage suffered by the Lessee, any user or others as a result of quality defects or stoppage of elevators, firefighting and security settings, air conditioning equipment and other equipment of the building;

(2) Supply of power and water

Personal injury or property damage suffered by the Lessee, any user or others because of supply fault, stoppage, explosion and suspension of power and water to the building and the Object;

(3) Fire, flood and plague of insects

Personal injury or property damage suffered by the Lessee, any user or others due to fire, overflow or water leakage in any part of the building, or water flowing into the building or the Object, or mouse and other insects in the building;

(4) Security

Regarding the quality, security or custody of the Object or any individual or goods therein, especially without limiting the generality of the foregoing, the security guards and administrators or mechanic or electric alarm systems of any nature provided by the Lessor or the property management company designated by the Lessor shall constitute no safety responsibility of the Lessor or the property management company designated by the Lessor to the Object or any article therein, instead, the Lessee shall always take full responsibility for the safety of the Object and the items therein;

(5) Incompliance

Losses and damages caused by the Lessee or the third party failing to perform applicable regulations or to comply with Part IX of these Detailed Rules.

VI. Reduction of Rent

When the Object and any part thereof is damaged or the Object becomes unfit for use or lease due to fire, severe weather, act of God, force majeure or other events not directly or indirectly caused by acts or faults of the Lessee (in this case, the Lessee shall timely notify the Lessor in writing), upon consensus between the parties, the Lessee may stop paying rent and property management fees in respect of the part of the Object damaged, until the Object is repaired and restored.

When economically unreasonable and impractical, the Lessor has no obligation to repair or rehabilitate the Object; or, if the entire Object or the substantial part of the Object is destroyed or unfit for reuse and lease, in both cases, the parties hereto shall be entitled to terminate the Lease by giving to the other party a written notice, without prejudice to the rights and compensation available to either party in respect of any prior claim or violation of the Lease, or rights and compensation available to the Lessor in respect of rent, property management fees and other expenses payable hereunder accrued before the effectiveness of termination. In such case, the Lessor shall return the deposit for the premises.

VII. Default

Both parties further agree and acknowledge as follows:

(1) Default

Upon the occurrence of any of the following, the Lessor shall be entitled to terminate the Lease, to take back the Object leased by the Lessee 30 working days after informing the Lessee in writing in advance, and to claim the Lessee for compensation of its losses if:

- (a) The rent or property management fees or other expenses payable by the Lessee hereunder remain unpaid within 30 working days after the due date;
- (b) If the Lessee fails to comply with and perform any term and condition hereunder that the Lessee shall comply with and perform and causes material damage to the Lessor; or the Lessee fails to rectify the above default within 30 days after the expiration of the period notified by the Lessor in writing;
- (c) The Lessee goes bankrupt or starts liquidation as a corporation, or is applied for liquidation, or becomes insolvent, or has made arrangement with its creditors, or has exerted any legal arrangement on the Object leased by the Lessee;
- (d) The main structure of the Object is substantially damaged due to reasons of the Lessee, and the Lessee fails to make compensation within 30 days after the expiration of the period notified by the Lessor in writing.

This right of the Lessor will not prevent it from exercising the right to lodge a lawsuit in the event that the Lessee breaches the Lease or fails to comply with or perform any term and condition of the Lease, nor prevent it from exercising the right to deduct the losses incurred therefrom from the deposit paid by the Lessee and to confiscate the deposit in accordance with Article VIII of these Detailed Rules.

Notwithstanding the foregoing, the Lessor or the property management company designated by the Lessor has the right to cut off water, power or air conditioning of the Object leased by the Lessee without any responsibility, provided that the Lessee shall be notified of such intention three days in advance. The expenses incurred by the Lessor or the property management company designated by the Lessor due to cut-off and re-connecting of water, power or air conditioning shall be borne by the Lessee, which may be recovered by the Lessor from the Lessee or deducted from the deposit paid by the Lessee in accordance with Article VIII of these Detailed Rules.

(2) Exercise of rights

Instead of actually entering the Object, the Lessor sending to the Lessee a written notice of taking back the Object in the form prescribed by the Lease will be deemed as fully exercising the right. The Lessor will be deemed to have taken back the Object and the Lessee be deemed to have been expelled from the Object seven days after the Lessor delivers such a written notice (that is, the evacuation period for the Lessee). During the evacuation period, if the Lessee fails to restore the Object to the state described in the confirmation document signed upon acceptance of the Object, the Lessor shall be entitled to freely dispose any item left by the Lessee in the Object without taking any responsibility to the Lessee, and all expenses resulting therefrom shall be borne by the Lessee.

When the Lessee returns the Object, if there remains some items, fixtures or fittings in the Object, the Lessee hereby declares a waiver of its ownership of such properties, and consents to free disposal by the Lessor of such properties (including but not limited to abandonment, selling off or other means), with all proceeds thereof to the account of the Lessor (if any) and all expenses involved to be borne by the Lessee (if any). The Lessor shall assume no responsibility to the Lessee or any other person for any loss or damage caused by such disposal or any other treatment method.

(3) Acceptance of rent and property management fees

The acceptance of rent by the Lessor and the acceptance of property management fees by the property management company designated by the Lessor shall not be deemed as an automatic waiver of their right to prosecute the Lessee for default, incompliance with or nonperformance of terms and conditions it shall comply with and perform.

(4) Acts of contractors, employees, agents and visitors

For the purpose of the Lease, any act of any employee, visitor, contractor, representative or agent of the Lessee or user of the Object shall be deemed as act of the Lessee.

(5) Payment order

The failure of the Lessee to pay the rent and property management fee for the Object in the time and manner prescribed by the Lease shall constitute delay in payment. In such case, the Lessor or the property management company designated by the Lessor may apply to the people's court for a payment order in accordance with the *Civil Procedure Law of the People's Republic of China*, with all related expenses incurred therefrom to be borne by the Lessee.

(6) Overdue fines

Without prejudice to any other right and remedial measure available to the Lessor upon default, if the rent, property management fees, any other expenses or a part thereof hereunder haven't been paid in the way and time prescribed in Articles 4 to 6 of the Lease and Part I of the Detailed Rules, the Lessee shall pay overdue fines equivalent to 0.1% of the aggregate amount due but unpaid each day from the due date to the actual payment date (both the due date and the actual payment date are included).

(7) Commitment

Unless otherwise specified herein, in no event (except force majeure) may the Lessee terminate the Lease in advance during the Tenancy Term, if the Lease is early terminated or becomes unfulfillable due to reasons of the Lessee, the Lessor is not liable to return to the Lessee the paid deposit. The Lessor may not terminate the Lease for no cause, or otherwise, it shall be liable for breach of contract.

VIII. Deposit

(1) Deposit

Simultaneously with the execution of the Lease, the Lessee shall pay to the Lessor the deposit prescribed in Article 5 of the Lease, so as to ensure the compliance with the terms and conditions the Lessee shall comply with and perform.

The deposit shall be preserved free of interest by the Lessor on behalf of the Lessee.

(2) Withholding and deduction of deposit

In the instance the Lessee violates any term or condition of the Lease, the Lessor shall be entitled to urge actual performance and deduct from the deposit: the expenses due but unpaid by the Lessee, the charges required to be assumed by the Lessee according to the Lease or provisions of laws and regulations, or losses suffered by the Lessor because of default, incompliance or nonperformance of the Lessee.

(3) Complement of deposit

Pursuant to the Lease, in case the rent and property management fees increase in the Tenancy Term, or the deposit becomes insufficient as deducted by the Lessor due to default of the Lessee, the Lessee shall, within ten working days after the receipt of a written notice from the Lessor or the property management company designated by the Lessor, make up the deposit.

Complementing the deposit is a prerequisite for further performance of the Lease. If the Lessee fails to do so, the Lessor shall be entitled to exercise all remedies and rights available.

(4) Return of deposit

Subject to the above provisions, the deposit shall be returned in Renminbi free of interest to the Lessee at the latest of thirty days after the Object vacated is handed over to the Lessor upon expiration of the Lease, or thirty days after the resolution of claims arising from default, incompliance with or nonperformance of the terms and conditions of the Lease and from incompliance and nonperformance of regulations that the Lessee shall comply with and perform, or thirty days after the settlement of the Lessee's accounts with the telecommunications company and the power corporation, except the part that the Lessor has the right to deduct, withhold or offset pursuant to the Lease.

(5) Change of Lessor

If the Lessor changes during the Tenancy Term, all rights and obligations in respect of the deposit paid by the Lessee or the deposit remaining after the Lessor exercises its deduction right according to the Lease shall be succeeded by the new lessor. In this case, the Lessor shall make sure the Lessee's rights will not be adversely affected by such change of lessor.

IX. Rules

(1) Formulation of rules

To facilitate the building to become a first-class office building, as long as good for the operation management and maintenance of the building, the Lessor or the property management company designated by the Lessor has the right to publish, introduce, modify, adopt or abolish any rules in writing at any time, provided that the Lessee shall be informed in advance. When the formulation and update of any rules cause a significant impact on the Lessee's rights, the Lessee shall be entitled to raise an objection and retains the right to recover its losses from the Lessor.

(2) Conflict

Such rules are merely supplementary to these terms and conditions of the Lease, which will not invalidate the latter. In the case of controversy between such rules and these terms and conditions hereof, the terms and conditions of the Lease shall prevail.

X. Interpretation and Miscellaneous

(1) Marginal notes, headings and indexes

The marginal notes, headings and indexes are for guidance only, and shall not constitute an integral part of the Lease, which shall not be given consideration to or affect or restrict the interpretation or clarification of any provision hereof.

(2) No waiver by tolerance

The Lessor's tolerance, forgiveness or excuse of one-off or repeated nonperformance, violation, incompliance or non-execution of responsibility hereunder by the Lessee doesn't imply a waiver of rights regarding continuous or further nonperformance, violation, incompliance or non-execution by the Lessee, nor eliminate or affect the Lessor's rights or compensation available hereunder in respect of such continuous or further nonperformance of violation.

Unless the Lessor waives its rights in written statement, no act or omission of the Lessor implies waiver of rights or infers as waiver.

Any approval given by the Lessor applies only to certain issues specifically approved, which shall not operate as simultaneous waiver of other rights available to the Lessor nor exempt the Lessee from further applying to the Lessor for any other specific written approval.

(3) Service of notice

Any notice required to be given shall be written in Chinese, and sent by double-registered letter, express mail, personal delivery, facsimile or any other means permitted by law to the legal address or the latest contact address provided by the other party from time to time.

The parties specifically agree that, the above notices and other correspondences shall be deemed effectively delivered on:

- (a) The date listed in the receipt if sent by double-registered letter or express mail;
- (b) The date of personal delivery;
- (c) The transmission time indicated in the fax report or the date on which the recipient acknowledges receipt if sent by facsimile;
- (d) After the Object is delivered to the Lessee, the Lessor may serve notices to the Lessee by posting announcements in visible places near the Object, and the notices shall be deemed delivered on the date of announcement.

(4) Naming of the building

The Lessor retains the right to rename SOHU.COM Internet Plaza Office Building at its own discretion and the right to change, replace or cancel the original name at any time or from time to time, without any compensation to the Lessee. However, if the Lessor chooses to do so, an announcement regarding the notice of relevant government agency shall be posted in the building in advance.

(5) Replacement of property management company

To facilitate the building to become a first-class office building, the Lessor has the right to select and replace property management companies.

(6) Applicable law and jurisdiction

The Lease shall be governed and construed by the laws of the People's Republic of China (excluding laws of Hong Kong, Macao and Taiwan). Any dispute between the parties that cannot be solved through consultation may be solved by means of lawsuits.

(7) Business license

Before the execution of the Lease, if applicable, the Lessee shall present to the Lessor its business license or registration certificate approved by the government of the People's Republic of China, and the original power of attorney authorizing representatives of the Lessee to enter into the Lease as Annex IV hereto.

(8) Written in Chinese and signature

The Lease is written and signed in Chinese. Any English translated version provided by the Lessor shall be used for reference only. The Lessor hasn't guaranteed the consistency between the contents, wording and expressions in the English version and the Chinese version, and in the case of controversy or difference, the Chinese version shall prevail.

(9) Modification, supplementary, deletion and alteration to the Lease

No modification, supplementary, deletion or alteration to the Lease shall be valid unless made in writing, signed by duly authorized representatives of the parties and affixed with their common seals.

The above common seals shall be deemed to have been affixed on the date signed by the foregoing authorized representatives.

(10) Counterparts and legal force

The Lease, its annexes and Detailed Rules have been made in quadruplicate, with each party holding two copies, all being of the same legal effect.

Beijing Sohu New Era Information Technology Co., Ltd. (seal)

By:

Beijing Sogou Network Technology Co., Ltd. (seal)

By:

Date: 2019

Contract No.:

SOHU.COM Internet Plaza Office Building Lease

Between

Beijing Sohu New Media Information Technology Co., Ltd.

and

Beijing Sogou Information Services Co., Ltd.

Lease

Parties: Lessor: Beijing Sohu New Media Information Technology Co., Ltd.
Address: SOHU.com Media Plaza, No. 2 Park, No. 3 Building, South Road of Academy of Sciences, Haidian District, Beijing, China
Legal representative: Charles Zhang
Tel:
Fax:

Lessee: Beijing Sogou Information Services Co., Ltd.
Address: SOHU.com Internet Plaza, No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C.
Legal representative: Zhou Yi
Tel:
Fax:

Date: The Lease was concluded on [December 25, 2019].
The parties hereby enter into the following agreement:

Article 1 Definitions

Object: The Lessor agrees to lease out and the Lessee agrees to take on lease the premises (actual floor) located at 8F Room 02, SOHU.com Internet Plaza No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C., that is, 8F as elevator shows.

As a duly established and validly existing corporation, the Lessor has the authority to enter into the Lease and to perform its obligations hereunder. In addition, the Lessor has full ownership of the Object leased, and has obtained all internal and external approval or registration and filings necessary for the performance of the Lease, consenting to the lease of the Object to the Lessee.

As a duly established and validly existing corporation, the Lessee has the authority to enter into the Lease and to perform its obligations hereunder. The Lessee agrees to take on lease and enjoys the following rights pursuant to the Lease:

(i) To normally use public inlets and outlets, stairs, platforms, passageways, public restrooms, tea rooms, broom closets, etc. of the building together with the Lessor and other parties enjoying the same rights, provided that, the Lessor may restrict such right to use in a proper way at any time when the above facilities need to be repaired or upon the occurrence of emergency;

(ii) To share the elevators, central air-conditioning and other equipment serving the office building.

Tenancy term and rent:

The tenancy term is more particularly set forth in Article 3 (“Tenancy Term”). The Lessee shall pay the rent and property management fees as specified in Article 4 hereof within the Tenancy Term in a way specified in Article 6.

Deposit:

The Lessee shall pay the deposit as specified in Article 5 hereof simultaneously with the execution of the Lease in a way specified in Article 6.

Other expenses:

The Lessee shall timely pay the following expenses as per the bills provided by the property management company designated by the Lessor, including but not limited to:

Electricity charges and water rates, over time air conditioning costs, machine room cooling water rates, etc. incurred in the Object.

For specific payment methods, please refer to Article 6 hereof.

Legal expenses:

The parties shall respectively bear their legal expenses.

Application:

The Object leased may only be used by the Lessee for work.

Date of delivery:

Article 2

Object

Building No.: SOHU.com Internet Plaza No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C. (hereinafter referred to as the “Office Building”)

Floor No.: 8F Room 02 (actual floor) of the Office Building, that is, 8F as elevator shows.

Lease area: 8F (actual floor) of the Office Building, that is, 8F as elevator shows, having a total lease area of 1220.92 square meters.

For the specific location, please refer to Annex I.

For delivery standards, please refer to Annex II.

Article 3

Tenancy Term

Term: 36 months

Lease commencement date: January 1, 2020

Termination date: December 31, 2022

(The term includes lease commencement date and termination date)

Article 4

Rent and Property Management Fees

(1) Rent

In consideration of using the Object leased, the Lessee shall pay the following rent:

First year (leap year):

Rent standard: RMB 11/day/m²

Annual rent: RMB 4,915,423.92

Monthly rent: RMB 409,618.66

Second year:

Rent standard: RMB 11/day/m²

Annual rent: RMB 4,901,993.88

Monthly rent: RMB 408,499.49

Third year:

Rent standard: RMB 11/day/m²

Annual rent: RMB 4,901,993.88

Monthly rent: RMB 408,499.49

(Calculated based on the lease area specified in Article 2 above at the unit price of RMB11/day/m², to be settled in Renminbi)

(2) Property management fees

Subject to the *SOHU.COM Internet Plaza Office Building Property Services Agreement* (subject to the name of the agreement finalized) entered into by and between the Lessee and the property management company designated by the Lessor.

Article 5

Deposit

The deposit for rent will be RMB 1,228,855.98 (equivalent to three months of rent).

The deposit will bear no interest.

Upon the extinguishment or termination of the Lease, the remaining amount after the Lessor deducts unpaid rent, other expenses and other deductible expenses payable by the Lessee shall be returned to the Lessee in one lump sum within 20 working days after termination of the Lease.

Payment of Rent, Property Management Fees, Deposit and Other Expenses

- (1) The rent and property management fees include neither electricity charges and water rates, rent and management fees of parking space leased, over time air conditioning costs, machine room cooling water rates, etc. of the Object leased, nor all government taxes and other expenses payable by the Lessee according to laws or regulations.

During the Tenancy Term, the rent shall be paid by calendar month. In particular, the Lessee shall pay the rent for the next month in advance within the first twenty days of each calendar month without any deduction.

The Lessee shall prepay RMB 409,618.66 of rent simultaneously with the execution of the Lease.

- (2) Within five working days after the Lease is executed, the Lessee shall pay the deposit to the Lessor in the amount prescribed in Article 5 hereof.
- (3) The Lessee shall pay other expenses then incurred in accordance with the provisions of the Lease, the *SOHU.COM Internet Plaza Office Building Property Services Agreement* (subject to the name of the agreement finalized) entered into with the property management company designated by the Lessor, and the *SOHU.COM Internet Plaza User Manual* and the *SOHU.COM Internet Plaza Decoration Manual* formulated and updated from time to time by the Lessor or the property management company.

- (4) The rent and deposit for the Object leased shall be paid to the following account of the Lessor:

Bank of deposit: China Merchants Bank Co., Ltd., Beijing North Third Ring Road Branch

Account name: Beijing Sohu New Media Information Technology Co., Ltd.

Account number: 862281851810001

- (5) The Lessor shall issue vouchers to the Lessee at the following time in the following way:

The Lessor shall issue a receipt within ten working days after the receipt of deposit paid by the Lessee;

Regarding the rent paid by the Lessee by check, remittance or any other means designated by the Lessor, the Lessor shall issue a formal invoice of corresponding amount within the corresponding Tenancy Term after the related funds reach the bank account designated by the Lessor.

Article 7

Fixtures and Fittings

The Lessor will provide certain fixtures and fittings for the interior of the Object leased according to Annex II hereto — *SOHU.COM Internet Plaza Office Building Delivery Standards* (subject to the confirmation document signed by the Lessee and the property management company designated by the Lessor), the Lessee shall return such fixtures and fittings in the same shape, conditions and structure as previously delivered upon the termination of the Lease. The initial delivery status shall be subject to the confirmation document signed by the Lessee and the property management company designated by the Lessor.

Article 8

Special Terms

(1) Reception of the Object leased

The Lessor shall deliver the Object leased to the Lessee in accordance with the delivery conditions prescribed in Annex II hereto and the confirmation document signed by the Lessee and the property management company designated by the Lessor on the delivery date. As the Lessee is already the actual occupier and user of the premises leased, the delivery date will be the lease commencement date, that is to say, the Tenancy Term will commence as from the delivery date. Simultaneously with the execution of the Lease, the Lessee shall enter into a *SOHU.COM Internet Plaza Office Building Property Services Agreement* with the property management company designated by the Lessor (subject to the name of the agreement finalized).

(2) Decoration

During the Tenancy Term, the Lessee may carry out interior decoration in the Object leased with the prior consent of the Lessor after entering into a *Leased Premise Decoration Security Agreement* (subject to the name of the agreement finalized) with the Lessor or the property management company designated by the Lessor.

(3) Government registration, taxes and other incidental expenses

The Lessor shall go through related registration formalities for the premises leased according to law, to which the Lessee shall offer assistance.

All taxes and dues in connection with the execution, registration and implementation of the Lease shall be governed by the applicable laws and regulations of China (excluding Hong Kong, Macao and Taiwan). In the absence of explicit provisions in Chinese laws and regulations, the taxes and dues shall be respectively borne by the Lessor and the Lessee on their own.

(4) Status of the Object leased

The Lessor has delivered the Object leased to the Lessee in accordance with the standards set forth in Annex II. The Lessee has received the Object according to such standards and confirmed the Object leased to be in good and rentable conditions. Both parties acknowledge that the Object leased conforms to the provisions of the Lease.

(5) Other agreements and covenants

The Lessee agrees to comply with the *SOHU.COM Internet Plaza Property Management Services Entrustment Contract* and the *Constitution of SOHU.COM Internet Plaza's Owners Association* signed by the Lessor. If the Lessor violates any of the aforesaid agreements as a result of the Lessee, the Lessee shall compensate the Lessor for its losses.

Article 9 **Confidentiality** During the Tenancy Term, the Lessor, the Lessee and their respective agents shall keep the trade secrets, financial information and other confidential information of the Lessee and the Lessor confidential, and may not disclose such information to any third party without the consent of the other party.

Article 10 **Others** The Lessee agrees that, the Lessor has the right to sell the premises leased to any third party during the Tenancy Term, and the Lessee promises to waive its right of preemption.

This Lease includes certain annexes and the *Detailed Rules for Office Building Lease*.

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Beijing Sohu New Media Information Technology Co., Ltd.

Signature of representative: Common seal:

Beijing Sogou Information Services Co., Ltd.

Signature of representative: Common seal:

(No text on this page, this being the seal and signature page to the SOHU.COM Internet Plaza Office Building Lease)

Signed on: December 25, 2019

Annexes to the Lease

Annex I: Location Sketch Map

Annex II: SOHU.COM Internet Plaza Office Building Delivery Standards

Annex III: Photocopy of the Lessor's Business License and Original Power of Attorney

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Detailed Rules

for

Office Building Lease

Between

Beijing Sohu New Media Information Technology Co., Ltd.

and

Beijing Sogou Information Services Co., Ltd.

I. Rent, Property Management Fees and Other Expenses

The Lessee agrees to accept and perform the following:

(1) Rent and property management fees

To timely pay the rent and property management fees prescribed in Article 4.

(2) Commercial taxes

To pay the taxes or dues payable by the Lessee as prescribed by laws and regulations annually or regularly imposed by the competent department on the Object leased or the Lessee at present or in the future, except the land use fees and house property taxes.

(3) Electricity, water and other charges

To pay the charges of electricity and water used in the Object leased.

(4) Other expenses

The Lessee shall pay to the property management company designated by the Lessor: including but not limited to the expenses of machine room cooling water and over time air-conditioning provided by the property management company designated by the Lessor at the request of the Lessee.

II. Obligations of the Lessee

The Lessee agrees to accept and perform the following:

(1) Compliance with regulations, detailed rules and ordinances, etc.

- (a) Comply with all regulations, rules and requirements of the government or other relevant departments concerning the Lessee's behaviors and operations in the Object leased, as well as all related regulations, rules and requirements regulating the actions, behaviors, affairs or things of the Lessee or its employees, agents, contractors or visitors.

The Lessee shall compensate the Lessor for its losses caused by the Lessee's violation of these regulations, rules and requirements.

- (b) The Lessee shall be responsible for all claims, demands, lawsuits, legal proceedings, judgments, losses and related expenditures that the Lessor may suffer or incur as a result of death, personal injuries or property damages occurred in the Object or occurred during the use of the Object or part thereof caused by the act or negligence of Lessee or its employees, contractors, agents or visitors.

- (c) The Lessee shall be responsible for all losses and damages to the Object leased, the building and all properties in the building caused by the Lessee or its agents, employees, contractors or visitors.
- (2) Decoration, repair and maintenance

(a) Decoration

The Lessee's decoration of the Object leased must comply with the provisions of the *SOHU.COM Internet Plaza Office Building Decoration Manual* (subject to the name of the agreement finalized) formulated and modified from time to time by the property management company designated by the Lessor.

The Lessee shall make sure the decoration and partition of the Object conform to firefighting, security, building or other relevant provisions.

According to the drawings and specifications previously submitted to and approved by the Lessor and the property management company designated by the Lessor in writing, the Lessee shall decorate the interior of the Object at its own expenses.

The interior decoration performed by the Lessee shall be in a good and workmanlike manner and conform to the style of first-class office buildings. The Lessee shall maintain the decoration in the same status during the entire Tenancy Term, except normal wear and tear.

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee must not, by itself or allow to, make any alteration to the approved decoration drawings and specifications as well as the interior design and layout of the Object.

For the avoidance of doubt, the Lessor and the Lessee hereby declare that:

- (i) The Lessor or the property management company designated by the Lessor approving the abovementioned decoration drawings and specifications of the Lessee doesn't exempt the Lessee from applying to the related government authorities of Beijing, at its own cost, for approval of such decoration drawings and specifications already approved by the Lessor or the property management company designated by the Lessor before formally starting interior decorating.
- (ii) The Lessor and the property management company designated by the Lessor shall bear no responsibility for any consequence of the Lessee not complying with the requirements and conditions set forth in the decoration drawings and specifications approved by the related government authorities of Beijing.

(iii) The Lessee shall keep the Lessor harmless from any loss caused by the Lessee not complying with the present clause, including but not limited to legal expenses.

(b) Repair and maintenance

The Lessee shall keep the part of decorations in the Object provided by the Lessor and the part added by the Lessee (including all doors and windows, walls, equipment and facilities and pipelines, etc.) in good, clean and rentable conditions, and shall keep the Object leased and oil paint on the surface intact.

The Lessor shall be responsible for daily repair and maintenance of decoration (decorative surface, strong current, weak current) and electromechanical system (central ventilation system) provided by the Lessor and access control, provided that the Lessee shall bear the corresponding costs, as more specifically agreed upon by the parties.

The Lessee shall repair and maintain the part of decorations added by itself at its own costs and expenses.

The Lessee shall comply with the regulations of the sanitation and provisions of other relevant government departments concerning dedicated sanitation and water facilities (if any) used by the Lessee or its employees, agents or visitors at its own expenses.

(3) Replacement of windows or glass curtain walls

The Lessee shall pay the expenses incurred by the Lessor or the property management company designated by the Lessor for replacement of windows, glass or glass curtain walls accidentally broken or damaged by the Lessee or its employees, contractors, agents or visitors.

(4) Compensation and insurance of losses and damages caused by internal defects

The Lessee shall take full responsibility for losses, property damages, death or personal injuries caused by the acts, faults or negligence of the Lessee or its employees, contractor, agents or visitors expressly or impliedly permitted by the Lessee. The Lessee shall hold the Lessor harmless therefrom. For purposes of this clause, the term "property" includes but is not limited to fixtures and fittings of the Lessor.

To avoid the above risks, the Lessee shall procure and maintain third-party liability insurance from a domestic insurance company. Such insurance shall be purchased in the name of the Lessee and particularly indicate the Lessor as the owner of the building (including the Object leased). From the date of lease commencement date, the Lessee shall furnish the Lessor with a certificate issued by the insurance company within three months, evidencing to the Lessor that appropriate insurance has been purchased. Such certificate shall constitute a part of annexes to the contract.

The insurance contract shall contain a clause prescribing that without the prior written consent of the Lessor, the insurance purchased and its conditions may not be cancelled, modified or restricted.

(5) Access of the Lessor or the property management company designated by the Lessor

When the Lessor or the property management company designated by the Lessor needs to examine or check the status of the interior structures, equipment or facilities in the Object leased by the Lessee and carry out necessary repair or maintenance, with prior notice, the Lessee shall allow the Lessor or the property management company designated by the Lessor and their authorized personnel to enter the Object in reasonable time. When exercising such right, the Lessor or the property management company designated by the Lessor shall try not to cause any interference to the Lessee.

In the case of emergency when it becomes impossible to contact the Lessee in advance, the Lessor and its employees or agents may enter the Object without permission of the Lessee to take necessary measures, provided that the Lessee shall be timely reported afterwards; in the case of especially critical circumstances, the Lessor or the property management company designated by the Lessor may force an entrance to the Object.

In order to better comply with the preceding clause, the Lessee shall inform the Lessor or the property management company designated by the Lessor the security system installed in the Object and its nature.

(6) Notice of repair

The Lessee shall conduct the necessary repair in a reasonable time after the receipt of a notice from the Lessor or the property management company designated by the Lessor requiring repair. If the Lessee fails to do so, the Lessor or the property management company designated by the Lessor shall be entitled to enter the Object, and may forcibly perform the work or repair in emergency circumstances, with all related expenses to be borne by the Lessee.

(7) Informing the Lessor of damage

The Lessee shall timely inform the Lessor and the property management company designated by the Lessor of damage to the Object and personal injuries, and of accidents or defects of water pipes, gas pipes, electric circuits or devices, fixtures or other facilities provided by the Lessor. After the receipt of such a notice, the Lessor or the property management company designated by the Lessor shall respond immediately and perform the repair within three working days. In the instance the Lessee becomes unable to normally use the facilities due to losses caused by the Lessor and response delay of the property management company, the Lessee shall be entitled to engage a third party for repair, with the maintenance costs to be deducted from the rent or other expenses (except repair caused by the Lessee only).

Upon occurrence of fire alarm or other accidents, in addition to calling the police and taking necessary measures immediately, the Lessee shall simultaneously inform the Lessor and the property management company designated by the Lessor.

(8) Directory

When the name on the directory of the building is changed upon the request of the Lessee, the Lessee shall pay the expenses for installation, repair, change or replacement of the Lessee's name on the directory.

(9) Survey

Within six months before the expiration of the Tenancy Term, the Lessee shall allow the Lessor to accompany potential tenants or users to make a survey of the Object in a reasonable time with prior notice, but the Lessor shall try its best to avoid interference with the Lessee's work.

(10) Regulations

The Lessee shall comply with the *SOHU.COM Internet Plaza Property Management Services Entrustment Contract*, the *Constitution of SOHU.COM Internet Plaza's Owners Association* signed by the Lessor, and shall comply with and abide by the regulations formulated by the Lessor and the property management company designated by the Lessor, including but not limited to the *SOHU.COM Internet Plaza User Manual* and the *SOHU.COM Internet Plaza Decoration Manual* (subject to the name of the agreement finalized).

(11) Contractors, employees, agents and visitors

The acts, negligence, omission and fault of all contractors, employees, agents and visitors of the Lessee shall be deemed as those of the Lessee, for which the Lessee shall be responsible to the Lessor.

(12) Return of the Object

Upon the expiration of the Tenancy Term or early termination of the Lease, the Lessee must rehabilitate the Object in the state indicated in the confirmation document signed upon acceptance, including but not limited to rehabilitating the ceiling system, spraying system, smoke detector, fan coil, air-conditioning temperature controller, lamp panel, air supply grille and return air inlet, unless with the consent of the owner.

The Object and all fixtures, fittings and ceilings therein returned by the Lessee must be complete, good, clean, rentable and in a proper maintenance status.

The personal property (including the name boards of the Lessee on doors, walls, etc. of the Object), fixtures and fittings and auxiliary equipment of the Lessee shall be removed as required by the Lessor upon the expiration of the Tenancy Term or early termination of the Lease, with the corresponding expenses to be borne by the Lessee. In addition, the Lessee shall compensate the Lessor any damage caused in the process of removing.

The Lessee shall allow the Lessor to remove from the directory texts and characters relating to the Lessee, and shall compensate the Lessor for its losses caused by the Lessee's failure to do so.

If, when the Lessee returns the Object, there remain some items, fixtures or fittings in the Object, the Lessee hereby declares that it has agreed to waive its ownership of such properties, and allow the Lessor to freely dispose such properties (including but not limited to abandonment, selling off or other means), except as otherwise agreed then by both parties.

The time for the Lessee to return the Object shall be subject to the written document signed by authorized representatives of the parties.

(13) Indemnification upon default

The Lessee shall indemnify and hold the Lessor harmless from losses caused by the following behavior that may be suffered or incurred by the Lessor, including lawsuits, claims, losses, damages and expenses: the Lessee fails to comply with or perform any of its responsibilities hereunder, or the use of the Object by the Lessee (including indoor installation and equipment of electricity and gas), the misconduct taken during the Tenancy Term against the Object, or the negligence or fault of the Lessee.

(14) Protection under severe weather

The Lessee shall take any reasonable preventive measure to prevent the Object from invasion of storm, heavy rain, snow or similar severe weather. Under the above severe weather, the Lessee shall especially make sure all exterior doors and windows are closed.

(15) Cancellation or alteration of industrial and commercial registration

The Lessee shall properly go through the cancellation or alteration of industrial and commercial registration with the unit as registered or business address within 30 days after the expiration of the Tenancy term or the date of early termination hereof.

(16) Maintenance of electrical equipment, pipelines and wirings

If the electrical equipment, wirings or pipelines installed by the Lessee become in danger or unsafe or as reasonably requested by the Lessor or the relevant municipal corporation, the Lessee shall repair or replace the above equipment, wirings or pipelines. At the time of maintenance, the Lessee may engage only the maintenance contractors designated or identified by the Lessor or the property management company designated by the Lessor in writing. The Lessee shall allow the Lessor or the property management company designated by the Lessor to examine the wirings or pipelines installed by the Lessee in the Object, provided that the Lessor or the property management company designated by the Lessor shall send a written request in advance and examine the devices at any reasonable time. The Lessee shall indemnify the Lessor harmless from claims, expenses, damages or lawsuits caused by faults or improper maintenance of electrical equipment, devices, pipelines and wirings installed by the Lessee in the Object.

(17) Sewer cleaning

When the sewer or sanitary fittings or other pipelines are plugged or stop work due to careless or improper use or negligence of the Lessee or its contractors, employees, agents or visitors, the Lessor or the property management company designated by the Lessor shall clean, repair or replace such pipelines first, with all costs incurred therefrom to be borne by the Lessee. Moreover, the Lessee shall undertake all expenses, claims or losses suffered by the Lessor therefrom.

(18) Transportation of waste and garbage

The Lessee shall carry away the waste and garbage generated during the decoration period, and place such waste and garbage in such locations within the building as designated by the Lessor or the property management company designated by the Lessor. If the Lessee uses the waste and garbage cleaning services provided by the Lessor or the property management company designated by the Lessor, the Lessee shall pay the relevant expenses and may not utilize the services provided by any similar contractor.

III. Obligations of the Lessor

The Lessor agrees to accept and perform the following:

(1) Non-interference

Under the premise that the Lessee pays the rent, property management fees and various other expenses in the way and amount prescribed herein and complies with and performs these terms and conditions that the Lessee shall comply with and perform, the Lessor shall make sure the Lessee's peaceful occupation and use of the Object during the Tenancy Term will not be interfered by the Lessor or any person legally claiming its rights through the Lessor (except the circumstances prescribed by Clauses (5) and (6), Article II of these Detailed Rules).

(2) Land use fees

Except the taxes and dues payable by the Lessee according to the Lease and/or relevant Chinese laws and regulations, all other land use fees and property taxes on the building shall be borne by the Lessor.

(3) Roof and main structure

The Lessor shall maintain the structure of the building in a good condition.

(4) Decoration

The Lessor may carry out all necessary decoration and place green plants in public areas of the building when it deems necessary.

(5) Cleaning and waste treatment

The Lessor shall keep the public areas, restrooms and other common parts of the building clean.

The Lessor shall be responsible for cleaning the outer walls of the building (except the part that shall be cleaned by the Lessee or the user).

(6) Shared facilities

The Lessor shall keep all elevators, firefighting and safety facilities, air conditioning equipment and other facilities in the building in a normal operation condition, and regularly repair and maintain the same.

After the receipt of a fault notice from the Lessee, the Lessor shall send certain personnel to repair the facilities in reasonable time (except the part that shall be repaired by the Lessee or the user).

(7) Directory

The Lessor shall provide a standard directory sign in the lobby and corresponding floors of the building and allocate appropriate places for the Lessee to add its name thereon according to unified font or character standards designated by the Lessor, the first installation of which will be free of charge.

(8) Air conditioning

The office building will offer central air conditioning at the following time:

9:00-18:00 from Monday to Friday, excluding other time and public holidays.

If the Lessee requires over-time air conditioning services beyond the above time, it shall notify the property management company designated by the Lessor 24 hours in advance. After the receipt of a reasonable notice from the Lessee, the property management company designated by the Lessor will provide such over-time air conditioning services. The charges of such over-time air conditioning services will be determined by the property management company designated by the Lessor and the Lessee will be informed thereof.

(9) Insurance

The Lessor shall purchase valid insurance for the public areas and shared facilities of the building.

IV. Restrictions and Prohibitions

The Lessee agrees to accept and perform the following:

(1) Installation and variation

- (a) Without the prior written consent of the Lessor and the property management company designated by the Lessor, it may not install, place or vary any fixture, partition or other assets and facilities belonged to the Lessor within the Object or any other part (including but not limited to: furniture, decoration, air conditioning, access control, etc.).

Without the prior written consent of the Lessor and the property management company designated by the Lessor, the Lessee must not install or permit the installation of equipment and fixture on electric power circuits, pipelines and facilities, or install or permit the installation of any equipment, device or machinery which exceeds the originally designed capacity of the floor or requires addition of electric power circuits or pipelines or the power consumption of which will not be measured through the Lessee's electricity meter.

The Lessor or the property management company designated by the Lessor has the right to stipulate the maximum weight and placement location of safe deposit boxes and other heavy equipment. The Lessor or the property management company designated by the Lessor may require the Lessee to put pad in the specified size and material at the bottom to disperse the weight when it deems necessary.

- (b) When performing an approved project, the Lessee shall procure its employees, agent, contractors and workers to fully cooperate with the Lessor, the property management company designated by the Lessor and the Lessor's employees, agent, contractors and workers; and to work with other tenants or contractors working in the building.

The Lessee and its employees, agents, contractors and workers shall abide by and follow all instructions and guidance from the Lessor or the property management company designated by the Lessor.

- (c) When modifying or altering electric circuits, access control, firefighting or air conditioning systems, the Lessee shall use the contractors designated or identified by the Lessor and the property management company designated by the Lessor in writing, and shall bear all corresponding expenses.

(2) Rules for commencement of operations

The Lessee shall obtain and maintain in the entire Tenancy Term the validity of permission or approval (if any) from the government or other related departments on its use or occupation of the Object. Upon the receipt of a notice from the government or any other related department concerning the Object or any service provided in the Object, the Lessee shall inform the Lessor in writing.

(3) Marks

The Lessee may not place or exhibit or allow other to place or exhibit any billboard, mark, ornament, advertisement or other product in or out of the Object, whether equipped with lighting to make it visible from the outside, except:

- (a) The Lessee may, at its own costs, require the Lessor or the property management company designated by the Lessor to arrange the placement of its name (and any future addition or alteration) on the directory in the unified Chinese and English model designed by the Lessor.
- (b) The Lessee may, at its own costs, place its name at the entrance of the Object in the font and size approved by the Lessor. If the Lessee carries on business in another name, it shall notify the Lessor of such name, and may exhibit such name at the entrance only with the written consent of the Lessor. Without the prior written permission of the Lessor, the Lessee may not change the name of its business.

(4) Purpose

The Lessee may not use or allow the use of the Object for any purpose other than office as explicitly prescribed in the Lease.

(5) Illegal or unethical use

The Lessee may not use or allow the use of the Object for any illegal or unethical purpose.

(6) Passage obstruction

The Lessee may not obstruct or allow the obstruction of the entrance, stairs, platforms, passages, escalators, elevators, lobby and other public parts of the office building with boxes, packaging scraps and obstructions in other natures.

When it deems fit, the Lessor has the right to move away the abovementioned debris or other items or things without notice to the Lessee, with all related expenses to be borne by the Lessee.

(7) Wires and cables in public areas

The Lessee may not lay or install attached electric wires, cables or other items and things at the entrance and exit, stairs, passages, lobby and other places in public areas of the building.

(8) Sublease and assignment

Without the written consent of the Lessor, the Lessee may not transfer, sublease, waive or assign the Object leased or any part thereof or any interest thereon, nor make any arrangement or transaction, that results in a non-party to the Lease acquiring or enjoying the right to use, take on lease and occupy the Object leased or any part thereof, regardless of whether rent or other considerations have been paid for such acquisition.

(9) Violation of insurance terms

The Lessee may not carry out or allow others to carry out any act or thing that will or may invalidate the fire insurance, third-party liability insurance and insurance covering other risks of the building.

The Lessee may not carry out or allow others to carry out any act or thing that will increase the premium. If any act or thing conducted or allowed to be conducted by the Lessee increases the premium, the Lessor shall be entitled to recover from the Lessee the increment, without prejudice to any other remedy available to the Lessor.

(10) Air conditioning

Except with the written permission of the Lessor and the property management company designated by the Lessor, the Lessee may not additionally install air conditioning facilities other than those provided by the Lessor.

(11) Parking

The Lessee may not park in parking spaces assigned to other vehicles, public driveways, entrance and exit for vehicles or other areas specified for loading and unloading purposes, nor allow its employees, agents, contractors or visitors to do so.

(12) Use of name

The Lessee may only use the name "SOHU.COM Internet Plaza Office Building" or the name and logo of the building or any part thereof to indicate its address and business location. Without the prior written approval of the Lessor, the Lessee may not use or allow the use of any picture, name or logo or those which are wholly or partially similar to any name and logo of the Lessor, "SOHU.COM Internet Plaza Office Building" and the building to serve its business, operations and other purposes.

(13) No auction or solicitation

The Lessee may not organize or allow the organization of any auction in the Object leased.

The Lessee may not permit any of its employees or agents to solicit any business or hand out any leaflet, circular or publicity material within the redline scope of SOHU.COM Internet Plaza Office Building.

(14) Damage to the main structure, equipment and facilities

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee may not carve on, damage, drill holes on, mark or destroy the doors, windows, walls, beams, structure and any other parts of the Object as well as any sewer line, sanitation and air conditioning facility thereof or allow any foregoing behavior.

(15) Damage to wall surface, ceiling and ground

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee may not drive nails, screws, inlaid hooks, brackets or other similar items on the ceiling, wall surface and ground of the Object leased, nor destroy the ground.

(16) Damage to public areas

The Lessee may not damage, ruin or destroy the feature, stairs and elevators placed in the public areas of the building, including surrounding trees, plants and shrubs, etc.

(17) Disturbance or interference

The Lessee may not cause or allow any possible disturbance to the Lessor, other users or tenants in the building, nor interfere with adjacent user or tenants.

(18) Noise

At no time may the Lessee make or allow the making of any disturbing or stimulating noise in the Object, or make any music or noise (including broadcasting or voice produced by any device or equipment that can generate or copy, receive or record) audible from outside the Object.

(19) Dormitory or home use

The Lessee may not use the Object or any part thereof as dormitory.

(20) Manufacturing and storage of goods

The Lessee may not use or allow the use of the Object for production and manufacturing or storage of goods and commodities, except for the samples and exhibits stored reasonably required for the business permitted hereunder.

(21) Toilet facilities

The Lessee may not use or allow the use of toilet facilities provided by the Lessor in the public areas of the Object or the building for any purposes other than their designed purposes.

The Lessee may not and shall not allow others to throw any irrelevant item into toilet facilities, and shall pay all expenses as required by the Lessor for damage, breakage, blocking or spoil caused by the Lessee's violation of the current clause.

(22) Meal preparation and preventing the disperse of odor

The Lessee may not cook or allow or tolerate anyone to cook any food in the leased units (other than oven heating of food by the Lessee's employees in tea rooms), and may not procure or allow any disgusting smell or odor from generating or emitting.

(23) Animals, pets and spread of pests

The Lessee may not breed or allow others to breed any animal or pet in the Object. The Lessee shall take all measures required by the Lessor to prevent the Object or any part thereof from pest invasion at its own costs, shall hire disinfection companies with Beijing pest control service agency qualifications at its own costs, and shall insecticide on a regular basis as instructed by the Lessor or the property management company designated by the Lessor.

(24) Antenna

The Lessee may not install any antenna on the roof or walls of the building or the ceiling or wall surface of the Object. Moreover, the Lessee may not interfere, move dismantle or change the antenna provided by the Lessor, if any.

(25) Explosives or hazardous articles

The Lessee may not deposit or allow the storage of any weapon, ammunition, potassium nitrate, kerosene or other explosive, inflammable or hazardous articles in the Object.

V. Exceptions

Except due to the fault of the Lessor, the property management company designated by the Lessor or their respective employees or agents, the Lessor shall undertake no responsibility to the Lessee, any user or others upon any of the following circumstances:

(1) Elevators, air conditioning and others

Personal injury or property damage suffered by the Lessee, any user or others as a result of quality defects or stoppage of elevators, firefighting and security settings, air conditioning equipment and other equipment of the building;

(2) Supply of power and water

Personal injury or property damage suffered by the Lessee, any user or others because of supply fault, stoppage, explosion and suspension of power and water to the building and the Object;

(3) Fire, flood and plague of insects

Personal injury or property damage suffered by the Lessee, any user or others due to fire, overflow or water leakage in any part of the building, or water flowing into the building or the Object, or mouse and other insects in the building;

(4) Security

Regarding the quality, security or custody of the Object or any individual or goods therein, especially without limiting the generality of the foregoing, the security guards and administrators or mechanic or electric alarm systems of any nature provided by the Lessor or the property management company designated by the Lessor shall constitute no safety responsibility of the Lessor or the property management company designated by the Lessor to the Object or any article therein, instead, the Lessee shall always take full responsibility for the safety of the Object and the items therein;

(5) Incompliance

Losses and damages caused by the Lessee or the third party failing to perform applicable regulations or to comply with Part IX of these Detailed Rules.

VI. Reduction of Rent

When the Object and any part thereof is damaged or the Object becomes unfit for use or lease due to fire, severe weather, act of God, force majeure or other events not directly or indirectly caused by acts or faults of the Lessee (in this case, the Lessee shall timely notify the Lessor in writing), upon consensus between the parties, the Lessee may stop paying rent and property management fees in respect of the part of the Object damaged, until the Object is repaired and restored.

When economically unreasonable and impractical, the Lessor has no obligation to repair or rehabilitate the Object; or, if the entire Object or the substantial part of the Object is destroyed or unfit for reuse and lease, in both cases, the parties hereto shall be entitled to terminate the Lease by giving to the other party a written notice, without prejudice to the rights and compensation available to either party in respect of any prior claim or violation of the Lease, or rights and compensation available to the Lessor in respect of rent, property management fees and other expenses payable hereunder accrued before the effectiveness of termination. In such case, the Lessor shall return the deposit for the premises.

VII. Default

Both parties further agree and acknowledge as follows:

(1) Default

Upon the occurrence of any of the following, the Lessor shall be entitled to terminate the Lease, to take back the Object leased by the Lessee 30 working days after informing the Lessee in writing in advance, and to claim the Lessee for compensation of its losses if:

- (a) The rent or property management fees or other expenses payable by the Lessee hereunder remain unpaid within 30 working days after the due date;
- (b) If the Lessee fails to comply with and perform any term and condition hereunder that the Lessee shall comply with and perform and causes material damage to the Lessor; or the Lessee fails to rectify the above default within 30 days after the expiration of the period notified by the Lessor in writing;
- (c) The Lessee goes bankrupt or starts liquidation as a corporation, or is applied for liquidation, or becomes insolvent, or has made arrangement with its creditors, or has exerted any legal arrangement on the Object leased by the Lessee;
- (d) The main structure of the Object is substantially damaged due to reasons of the Lessee, and the Lessee fails to make compensation within 30 days after the expiration of the period notified by the Lessor in writing.

This right of the Lessor will not prevent it from exercising the right to lodge a lawsuit in the event that the Lessee breaches the Lease or fails to comply with or perform any term and condition of the Lease, nor prevent it from exercising the right to deduct the losses incurred therefrom from the deposit paid by the Lessee and to confiscate the deposit in accordance with Article VIII of these Detailed Rules.

Notwithstanding the foregoing, the Lessor or the property management company designated by the Lessor has the right to cut off water, power or air conditioning of the Object leased by the Lessee without any responsibility, provided that the Lessee shall be notified of such intention three days in advance. The expenses incurred by the Lessor or the property management company designated by the Lessor due to cut-off and re-connecting of water, power or air conditioning shall be borne by the Lessee, which may be recovered by the Lessor from the Lessee or deducted from the deposit paid by the Lessee in accordance with Article VIII of these Detailed Rules.

(2) Exercise of rights

Instead of actually entering the Object, the Lessor sending to the Lessee a written notice of taking back the Object in the form prescribed by the Lease will be deemed as fully exercising the right. The Lessor will be deemed to have taken back the Object and the Lessee be deemed to have been expelled from the Object seven days after the Lessor delivers such a written notice (that is, the evacuation period for the Lessee). During the evacuation period, if the Lessee fails to restore the Object to the state described in the confirmation document signed upon acceptance of the Object, the Lessor shall be entitled to freely dispose any item left by the Lessee in the Object without taking any responsibility to the Lessee, and all expenses resulting therefrom shall be borne by the Lessee.

When the Lessee returns the Object, if there remains some items, fixtures or fittings in the Object, the Lessee hereby declares a waiver of its ownership of such properties, and consents to free disposal by the Lessor of such properties (including but not limited to abandonment, selling off or other means), with all proceeds thereof to the account of the Lessor (if any) and all expenses involved to be borne by the Lessee (if any). The Lessor shall assume no responsibility to the Lessee or any other person for any loss or damage caused by such disposal or any other treatment method.

(3) Acceptance of rent and property management fees

The acceptance of rent by the Lessor and the acceptance of property management fees by the property management company designated by the Lessor shall not be deemed as an automatic waiver of their right to prosecute the Lessee for default, incompliance with or nonperformance of terms and conditions it shall comply with and perform.

(4) Acts of contractors, employees, agents and visitors

For the purpose of the Lease, any act of any employee, visitor, contractor, representative or agent of the Lessee or user of the Object shall be deemed as act of the Lessee.

(5) Payment order

The failure of the Lessee to pay the rent and property management fee for the Object in the time and manner prescribed by the Lease shall constitute delay in payment. In such case, the Lessor or the property management company designated by the Lessor may apply to the people's court for a payment order in accordance with the *Civil Procedure Law of the People's Republic of China*, with all related expenses incurred therefrom to be borne by the Lessee.

(6) Overdue fines

Without prejudice to any other right and remedial measure available to the Lessor upon default, if the rent, property management fees, any other expenses or a part thereof hereunder haven't been paid in the way and time prescribed in Articles 4 to 6 of the Lease and Part I of the Detailed Rules, the Lessee shall pay overdue fines equivalent to 0.1% of the aggregate amount due but unpaid each day from the due date to the actual payment date (both the due date and the actual payment date are included).

(7) Commitment

Unless otherwise specified herein, in no event (except force majeure) may the Lessee terminate the Lease in advance during the Tenancy Term, if the Lease is early terminated or becomes unfulfillable due to reasons of the Lessee, the Lessor is not liable to return to the Lessee the paid deposit. The Lessor may not terminate the Lease for no cause, or otherwise, it shall be liable for breach of contract.

VIII. Deposit

(1) Deposit

Simultaneously with the execution of the Lease, the Lessee shall pay to the Lessor the deposit prescribed in Article 5 of the Lease, so as to ensure the compliance with the terms and conditions the Lessee shall comply with and perform.

The deposit shall be preserved free of interest by the Lessor on behalf of the Lessee.

(2) Withholding and deduction of deposit

In the instance the Lessee violates any term or condition of the Lease, the Lessor shall be entitled to urge actual performance and deduct from the deposit: the expenses due but unpaid by the Lessee, the charges required to be assumed by the Lessee according to the Lease or provisions of laws and regulations, or losses suffered by the Lessor because of default, incompliance or nonperformance of the Lessee.

(3) Complement of deposit

Pursuant to the Lease, in case the rent and property management fees increase in the Tenancy Term, or the deposit becomes insufficient as deducted by the Lessor due to default of the Lessee, the Lessee shall, within ten working days after the receipt of a written notice from the Lessor or the property management company designated by the Lessor, make up the deposit.

Complementing the deposit is a prerequisite for further performance of the Lease. If the Lessee fails to do so, the Lessor shall be entitled to exercise all remedies and rights available.

(4) Return of deposit

Subject to the above provisions, the deposit shall be returned in Renminbi free of interest to the Lessee at the latest of thirty days after the Object vacated is handed over to the Lessor upon expiration of the Lease, or thirty days after the resolution of claims arising from default, incompliance with or nonperformance of the terms and conditions of the Lease and from incompliance and nonperformance of regulations that the Lessee shall comply with and perform, or thirty days after the settlement of the Lessee's accounts with the telecommunications company and the power corporation, except the part that the Lessor has the right to deduct, withhold or offset pursuant to the Lease.

(5) Change of Lessor

If the Lessor changes during the Tenancy Term, all rights and obligations in respect of the deposit paid by the Lessee or the deposit remaining after the Lessor exercises its deduction right according to the Lease shall be succeeded by the new lessor. In this case, the Lessor shall make sure the Lessee's rights will not be adversely affected by such change of lessor.

IX. Rules

(1) Formulation of rules

To facilitate the building to become a first-class office building, as long as good for the operation management and maintenance of the building, the Lessor or the property management company designated by the Lessor has the right to publish, introduce, modify, adopt or abolish any rules in writing at any time, provided that the Lessee shall be informed in advance. When the formulation and update of any rules cause a significant impact on the Lessee's rights, the Lessee shall be entitled to raise an objection and retains the right to recover its losses from the Lessor.

(2) Conflict

Such rules are merely supplementary to these terms and conditions of the Lease, which will not invalidate the latter. In the case of controversy between such rules and these terms and conditions hereof, the terms and conditions of the Lease shall prevail.

X. Interpretation and Miscellaneous

(1) Marginal notes, headings and indexes

The marginal notes, headings and indexes are for guidance only, and shall not constitute an integral part of the Lease, which shall not be given consideration to or affect or restrict the interpretation or clarification of any provision hereof.

(2) No waiver by tolerance

The Lessor's tolerance, forgiveness or excuse of one-off or repeated nonperformance, violation, incompliance or non-execution of responsibility hereunder by the Lessee doesn't imply a waiver of rights regarding continuous or further nonperformance, violation, incompliance or non-execution by the Lessee, nor eliminate or affect the Lessor's rights or compensation available hereunder in respect of such continuous or further nonperformance of violation.

Unless the Lessor waives its rights in written statement, no act or omission of the Lessor implies waiver of rights or infers as waiver.

Any approval given by the Lessor applies only to certain issues specifically approved, which shall not operate as simultaneous waiver of other rights available to the Lessor nor exempt the Lessee from further applying to the Lessor for any other specific written approval.

(3) Service of notice

Any notice required to be given shall be written in Chinese, and sent by double-registered letter, express mail, personal delivery, facsimile or any other means permitted by law to the legal address or the latest contact address provided by the other party from time to time.

The parties specifically agree that, the above notices and other correspondences shall be deemed effectively delivered on:

- (a) The date listed in the receipt if sent by double-registered letter or express mail;
- (b) The date of personal delivery;
- (c) The transmission time indicated in the fax report or the date on which the recipient acknowledges receipt if sent by facsimile;
- (d) After the Object is delivered to the Lessee, the Lessor may serve notices to the Lessee by posting announcements in visible places near the Object, and the notices shall be deemed delivered on the date of announcement.

(4) Naming of the building

The Lessor retains the right to rename SOHU.COM Internet Plaza Office Building at its own discretion and the right to change, replace or cancel the original name at any time or from time to time, without any compensation to the Lessee. However, if the Lessor chooses to do so, an announcement regarding the notice of relevant government agency shall be posted in the building in advance.

(5) Replacement of property management company

To facilitate the building to become a first-class office building, the Lessor has the right to select and replace property management companies.

(6) Applicable law and jurisdiction

The Lease shall be governed and construed by the laws of the People's Republic of China (excluding laws of Hong Kong, Macao and Taiwan). Any dispute between the parties that cannot be solved through consultation may be solved by means of lawsuits.

(7) Business license

Before the execution of the Lease, if applicable, the Lessee shall present to the Lessor its business license or registration certificate approved by the government of the People's Republic of China, and the original power of attorney authorizing representatives of the Lessee to enter into the Lease as Annex IV hereto.

(8) Written in Chinese and signature

The Lease is written and signed in Chinese. Any English translated version provided by the Lessor shall be used for reference only. The Lessor hasn't guaranteed the consistency between the contents, wording and expressions in the English version and the Chinese version, and in the case of controversy or difference, the Chinese version shall prevail.

(9) Modification, supplementary, deletion and alteration to the Lease

No modification, supplementary, deletion or alteration to the Lease shall be valid unless made in writing, signed by duly authorized representatives of the parties and affixed with their common seals.

The above common seals shall be deemed to have been affixed on the date signed by the foregoing authorized representatives.

(10) Counterparts and legal force

The Lease, its annexes and Detailed Rules have been made in quadruplicate, with each party holding two copies, all being of the same legal effect.

Beijing Sohu New Media Information Technology Co., Ltd. (seal)

By:

Beijing Sogou Information Services Co., Ltd. (seal)

By:

Date: 2019

Contract No.:

SOHU.COM Internet Plaza Office Building Lease

Between

Beijing Sohu New Media Information Technology Co., Ltd.

and

Beijing Sogou Technology Development Co., Ltd.

Lease

Parties: Lessor: Beijing Sohu New Media Information Technology Co., Ltd.
Address: SOHU.com Media Plaza, No. 2 Park, No. 3 Building, South Road of Academy of Sciences, Haidian District, Beijing, China
Legal representative: Charles Zhang
Tel:
Fax:
Lessee: Beijing Sogou Technology Development Co., Ltd.
Address: SOHU.com Internet Plaza, No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C.
Legal representative: Hong Tao
Tel:
Fax:

Date: The Lease was concluded on [December 25, 2019].
The parties hereby enter into the following agreement:

Article 1 Definitions

Object: The Lessor agrees to lease out and the Lessee agrees to take on lease the premises (actual floors) located at 9F, 11F, 12F, and 13F of SOHU.com Internet Plaza No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C., that is, 9F, 11F, 12F, and 15F as elevator shows.

As a duly established and validly existing corporation, the Lessor has the authority to enter into the Lease and to perform its obligations hereunder. In addition, the Lessor has full ownership of the Object leased, and has obtained all internal and external approval or registration and filings necessary for the performance of the Lease, consenting to the lease of the Object to the Lessee.

As a duly established and validly existing corporation, the Lessee has the authority to enter into the Lease and to perform its obligations hereunder. The Lessee agrees to take on lease and enjoys the following rights pursuant to the Lease:

- (i) To normally use public inlets and outlets, stairs, platforms, passageways, public restrooms, tea rooms, broom closets, etc. of the building together with the Lessor and other parties enjoying the same rights, provided that, the Lessor may restrict such right to use in a proper way at any time when the above facilities need to be repaired or upon the occurrence of emergency;
- (ii) To share the elevators, central air-conditioning and other equipment serving the office building.

Tenancy term and rent: The tenancy term is more particularly set forth in Article 3 (“Tenancy Term”). The Lessee shall pay the rent and property management fees as specified in Article 4 hereof within the Tenancy Term in a way specified in Article 6.

Deposit: The Lessee shall pay the deposit as specified in Article 5 hereof simultaneously with the execution of the Lease in a way specified in Article 6.

Other expenses: The Lessee shall timely pay the following expenses as per the bills provided by the property management company designated by the Lessor, including but not limited to:
Electricity charges and water rates, over time air conditioning costs, machine room cooling water rates, etc. incurred in the Object.
For specific payment methods, please refer to Article 6 hereof.

Legal expenses: The parties shall respectively bear their legal expenses.

Application: The Object leased may only be used by the Lessee for work.

Date of delivery: _____.

Article 2 **Object**

Building No.: SOHU.com Internet Plaza No.1 Park, Zhongguancun East Road, Haidian District, Beijing, P.R.C. (hereinafter referred to as the “Office Building”)

Floor No.: 9F, 11F, 12F, and 13F (actual floors) of the Office Building, that is, 9F, 11F, 12F, and 15F as elevator shows.

Lease area: 9F, 11F, 12F, and 13F (actual floors) of the Office Building, that is, 9F, 11F, 12F, and 15F as elevator shows, having a total lease area of 10421.07 square meters.

For the specific location, please refer to Annex I.

For delivery standards, please refer to Annex II.

Article 3**Tenancy Term**

Term: 36 months

Lease commencement date: January 1, 2020

Termination date: December 31, 2022

(The term includes lease commencement date and termination date)

Article 4**Rent and Property Management Fees****(1) Rent**

In consideration of using the Object leased, the Lessee shall pay the following rent:

First year (leap year):

Rent standard: RMB 11/day/m²

Annual rent: RMB 41,955,227.88

Monthly rent: RMB 3,496,268.99

Second year:

Rent standard: RMB 11/day/m²

Annual rent: RMB 41,840,596.08

Monthly rent: RMB 3,486,716.34

Third year:

Rent standard: RMB 11/day/m²

Annual rent: RMB 41,840,596.08

Monthly rent: RMB 3,486,716.34

(Calculated based on the lease area specified in Article 2 above at the unit price of RMB11/day/m², to be settled in Renminbi)

(2) Property management fees

Subject to the *SOHU.COM Internet Plaza Office Building Property Services Agreement* (subject to the name of the agreement finalized) entered into by and between the Lessee and the property management company designated by the Lessor.

Article 5**Deposit**

The deposit for rent will be RMB 10,488,806.97 (equivalent to three months of rent). Since RMB9,242,118.11 of deposit has been paid under the original contract and supplementary contracts No. 16-GNL-ES-05765, 16-GNL-ES-05784, 17-GNL-ES-00948, 17-GNL-ES-05727 and 18-GNL-ES-01875, the Lessee needs to hand in RMB 1,246,688.86 of deposit hereunder.

The deposit will bear no interest.

Upon the extinguishment or termination of the Lease, the remaining amount after the Lessor deducts unpaid rent, other expenses and other deductible expenses payable by the Lessee shall be returned to the Lessee in one lump sum within 20 working days after termination of the Lease.

Payment of Rent, Property Management Fees, Deposit and Other Expenses

- (1) The rent and property management fees include neither electricity charges and water rates, rent and management fees of parking space leased, over time air conditioning costs, machine room cooling water rates, etc. of the Object leased, nor all government taxes and other expenses payable by the Lessee according to laws or regulations.

During the Tenancy Term, the rent shall be paid by calendar month. In particular, the Lessee shall pay the rent for the next month in advance within the first twenty days of each calendar month without any deduction.

The Lessee shall prepay RMB 3,496,268.99 of rent simultaneously with the execution of the Lease.

- (2) Within five working days after the Lease is executed, the Lessee shall pay the deposit to the Lessor in the amount prescribed in Article 5 hereof.
- (3) The Lessee shall pay other expenses then incurred in accordance with the provisions of the Lease, the *SOHU.COM Internet Plaza Office Building Property Services Agreement* (subject to the name of the agreement finalized) entered into with the property management company designated by the Lessor, and the *SOHU.COM Internet Plaza User Manual* and the *SOHU.COM Internet Plaza Decoration Manual* formulated and updated from time to time by the Lessor or the property management company.

- (4) The rent and deposit for the Object leased shall be paid to the following account of the Lessor:

Bank of deposit: China Merchants Bank Co., Ltd., Beijing North Third Ring Road Branch

Account name: Beijing Sohu New Media Information Technology Co., Ltd.

Account number: 862281851810001

- (5) The Lessor shall issue vouchers to the Lessee at the following time in the following way:

The Lessor shall issue a receipt within ten working days after the receipt of deposit paid by the Lessee;

Regarding the rent paid by the Lessee by check, remittance or any other means designated by the Lessor, the Lessor shall issue a formal invoice of corresponding amount within the corresponding Tenancy Term after the related funds reach the bank account designated by the Lessor.

Article 7

Fixtures and Fittings

The Lessor will provide certain fixtures and fittings for the interior of the Object leased according to Annex II hereto — *SOHU.COM Internet Plaza Office Building Delivery Standards* (subject to the confirmation document signed by the Lessee and the property management company designated by the Lessor), the Lessee shall return such fixtures and fittings in the same shape, conditions and structure as previously delivered upon the termination of the Lease. The initial delivery status shall be subject to the confirmation document signed by the Lessee and the property management company designated by the Lessor.

Article 8

Special Terms

(1) Reception of the Object leased

The Lessor shall deliver the Object leased to the Lessee in accordance with the delivery conditions prescribed in Annex II hereto and the confirmation document signed by the Lessee and the property management company designated by the Lessor on the delivery date. As the Lessee is already the actual occupier and user of the premises leased, the delivery date will be the lease commencement date, that is to say, the Tenancy Term will commence as from the delivery date. Simultaneously with the execution of the Lease, the Lessee shall enter into a *SOHU.COM Internet Plaza Office Building Property Services Agreement* with the property management company designated by the Lessor (subject to the name of the agreement finalized).

(2) Decoration

During the Tenancy Term, the Lessee may carry out interior decoration in the Object leased with the prior consent of the Lessor after entering into a *Leased Premise Decoration Security Agreement* (subject to the name of the agreement finalized) with the Lessor or the property management company designated by the Lessor.

(3) Government registration, taxes and other incidental expenses

The Lessor shall go through related registration formalities for the premises leased according to law, to which the Lessee shall offer assistance.

All taxes and dues in connection with the execution, registration and implementation of the Lease shall be governed by the applicable laws and regulations of China (excluding Hong Kong, Macao and Taiwan). In the absence of explicit provisions in Chinese laws and regulations, the taxes and dues shall be respectively borne by the Lessor and the Lessee on their own.

(4) Status of the Object leased

The Lessor has delivered the Object leased to the Lessee in accordance with the standards set forth in Annex II. The Lessee has received the Object according to such standards and confirmed the Object leased to be in good and rentable conditions. Both parties acknowledge that the Object leased conforms to the provisions of the Lease.

(5) Other agreements and covenants

The Lessee agrees to comply with the *SOHU.COM Internet Plaza Property Management Services Entrustment Contract* and the *Constitution of SOHU.COM Internet Plaza's Owners Association* signed by the Lessor. If the Lessor violates any of the aforesaid agreements as a result of the Lessee, the Lessee shall compensate the Lessor for its losses.

Article 9 **Confidentiality** During the Tenancy Term, the Lessor, the Lessee and their respective agents shall keep the trade secrets, financial information and other confidential information of the Lessee and the Lessor confidential, and may not disclose such information to any third party without the consent of the other party.

Article 10 **Others** The Lessee agrees that, the Lessor has the right to sell the premises leased to any third party during the Tenancy Term, and the Lessee promises to waive its right of preemption.

This Lease includes certain annexes and the *Detailed Rules for Office Building Lease*.

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Beijing Sohu New Media Information Technology Co., Ltd.

Signature of representative:

Common seal:

Beijing Sogou Technology Development Co., Ltd.

Signature of representative:

Common seal:

(No text on this page, this being the seal and signature page to the SOHU.COM Internet Plaza Office Building Lease)

Signed on: December 25, 2019

Annexes to the Lease

Annex I: Location Sketch Map

Annex II: SOHU.COM Internet Plaza Office Building Delivery Standards

Annex III: Photocopy of the Lessor's Business License and Original Power of Attorney

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Detailed Rules

for

Office Building Lease

Between

Beijing Sohu New Media Information Technology Co., Ltd.

and

Beijing Sogou Technology Development Co., Ltd.

I. Rent, Property Management Fees and Other Expenses

The Lessee agrees to accept and perform the following:

(1) Rent and property management fees

To timely pay the rent and property management fees prescribed in Article 4.

(2) Commercial taxes

To pay the taxes or dues payable by the Lessee as prescribed by laws and regulations annually or regularly imposed by the competent department on the Object leased or the Lessee at present or in the future, except the land use fees and house property taxes.

(3) Electricity, water and other charges

To pay the charges of electricity and water used in the Object leased.

(4) Other expenses

The Lessee shall pay to the property management company designated by the Lessor: including but not limited to the expenses of machine room cooling water and over time air-conditioning provided by the property management company designated by the Lessor at the request of the Lessee.

II. Obligations of the Lessee

The Lessee agrees to accept and perform the following:

(1) Compliance with regulations, detailed rules and ordinances, etc.

- (a) Comply with all regulations, rules and requirements of the government or other relevant departments concerning the Lessee's behaviors and operations in the Object leased, as well as all related regulations, rules and requirements regulating the actions, behaviors, affairs or things of the Lessee or its employees, agents, contractors or visitors.

The Lessee shall compensate the Lessor for its losses caused by the Lessee's violation of these regulations, rules and requirements.

- (b) The Lessee shall be responsible for all claims, demands, lawsuits, legal proceedings, judgments, losses and related expenditures that the Lessor may suffer or incur as a result of death, personal injuries or property damages occurred in the Object or occurred during the use of the Object or part thereof caused by the act or negligence of Lessee or its employees, contractors, agents or visitors.

- (c) The Lessee shall be responsible for all losses and damages to the Object leased, the building and all properties in the building caused by the Lessee or its agents, employees, contractors or visitors.
- (2) Decoration, repair and maintenance

(a) Decoration

The Lessee's decoration of the Object leased must comply with the provisions of the *SOHU.COM Internet Plaza Office Building Decoration Manual* (subject to the name of the agreement finalized) formulated and modified from time to time by the property management company designated by the Lessor.

The Lessee shall make sure the decoration and partition of the Object conform to firefighting, security, building or other relevant provisions.

According to the drawings and specifications previously submitted to and approved by the Lessor and the property management company designated by the Lessor in writing, the Lessee shall decorate the interior of the Object at its own expenses.

The interior decoration performed by the Lessee shall be in a good and workmanlike manner and conform to the style of first-class office buildings. The Lessee shall maintain the decoration in the same status during the entire Tenancy Term, except normal wear and tear.

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee must not, by itself or allow to, make any alteration to the approved decoration drawings and specifications as well as the interior design and layout of the Object.

For the avoidance of doubt, the Lessor and the Lessee hereby declare that:

- (i) The Lessor or the property management company designated by the Lessor approving the abovementioned decoration drawings and specifications of the Lessee doesn't exempt the Lessee from applying to the related government authorities of Beijing, at its own cost, for approval of such decoration drawings and specifications already approved by the Lessor or the property management company designated by the Lessor before formally starting interior decorating.
- (ii) The Lessor and the property management company designated by the Lessor shall bear no responsibility for any consequence of the Lessee not complying with the requirements and conditions set forth in the decoration drawings and specifications approved by the related government authorities of Beijing.

(iii) The Lessee shall keep the Lessor harmless from any loss caused by the Lessee not complying with the present clause, including but not limited to legal expenses.

(b) Repair and maintenance

The Lessee shall keep the part of decorations in the Object provided by the Lessor and the part added by the Lessee (including all doors and windows, walls, equipment and facilities and pipelines, etc.) in good, clean and rentable conditions, and shall keep the Object leased and oil paint on the surface intact.

The Lessor shall be responsible for daily repair and maintenance of decoration (decorative surface, strong current, weak current) and electromechanical system (central ventilation system) provided by the Lessor and access control, provided that the Lessee shall bear the corresponding costs, as more specifically agreed upon by the parties.

The Lessee shall repair and maintain the part of decorations added by itself at its own costs and expenses.

The Lessee shall comply with the regulations of the sanitation and provisions of other relevant government departments concerning dedicated sanitation and water facilities (if any) used by the Lessee or its employees, agents or visitors at its own expenses.

(3) Replacement of windows or glass curtain walls

The Lessee shall pay the expenses incurred by the Lessor or the property management company designated by the Lessor for replacement of windows, glass or glass curtain walls accidentally broken or damaged by the Lessee or its employees, contractors, agents or visitors.

(4) Compensation and insurance of losses and damages caused by internal defects

The Lessee shall take full responsibility for losses, property damages, death or personal injuries caused by the acts, faults or negligence of the Lessee or its employees, contractor, agents or visitors expressly or impliedly permitted by the Lessee. The Lessee shall hold the Lessor harmless therefrom. For purposes of this clause, the term "property" includes but is not limited to fixtures and fittings of the Lessor.

To avoid the above risks, the Lessee shall procure and maintain third-party liability insurance from a domestic insurance company. Such insurance shall be purchased in the name of the Lessee and particularly indicate the Lessor as the owner of the building (including the Object leased). From the date of lease commencement date, the Lessee shall furnish the Lessor with a certificate issued by the insurance company within three months, evidencing to the Lessor that appropriate insurance has been purchased. Such certificate shall constitute a part of annexes to the contract.

The insurance contract shall contain a clause prescribing that without the prior written consent of the Lessor, the insurance purchased and its conditions may not be cancelled, modified or restricted.

(5) Access of the Lessor or the property management company designated by the Lessor

When the Lessor or the property management company designated by the Lessor needs to examine or check the status of the interior structures, equipment or facilities in the Object leased by the Lessee and carry out necessary repair or maintenance, with prior notice, the Lessee shall allow the Lessor or the property management company designated by the Lessor and their authorized personnel to enter the Object in reasonable time. When exercising such right, the Lessor or the property management company designated by the Lessor shall try not to cause any interference to the Lessee.

In the case of emergency when it becomes impossible to contact the Lessee in advance, the Lessor and its employees or agents may enter the Object without permission of the Lessee to take necessary measures, provided that the Lessee shall be timely reported afterwards; in the case of especially critical circumstances, the Lessor or the property management company designated by the Lessor may force an entrance to the Object.

In order to better comply with the preceding clause, the Lessee shall inform the Lessor or the property management company designated by the Lessor the security system installed in the Object and its nature.

(6) Notice of repair

The Lessee shall conduct the necessary repair in a reasonable time after the receipt of a notice from the Lessor or the property management company designated by the Lessor requiring repair. If the Lessee fails to do so, the Lessor or the property management company designated by the Lessor shall be entitled to enter the Object, and may forcibly perform the work or repair in emergency circumstances, with all related expenses to be borne by the Lessee.

(7) Informing the Lessor of damage

The Lessee shall timely inform the Lessor and the property management company designated by the Lessor of damage to the Object and personal injuries, and of accidents or defects of water pipes, gas pipes, electric circuits or devices, fixtures or other facilities provided by the Lessor. After the receipt of such a notice, the Lessor or the property management company designated by the Lessor shall respond immediately and perform the repair within three working days. In the instance the Lessee becomes unable to normally use the facilities due to losses caused by the Lessor and response delay of the property management company, the Lessee shall be entitled to engage a third party for repair, with the maintenance costs to be deducted from the rent or other expenses (except repair caused by the Lessee only).

Upon occurrence of fire alarm or other accidents, in addition to calling the police and taking necessary measures immediately, the Lessee shall simultaneously inform the Lessor and the property management company designated by the Lessor.

(8) Directory

When the name on the directory of the building is changed upon the request of the Lessee, the Lessee shall pay the expenses for installation, repair, change or replacement of the Lessee's name on the directory.

(9) Survey

Within six months before the expiration of the Tenancy Term, the Lessee shall allow the Lessor to accompany potential tenants or users to make a survey of the Object in a reasonable time with prior notice, but the Lessor shall try its best to avoid interference with the Lessee's work.

(10) Regulations

The Lessee shall comply with the *SOHU.COM Internet Plaza Property Management Services Entrustment Contract*, the *Constitution of SOHU.COM Internet Plaza's Owners Association* signed by the Lessor, and shall comply with and abide by the regulations formulated by the Lessor and the property management company designated by the Lessor, including but not limited to the *SOHU.COM Internet Plaza User Manual* and the *SOHU.COM Internet Plaza Decoration Manual* (subject to the name of the agreement finalized).

(11) Contractors, employees, agents and visitors

The acts, negligence, omission and fault of all contractors, employees, agents and visitors of the Lessee shall be deemed as those of the Lessee, for which the Lessee shall be responsible to the Lessor.

(12) Return of the Object

Upon the expiration of the Tenancy Term or early termination of the Lease, the Lessee must rehabilitate the Object in the state indicated in the confirmation document signed upon acceptance, including but not limited to rehabilitating the ceiling system, spraying system, smoke detector, fan coil, air-conditioning temperature controller, lamp panel, air supply grille and return air inlet, unless with the consent of the owner.

The Object and all fixtures, fittings and ceilings therein returned by the Lessee must be complete, good, clean, rentable and in a proper maintenance status.

The personal property (including the name boards of the Lessee on doors, walls, etc. of the Object), fixtures and fittings and auxiliary equipment of the Lessee shall be removed as required by the Lessor upon the expiration of the Tenancy Term or early termination of the Lease, with the corresponding expenses to be borne by the Lessee. In addition, the Lessee shall compensate the Lessor any damage caused in the process of removing.

The Lessee shall allow the Lessor to remove from the directory texts and characters relating to the Lessee, and shall compensate the Lessor for its losses caused by the Lessee's failure to do so.

If, when the Lessee returns the Object, there remain some items, fixtures or fittings in the Object, the Lessee hereby declares that it has agreed to waive its ownership of such properties, and allow the Lessor to freely dispose such properties (including but not limited to abandonment, selling off or other means), except as otherwise agreed then by both parties.

The time for the Lessee to return the Object shall be subject to the written document signed by authorized representatives of the parties.

(13) Indemnification upon default

The Lessee shall indemnify and hold the Lessor harmless from losses caused by the following behavior that may be suffered or incurred by the Lessor, including lawsuits, claims, losses, damages and expenses: the Lessee fails to comply with or perform any of its responsibilities hereunder, or the use of the Object by the Lessee (including indoor installation and equipment of electricity and gas), the misconduct taken during the Tenancy Term against the Object, or the negligence or fault of the Lessee.

(14) Protection under severe weather

The Lessee shall take any reasonable preventive measure to prevent the Object from invasion of storm, heavy rain, snow or similar severe weather. Under the above severe weather, the Lessee shall especially make sure all exterior doors and windows are closed.

(15) Cancellation or alteration of industrial and commercial registration

The Lessee shall properly go through the cancellation or alteration of industrial and commercial registration with the unit as registered or business address within 30 days after the expiration of the Tenancy term or the date of early termination hereof.

(16) Maintenance of electrical equipment, pipelines and wirings

If the electrical equipment, wirings or pipelines installed by the Lessee become in danger or unsafe or as reasonably requested by the Lessor or the relevant municipal corporation, the Lessee shall repair or replace the above equipment, wirings or pipelines. At the time of maintenance, the Lessee may engage only the maintenance contractors designated or identified by the Lessor or the property management company designated by the Lessor in writing. The Lessee shall allow the Lessor or the property management company designated by the Lessor to examine the wirings or pipelines installed by the Lessee in the Object, provided that the Lessor or the property management company designated by the Lessor shall send a written request in advance and examine the devices at any reasonable time. The Lessee shall indemnify the Lessor harmless from claims, expenses, damages or lawsuits caused by faults or improper maintenance of electrical equipment, devices, pipelines and wirings installed by the Lessee in the Object.

(17) Sewer cleaning

When the sewer or sanitary fittings or other pipelines are plugged or stop work due to careless or improper use or negligence of the Lessee or its contractors, employees, agents or visitors, the Lessor or the property management company designated by the Lessor shall clean, repair or replace such pipelines first, with all costs incurred therefrom to be borne by the Lessee. Moreover, the Lessee shall undertake all expenses, claims or losses suffered by the Lessor therefrom.

(18) Transportation of waste and garbage

The Lessee shall carry away the waste and garbage generated during the decoration period, and place such waste and garbage in such locations within the building as designated by the Lessor or the property management company designated by the Lessor. If the Lessee uses the waste and garbage cleaning services provided by the Lessor or the property management company designated by the Lessor, the Lessee shall pay the relevant expenses and may not utilize the services provided by any similar contractor.

III. Obligations of the Lessor

The Lessor agrees to accept and perform the following:

(1) Non-interference

Under the premise that the Lessee pays the rent, property management fees and various other expenses in the way and amount prescribed herein and complies with and performs these terms and conditions that the Lessee shall comply with and perform, the Lessor shall make sure the Lessee's peaceful occupation and use of the Object during the Tenancy Term will not be interfered by the Lessor or any person legally claiming its rights through the Lessor (except the circumstances prescribed by Clauses (5) and (6), Article II of these Detailed Rules).

(2) Land use fees

Except the taxes and dues payable by the Lessee according to the Lease and/or relevant Chinese laws and regulations, all other land use fees and property taxes on the building shall be borne by the Lessor.

(3) Roof and main structure

The Lessor shall maintain the structure of the building in a good condition.

(4) Decoration

The Lessor may carry out all necessary decoration and place green plants in public areas of the building when it deems necessary.

(5) Cleaning and waste treatment

The Lessor shall keep the public areas, restrooms and other common parts of the building clean.

The Lessor shall be responsible for cleaning the outer walls of the building (except the part that shall be cleaned by the Lessee or the user).

(6) Shared facilities

The Lessor shall keep all elevators, firefighting and safety facilities, air conditioning equipment and other facilities in the building in a normal operation condition, and regularly repair and maintain the same.

After the receipt of a fault notice from the Lessee, the Lessor shall send certain personnel to repair the facilities in reasonable time (except the part that shall be repaired by the Lessee or the user).

(7) Directory

The Lessor shall provide a standard directory sign in the lobby and corresponding floors of the building and allocate appropriate places for the Lessee to add its name thereon according to unified font or character standards designated by the Lessor, the first installation of which will be free of charge.

(8) Air conditioning

The office building will offer central air conditioning at the following time:

9:00-18:00 from Monday to Friday, excluding other time and public holidays.

If the Lessee requires over-time air conditioning services beyond the above time, it shall notify the property management company designated by the Lessor 24 hours in advance. After the receipt of a reasonable notice from the Lessee, the property management company designated by the Lessor will provide such over-time air conditioning services. The charges of such over-time air conditioning services will be determined by the property management company designated by the Lessor and the Lessee will be informed thereof.

(9) Insurance

The Lessor shall purchase valid insurance for the public areas and shared facilities of the building.

IV. Restrictions and Prohibitions

The Lessee agrees to accept and perform the following:

(1) Installation and variation

- (a) Without the prior written consent of the Lessor and the property management company designated by the Lessor, it may not install, place or vary any fixture, partition or other assets and facilities belonged to the Lessor within the Object or any other part (including but not limited to: furniture, decoration, air conditioning, access control, etc.).

Without the prior written consent of the Lessor and the property management company designated by the Lessor, the Lessee must not install or permit the installation of equipment and fixture on electric power circuits, pipelines and facilities, or install or permit the installation of any equipment, device or machinery which exceeds the originally designed capacity of the floor or requires addition of electric power circuits or pipelines or the power consumption of which will not be measured through the Lessee's electricity meter.

The Lessor or the property management company designated by the Lessor has the right to stipulate the maximum weight and placement location of safe deposit boxes and other heavy equipment. The Lessor or the property management company designated by the Lessor may require the Lessee to put pad in the specified size and material at the bottom to disperse the weight when it deems necessary.

- (b) When performing an approved project, the Lessee shall procure its employees, agent, contractors and workers to fully cooperate with the Lessor, the property management company designated by the Lessor and the Lessor's employees, agent, contractors and workers; and to work with other tenants or contractors working in the building.

The Lessee and its employees, agents, contractors and workers shall abide by and follow all instructions and guidance from the Lessor or the property management company designated by the Lessor.

- (c) When modifying or altering electric circuits, access control, firefighting or air conditioning systems, the Lessee shall use the contractors designated or identified by the Lessor and the property management company designated by the Lessor in writing, and shall bear all corresponding expenses.

(2) Rules for commencement of operations

The Lessee shall obtain and maintain in the entire Tenancy Term the validity of permission or approval (if any) from the government or other related departments on its use or occupation of the Object. Upon the receipt of a notice from the government or any other related department concerning the Object or any service provided in the Object, the Lessee shall inform the Lessor in writing.

(3) Marks

The Lessee may not place or exhibit or allow other to place or exhibit any billboard, mark, ornament, advertisement or other product in or out of the Object, whether equipped with lighting to make it visible from the outside, except:

- (a) The Lessee may, at its own costs, require the Lessor or the property management company designated by the Lessor to arrange the placement of its name (and any future addition or alteration) on the directory in the unified Chinese and English model designed by the Lessor.
- (b) The Lessee may, at its own costs, place its name at the entrance of the Object in the font and size approved by the Lessor. If the Lessee carries on business in another name, it shall notify the Lessor of such name, and may exhibit such name at the entrance only with the written consent of the Lessor. Without the prior written permission of the Lessor, the Lessee may not change the name of its business.

(4) Purpose

The Lessee may not use or allow the use of the Object for any purpose other than office as explicitly prescribed in the Lease.

(5) Illegal or unethical use

The Lessee may not use or allow the use of the Object for any illegal or unethical purpose.

(6) Passage obstruction

The Lessee may not obstruct or allow the obstruction of the entrance, stairs, platforms, passages, escalators, elevators, lobby and other public parts of the office building with boxes, packaging scraps and obstructions in other natures.

When it deems fit, the Lessor has the right to move away the abovementioned debris or other items or things without notice to the Lessee, with all related expenses to be borne by the Lessee.

(7) Wires and cables in public areas

The Lessee may not lay or install attached electric wires, cables or other items and things at the entrance and exit, stairs, passages, lobby and other places in public areas of the building.

(8) Sublease and assignment

Without the written consent of the Lessor, the Lessee may not transfer, sublease, waive or assign the Object leased or any part thereof or any interest thereon, nor make any arrangement or transaction, that results in a non-party to the Lease acquiring or enjoying the right to use, take on lease and occupy the Object leased or any part thereof, regardless of whether rent or other considerations have been paid for such acquisition.

(9) Violation of insurance terms

The Lessee may not carry out or allow others to carry out any act or thing that will or may invalidate the fire insurance, third-party liability insurance and insurance covering other risks of the building.

The Lessee may not carry out or allow others to carry out any act or thing that will increase the premium. If any act or thing conducted or allowed to be conducted by the Lessee increases the premium, the Lessor shall be entitled to recover from the Lessee the increment, without prejudice to any other remedy available to the Lessor.

(10) Air conditioning

Except with the written permission of the Lessor and the property management company designated by the Lessor, the Lessee may not additionally install air conditioning facilities other than those provided by the Lessor.

(11) Parking

The Lessee may not park in parking spaces assigned to other vehicles, public driveways, entrance and exit for vehicles or other areas specified for loading and unloading purposes, nor allow its employees, agents, contractors or visitors to do so.

(12) Use of name

The Lessee may only use the name "SOHU.COM Internet Plaza Office Building" or the name and logo of the building or any part thereof to indicate its address and business location. Without the prior written approval of the Lessor, the Lessee may not use or allow the use of any picture, name or logo or those which are wholly or partially similar to any name and logo of the Lessor, "SOHU.COM Internet Plaza Office Building" and the building to serve its business, operations and other purposes.

(13) No auction or solicitation

The Lessee may not organize or allow the organization of any auction in the Object leased.

The Lessee may not permit any of its employees or agents to solicit any business or hand out any leaflet, circular or publicity material within the redline scope of SOHU.COM Internet Plaza Office Building.

(14) Damage to the main structure, equipment and facilities

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee may not carve on, damage, drill holes on, mark or destroy the doors, windows, walls, beams, structure and any other parts of the Object as well as any sewer line, sanitation and air conditioning facility thereof or allow any foregoing behavior.

(15) Damage to wall surface, ceiling and ground

Without the prior written approval of the Lessor and the property management company designated by the Lessor, the Lessee may not drive nails, screws, inlaid hooks, brackets or other similar items on the ceiling, wall surface and ground of the Object leased, nor destroy the ground.

(16) Damage to public areas

The Lessee may not damage, ruin or destroy the feature, stairs and elevators placed in the public areas of the building, including surrounding trees, plants and shrubs, etc.

(17) Disturbance or interference

The Lessee may not cause or allow any possible disturbance to the Lessor, other users or tenants in the building, nor interfere with adjacent user or tenants.

(18) Noise

At no time may the Lessee make or allow the making of any disturbing or stimulating noise in the Object, or make any music or noise (including broadcasting or voice produced by any device or equipment that can generate or copy, receive or record) audible from outside the Object.

(19) Dormitory or home use

The Lessee may not use the Object or any part thereof as dormitory.

(20) Manufacturing and storage of goods

The Lessee may not use or allow the use of the Object for production and manufacturing or storage of goods and commodities, except for the samples and exhibits stored reasonably required for the business permitted hereunder.

(21) Toilet facilities

The Lessee may not use or allow the use of toilet facilities provided by the Lessor in the public areas of the Object or the building for any purposes other than their designed purposes.

The Lessee may not and shall not allow others to throw any irrelevant item into toilet facilities, and shall pay all expenses as required by the Lessor for damage, breakage, blocking or spoil caused by the Lessee's violation of the current clause.

(22) Meal preparation and preventing the disperse of odor

The Lessee may not cook or allow or tolerate anyone to cook any food in the leased units (other than oven heating of food by the Lessee's employees in tea rooms), and may not procure or allow any disgusting smell or odor from generating or emitting.

(23) Animals, pets and spread of pests

The Lessee may not breed or allow others to breed any animal or pet in the Object. The Lessee shall take all measures required by the Lessor to prevent the Object or any part thereof from pest invasion at its own costs, shall hire disinfestation companies with Beijing pest control service agency qualifications at its own costs, and shall insecticide on a regular basis as instructed by the Lessor or the property management company designated by the Lessor.

(24) Antenna

The Lessee may not install any antenna on the roof or walls of the building or the ceiling or wall surface of the Object. Moreover, the Lessee may not interfere, move dismantle or change the antenna provided by the Lessor, if any.

(25) Explosives or hazardous articles

The Lessee may not deposit or allow the storage of any weapon, ammunition, potassium nitrate, kerosene or other explosive, inflammable or hazardous articles in the Object.

V. Exceptions

Except due to the fault of the Lessor, the property management company designated by the Lessor or their respective employees or agents, the Lessor shall undertake no responsibility to the Lessee, any user or others upon any of the following circumstances:

(1) Elevators, air conditioning and others

Personal injury or property damage suffered by the Lessee, any user or others as a result of quality defects or stoppage of elevators, firefighting and security settings, air conditioning equipment and other equipment of the building;

(2) Supply of power and water

Personal injury or property damage suffered by the Lessee, any user or others because of supply fault, stoppage, explosion and suspension of power and water to the building and the Object;

(3) Fire, flood and plague of insects

Personal injury or property damage suffered by the Lessee, any user or others due to fire, overflow or water leakage in any part of the building, or water flowing into the building or the Object, or mouse and other insects in the building;

(4) Security

Regarding the quality, security or custody of the Object or any individual or goods therein, especially without limiting the generality of the foregoing, the security guards and administrators or mechanic or electric alarm systems of any nature provided by the Lessor or the property management company designated by the Lessor shall constitute no safety responsibility of the Lessor or the property management company designated by the Lessor to the Object or any article therein, instead, the Lessee shall always take full responsibility for the safety of the Object and the items therein;

(5) Incompliance

Losses and damages caused by the Lessee or the third party failing to perform applicable regulations or to comply with Part IX of these Detailed Rules.

VI. Reduction of Rent

When the Object and any part thereof is damaged or the Object becomes unfit for use or lease due to fire, severe weather, act of God, force majeure or other events not directly or indirectly caused by acts or faults of the Lessee (in this case, the Lessee shall timely notify the Lessor in writing), upon consensus between the parties, the Lessee may stop paying rent and property management fees in respect of the part of the Object damaged, until the Object is repaired and restored.

When economically unreasonable and impractical, the Lessor has no obligation to repair or rehabilitate the Object; or, if the entire Object or the substantial part of the Object is destroyed or unfit for reuse and lease, in both cases, the parties hereto shall be entitled to terminate the Lease by giving to the other party a written notice, without prejudice to the rights and compensation available to either party in respect of any prior claim or violation of the Lease, or rights and compensation available to the Lessor in respect of rent, property management fees and other expenses payable hereunder accrued before the effectiveness of termination. In such case, the Lessor shall return the deposit for the premises.

VII. Default

Both parties further agree and acknowledge as follows:

(1) Default

Upon the occurrence of any of the following, the Lessor shall be entitled to terminate the Lease, to take back the Object leased by the Lessee 30 working days after informing the Lessee in writing in advance, and to claim the Lessee for compensation of its losses if:

- (a) The rent or property management fees or other expenses payable by the Lessee hereunder remain unpaid within 30 working days after the due date;
- (b) If the Lessee fails to comply with and perform any term and condition hereunder that the Lessee shall comply with and perform and causes material damage to the Lessor; or the Lessee fails to rectify the above default within 30 days after the expiration of the period notified by the Lessor in writing;
- (c) The Lessee goes bankrupt or starts liquidation as a corporation, or is applied for liquidation, or becomes insolvent, or has made arrangement with its creditors, or has exerted any legal arrangement on the Object leased by the Lessee;
- (d) The main structure of the Object is substantially damaged due to reasons of the Lessee, and the Lessee fails to make compensation within 30 days after the expiration of the period notified by the Lessor in writing.

This right of the Lessor will not prevent it from exercising the right to lodge a lawsuit in the event that the Lessee breaches the Lease or fails to comply with or perform any term and condition of the Lease, nor prevent it from exercising the right to deduct the losses incurred therefrom from the deposit paid by the Lessee and to confiscate the deposit in accordance with Article VIII of these Detailed Rules.

Notwithstanding the foregoing, the Lessor or the property management company designated by the Lessor has the right to cut off water, power or air conditioning of the Object leased by the Lessee without any responsibility, provided that the Lessee shall be notified of such intention three days in advance. The expenses incurred by the Lessor or the property management company designated by the Lessor due to cut-off and re-connecting of water, power or air conditioning shall be borne by the Lessee, which may be recovered by the Lessor from the Lessee or deducted from the deposit paid by the Lessee in accordance with Article VIII of these Detailed Rules.

(2) Exercise of rights

Instead of actually entering the Object, the Lessor sending to the Lessee a written notice of taking back the Object in the form prescribed by the Lease will be deemed as fully exercising the right. The Lessor will be deemed to have taken back the Object and the Lessee be deemed to have been expelled from the Object seven days after the Lessor delivers such a written notice (that is, the evacuation period for the Lessee). During the evacuation period, if the Lessee fails to restore the Object to the state described in the confirmation document signed upon acceptance of the Object, the Lessor shall be entitled to freely dispose any item left by the Lessee in the Object without taking any responsibility to the Lessee, and all expenses resulting therefrom shall be borne by the Lessee.

When the Lessee returns the Object, if there remains some items, fixtures or fittings in the Object, the Lessee hereby declares a waiver of its ownership of such properties, and consents to free disposal by the Lessor of such properties (including but not limited to abandonment, selling off or other means), with all proceeds thereof to the account of the Lessor (if any) and all expenses involved to be borne by the Lessee (if any). The Lessor shall assume no responsibility to the Lessee or any other person for any loss or damage caused by such disposal or any other treatment method.

(3) Acceptance of rent and property management fees

The acceptance of rent by the Lessor and the acceptance of property management fees by the property management company designated by the Lessor shall not be deemed as an automatic waiver of their right to prosecute the Lessee for default, incompliance with or nonperformance of terms and conditions it shall comply with and perform.

(4) Acts of contractors, employees, agents and visitors

For the purpose of the Lease, any act of any employee, visitor, contractor, representative or agent of the Lessee or user of the Object shall be deemed as act of the Lessee.

(5) Payment order

The failure of the Lessee to pay the rent and property management fee for the Object in the time and manner prescribed by the Lease shall constitute delay in payment. In such case, the Lessor or the property management company designated by the Lessor may apply to the people's court for a payment order in accordance with the *Civil Procedure Law of the People's Republic of China*, with all related expenses incurred therefrom to be borne by the Lessee.

(6) Overdue fines

Without prejudice to any other right and remedial measure available to the Lessor upon default, if the rent, property management fees, any other expenses or a part thereof hereunder haven't been paid in the way and time prescribed in Articles 4 to 6 of the Lease and Part I of the Detailed Rules, the Lessee shall pay overdue fines equivalent to 0.1% of the aggregate amount due but unpaid each day from the due date to the actual payment date (both the due date and the actual payment date are included).

(7) Commitment

Unless otherwise specified herein, in no event (except force majeure) may the Lessee terminate the Lease in advance during the Tenancy Term, if the Lease is early terminated or becomes unfulfillable due to reasons of the Lessee, the Lessor is not liable to return to the Lessee the paid deposit. The Lessor may not terminate the Lease for no cause, or otherwise, it shall be liable for breach of contract.

VIII. Deposit

(1) Deposit

Simultaneously with the execution of the Lease, the Lessee shall pay to the Lessor the deposit prescribed in Article 5 of the Lease, so as to ensure the compliance with the terms and conditions the Lessee shall comply with and perform.

The deposit shall be preserved free of interest by the Lessor on behalf of the Lessee.

(2) Withholding and deduction of deposit

In the instance the Lessee violates any term or condition of the Lease, the Lessor shall be entitled to urge actual performance and deduct from the deposit: the expenses due but unpaid by the Lessee, the charges required to be assumed by the Lessee according to the Lease or provisions of laws and regulations, or losses suffered by the Lessor because of default, incompliance or nonperformance of the Lessee.

(3) Complement of deposit

Pursuant to the Lease, in case the rent and property management fees increase in the Tenancy Term, or the deposit becomes insufficient as deducted by the Lessor due to default of the Lessee, the Lessee shall, within ten working days after the receipt of a written notice from the Lessor or the property management company designated by the Lessor, make up the deposit.

Complementing the deposit is a prerequisite for further performance of the Lease. If the Lessee fails to do so, the Lessor shall be entitled to exercise all remedies and rights available.

(4) Return of deposit

Subject to the above provisions, the deposit shall be returned in Renminbi free of interest to the Lessee at the latest of thirty days after the Object vacated is handed over to the Lessor upon expiration of the Lease, or thirty days after the resolution of claims arising from default, incompliance with or nonperformance of the terms and conditions of the Lease and from incompliance and nonperformance of regulations that the Lessee shall comply with and perform, or thirty days after the settlement of the Lessee's accounts with the telecommunications company and the power corporation, except the part that the Lessor has the right to deduct, withhold or offset pursuant to the Lease.

(5) Change of Lessor

If the Lessor changes during the Tenancy Term, all rights and obligations in respect of the deposit paid by the Lessee or the deposit remaining after the Lessor exercises its deduction right according to the Lease shall be succeeded by the new lessor. In this case, the Lessor shall make sure the Lessee's rights will not be adversely affected by such change of lessor.

IX. Rules

(1) Formulation of rules

To facilitate the building to become a first-class office building, as long as good for the operation management and maintenance of the building, the Lessor or the property management company designated by the Lessor has the right to publish, introduce, modify, adopt or abolish any rules in writing at any time, provided that the Lessee shall be informed in advance. When the formulation and update of any rules cause a significant impact on the Lessee's rights, the Lessee shall be entitled to raise an objection and retains the right to recover its losses from the Lessor.

(2) Conflict

Such rules are merely supplementary to these terms and conditions of the Lease, which will not invalidate the latter. In the case of controversy between such rules and these terms and conditions hereof, the terms and conditions of the Lease shall prevail.

X. Interpretation and Miscellaneous

(1) Marginal notes, headings and indexes

The marginal notes, headings and indexes are for guidance only, and shall not constitute an integral part of the Lease, which shall not be given consideration to or affect or restrict the interpretation or clarification of any provision hereof.

(2) No waiver by tolerance

The Lessor's tolerance, forgiveness or excuse of one-off or repeated nonperformance, violation, incompliance or non-execution of responsibility hereunder by the Lessee doesn't imply a waiver of rights regarding continuous or further nonperformance, violation, incompliance or non-execution by the Lessee, nor eliminate or affect the Lessor's rights or compensation available hereunder in respect of such continuous or further nonperformance of violation.

Unless the Lessor waives its rights in written statement, no act or omission of the Lessor implies waiver of rights or infers as waiver.

Any approval given by the Lessor applies only to certain issues specifically approved, which shall not operate as simultaneous waiver of other rights available to the Lessor nor exempt the Lessee from further applying to the Lessor for any other specific written approval.

(3) Service of notice

Any notice required to be given shall be written in Chinese, and sent by double-registered letter, express mail, personal delivery, facsimile or any other means permitted by law to the legal address or the latest contact address provided by the other party from time to time.

The parties specifically agree that, the above notices and other correspondences shall be deemed effectively delivered on:

- (a) The date listed in the receipt if sent by double-registered letter or express mail;
- (b) The date of personal delivery;
- (c) The transmission time indicated in the fax report or the date on which the recipient acknowledges receipt if sent by facsimile;
- (d) After the Object is delivered to the Lessee, the Lessor may serve notices to the Lessee by posting announcements in visible places near the Object, and the notices shall be deemed delivered on the date of announcement.

(4) Naming of the building

The Lessor retains the right to rename SOHU.COM Internet Plaza Office Building at its own discretion and the right to change, replace or cancel the original name at any time or from time to time, without any compensation to the Lessee. However, if the Lessor chooses to do so, an announcement regarding the notice of relevant government agency shall be posted in the building in advance.

(5) Replacement of property management company

To facilitate the building to become a first-class office building, the Lessor has the right to select and replace property management companies.

(6) Applicable law and jurisdiction

The Lease shall be governed and construed by the laws of the People's Republic of China (excluding laws of Hong Kong, Macao and Taiwan). Any dispute between the parties that cannot be solved through consultation may be solved by means of lawsuits.

(7) Business license

Before the execution of the Lease, if applicable, the Lessee shall present to the Lessor its business license or registration certificate approved by the government of the People's Republic of China, and the original power of attorney authorizing representatives of the Lessee to enter into the Lease as Annex IV hereto.

(8) Written in Chinese and signature

The Lease is written and signed in Chinese. Any English translated version provided by the Lessor shall be used for reference only. The Lessor hasn't guaranteed the consistency between the contents, wording and expressions in the English version and the Chinese version, and in the case of controversy or difference, the Chinese version shall prevail.

(9) Modification, supplementary, deletion and alteration to the Lease

No modification, supplementary, deletion or alteration to the Lease shall be valid unless made in writing, signed by duly authorized representatives of the parties and affixed with their common seals.

The above common seals shall be deemed to have been affixed on the date signed by the foregoing authorized representatives.

(10) Counterparts and legal force

The Lease, its annexes and Detailed Rules have been made in quadruplicate, with each party holding two copies, all being of the same legal effect.

Beijing Sohu New Media Information Technology Co., Ltd. (seal)

By:

Beijing Sogou Technology Development Co., Ltd. (seal)

By:

Date: 2019

CHANGYOU.COM LIMITED
2019 SHARE INCENTIVE PLAN

1. Purposes of this Plan

This 2019 Share Incentive Plan (this “Plan”) is intended to provide incentives: (a) to the directors, officers, employees, consultants and advisors of Changyou.com Limited, a Cayman Islands company (the “Company”), and any present or future parents or subsidiaries or variable interest entities (“VIEs”) of the Company by providing them with opportunities to (i) acquire Ordinary Shares of the Company pursuant to options (“Options”) granted hereunder, (ii) to receive Restricted Share Unit awards (“RSU”), and (iii) to make direct purchases of Ordinary Shares of the Company, subject to vesting (“Restricted Shares”). In addition to Options, RSUs, and Restricted Shares, other Awards involving Ordinary Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based upon or settled in, Ordinary Shares, including (without limitation) unrestricted Shares, performance units, share appreciation rights, dividend equivalents, and convertible debentures, may be granted or sold under this Plan.

2. Definitions

“Applicable Laws” means laws of the Company’s jurisdictions of incorporation and operation and requirements relating to the granting or sale of equity incentives and the administration of equity share incentive plans under the laws of any country or other jurisdiction where Awards are issued or sold under this Plan, and under the rules of any securities exchange on which the Company’s Ordinary Shares are listed.

“Award” means an Option, RSU, Restricted Share, or other share-based award or right granted or sold pursuant to the terms of this Plan.

“Award Agreement” means a written or electronic document or agreement setting forth the terms and conditions of a specific Award.

“Board” means the Board of Directors of the Company.

“Compensation Committee” means the full Board or a Compensation Committee appointed by the Board, which Compensation Committee will be constituted to comply with Applicable Laws and which will administer this Plan in accordance with Section 4 below.

“Company” means Changyou.com Limited, a company incorporated under the laws of the Cayman Islands.

“Consultant” means any person who is engaged by the Company or any Parent or Subsidiary or VIE to render consulting or advisory services to such entity, but is not an employee of the Company or any Parent or Subsidiary or VIE.

“Director” means a member of the Board.

“Disability” means any total and permanent disability which prevents a Service Provider from continuing in such capacity.

“Employee” means any person employed by the Company or any Parent or Subsidiary or VIE of the Company. A person will not cease to be an Employee solely by virtue of also being a Director of the Company. A Service Provider will not cease to be an Employee in the case of:

(i) any leave of absence approved by the Company; or

(ii) transfers between locations of the Company or between the Company, any Parent, any Subsidiary, any VIE, or any successor to the Company or any Parent, Subsidiary, or VIE.

“Exchange” means NASDAQ, the New York Stock Exchange or any other internationally recognized stock exchange of similar prestige and liquidity.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended and in effect on any given date.

“Fair Market Value” as of any given date means, unless otherwise defined in an Award Agreement, if the Ordinary Shares are listed on an Exchange, the closing price for the Ordinary Shares on such exchange, or if Shares were not traded on such exchange on such given date, then on the next preceding date on which Shares were traded, all as reported in The Wall Street Journal or such other resource as the Compensation Committee deems reliable. If the Ordinary Shares are listed on an Exchange, in the event that an Award is granted on any given date prior to the time that trading has ended on the applicable exchange on such date, Fair Market Value may be determined as of the date preceding such grant. If the Ordinary Shares are not listed on an Exchange, Fair Market Value shall be determined by the Compensation Committee in its good faith discretion, using such methods of appraisal and valuation as it deems appropriate, including without limitation the Fair Market Value of any class of common equity of the Company, with economic rights comparable to those of the applicable class, that is listed on an Exchange.

“Holder” means the holder of an outstanding Award granted or issued under this Plan.

“Memorandum and Articles of Association” means the Second Amended and Restated Memorandum and Articles of Association of the Company, as amended and effective from time to time.

“Option” means an option granted pursuant to this Plan to purchase Ordinary Shares.

“Ordinary Shares” means the Class A Ordinary Shares in the capital of the Company, having the rights, restrictions, privileges and preferences set forth in the Memorandum and Articles of Association of the Company.

“Outside Director” means a member of the Board who is not an Employee or Consultant.

“Parent” means any entity which holds directly or indirectly more than fifty percent of the voting equity of the Company.

“Plan” means this 2019 Share Incentive Plan, as amended from time to time.

“Restricted Share” means an Ordinary Share issued subject to forfeiture or repurchase by the Company until vested.

“Restricted Share Unit” or “RSU” means a grant of a hypothetical number of Ordinary Shares, to be settled upon vesting in either Ordinary Shares or cash, as determined by the Compensation Committee.

“Service Provider” means an Employee, Director, or Consultant.

“Share” means an Ordinary Share.

“Subsidiary” means any entity in which the Company holds directly or indirectly more than fifty percent of the voting equity.

“Tax Law” means the relevant tax legislation of an applicable jurisdiction, as amended from time to time and in effect on any given date.

“Underlying Shares” means the Ordinary Shares subject to Options or issuable upon vesting and settlement of RSUs.

“U.S. GAAP” means generally accepted accounting principles in the United States as in effect from time to time.

“U.S. Incentive Stock Options” means Options intended to qualify as incentive stock options within the meaning of Section 422 of the U.S. Internal Revenue Code.

“U.S. Internal Revenue Code” means the U.S. Internal Revenue Code of 1986, as amended from time to time and in effect on any given date.

“U.S. Non-Qualified Stock Option” means an Option not intended to qualify as a U.S. Incentive Stock Option.

“VIE” of the Company means an entity that is a variable interest entity of the Company under U.S. GAAP and is consolidated with the Company.

Except where otherwise indicated by the context, the masculine gender will include the feminine gender, and the definition of any term herein in the singular also will include the plural.

3. Shares Subject to this Plan

(a) *Number of Shares Available*

Subject to the provisions of Section 3(b) and Section 10 of this Plan, the maximum number of Ordinary Shares that may be subject to Awards granted and sold under this Plan is 3,000,000 Class A Ordinary Shares. At all times during the term of this Plan and while any Awards are outstanding, the Company will retain as authorized and unissued Ordinary Shares, or as treasury shares, at least the number of Shares from time to time required under the provisions of this Plan, or otherwise assure itself of its ability to perform its obligations hereunder.

(b) *Treatment of Expired, Unvested Shares*

If an Award expires or terminates for any reason or becomes unexercisable without having been exercised or settled in full, the unissued Shares which were subject thereto will become available for future grant, issuance or sale under this Plan. Shares that have actually been issued under this Plan will not be returned to this Plan and will not become available for future distribution under this Plan, except that if Restricted Shares are repurchased by the Company at their original purchase price and cancelled, such Shares will become available for future grant or issuance under this Plan.

4. Administration of this Plan

(a) Compensation Committee

This Plan will be administered by the Compensation Committee. If the Company has any class of equity security registered under Section 12 of the Exchange Act, and the Company is not a “foreign private issuer” as that term is defined in Rule 3b-4 under the Exchange Act, with the result that the Company’s executive officers and directors become subject to Section 16 of the Exchange Act, this Plan generally will be administered so as to cause transactions in securities issued or to be issued under this Plan to be afforded the exemptions from Section 16(b) of the Exchange Act provided by Rule 16b-3 under the Exchange Act or any similar successor statute or rules.

(b) Powers of the Compensation Committee

Subject to the provisions of this Plan and, in the case of the Compensation Committee, the specific duties delegated by the Board to the Compensation Committee, and subject to the approval of any relevant authorities, the Compensation Committee will have the authority in its discretion:

(i) to determine the Fair Market Value;

(ii) to determine the types of Awards to be granted.

(iii) to select the Service Providers to whom Awards may from time to time be made;

(iv) to determine the number of Shares or RSUs to be covered by each Award granted;

(v) to approve forms of Award Agreement;

(vi) to determine the terms and conditions of any Award. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Options may be exercised, RSUs may be vested or Restricted Shares may no longer be subject to repurchase by the Company, or Options, RSUs or Restricted Shares may be forfeited (which in each case may be based on performance criteria), any vesting acceleration or waiver of restrictions, and any restriction or limitation regarding any Award or Ordinary Shares relating thereto, based in each case on such factors as the Compensation Committee may determine; provided, that in no event may any Option or comparable Award granted under this Plan be amended, other than pursuant to Section 10, to decrease the exercise price thereof or otherwise be subject to any action that would be treated, for accounting purposes, as a “repricing” of such Option, unless such amendment or action is approved by the Company’s shareholders;

(vii) to determine whether and under what circumstances an RSU may be settled in cash instead of Ordinary Shares;

(viii) to prescribe and amend provisions relating to this Plan, including provisions relating to sub-plans established for the purpose of qualifying for preferred tax treatment under applicable Tax Law;

(ix) to allow holders of Options or other Awards to satisfy withholding tax obligations by electing to have the Company withhold from the Shares to be issued upon exercise of an Option or other Award that number of Shares having a Fair Market Value equal to the amount required to be withheld. The Fair Market Value of the Shares to be withheld will be determined on the date that the amount of tax to be withheld is to be determined. All elections by Holders to have Shares withheld for this purpose will be made in such form and under such conditions as the Compensation Committee may deem necessary or advisable; and

(x) to construe and interpret the terms of this Plan and Awards granted pursuant to this Plan.

(c) *Effect of Compensation Committee's Decisions*

All decisions, determinations and interpretations of the Compensation Committee under this Plan will be final and binding on all recipients and, if applicable, transferees of Awards under this Plan.

5. Eligibility

(a) *Service Providers*

Awards may be granted to Service Providers; provided, however, that U.S. Incentive Stock Options may be granted only to Employees of the Company, a Parent, a Subsidiary or a VIE and generally will be granted only to persons who are, or are expected to be, subject to tax on income under the U.S. Internal Revenue Code.

(b) *No Right to Continued Employment*

Neither this Plan nor any Award will confer upon any recipient or other holder of an Award any right with respect to continuing such recipient's or holder's relationship as a Service Provider with the Company, nor will it interfere in any way with his or her right or the Company's right to terminate such relationship at any time, with or without cause.

6. Term of Options and RSUs

The term of each Option, RSU or other Award will be stated in the Award Agreement. Notwithstanding the foregoing, with respect to U.S. Incentive Stock Options the term will be no more than ten (10) years from the date of grant thereof and with respect to U.S. Incentive Stock Options granted to a Holder who, at the time the Option is granted, owns shares representing more than ten percent of the voting power of all classes of shares of the Company or any Parent or Subsidiary or VIE, the term of such U.S. Incentive Stock Option will be five (5) years from the date of grant thereof or such shorter term as may be provided in the Award Agreement.

7. Option Exercise Price, Restricted Share Purchase Price, and Form of Consideration

(a) *Exercise Price of Options and Purchase Price of Restricted Shares*

The exercise price for Shares to be issued upon exercise of an Option and the purchase price of Restricted Shares will be such price as is determined by the Compensation Committee, provided that with respect to a U.S. Incentive Stock Option, the exercise price for Shares to be issued upon exercise of such option will not be less than the Fair Market Value on the date of grant. With respect to a U.S. Incentive Stock Option granted to an person who, at the time the U.S. Incentive Stock Option is granted, owns shares representing more than ten percent of the voting power of all classes of shares of the Company or any Parent or Subsidiary, the per Share exercise price will not be less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(b) Form of Consideration

The consideration to be paid for Shares to be issued upon exercise of an Option and for Restricted Shares, including the method of payment, will be determined by the Compensation Committee. Such consideration may consist of:

(i) cash,

(ii) check payable to the order of the Company,

(iii) promissory note; provided, however, that consideration in the form of a promissory note will not be acceptable if it would constitute a personal loan to an executive officer or director of the Company prohibited by Section 402 of the U.S. Sarbanes-Oxley Act of 2002,

(iv) other Shares which (x) have been owned by the grantee for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which such Option is exercised or the aggregate purchase price of Restricted Shares being purchased,

(v) consideration received by the Company for the exercise of Options under a cashless exercise program implemented or approved by the Company in connection with this Plan, or

(vi) any combination of the foregoing methods of payment.

In making its determination as to the type of consideration to accept, the Compensation Committee will consider if acceptance of such consideration may be reasonably expected to benefit the Company.

8. Vesting of Awards

(a) Vesting Generally

Any Options granted hereunder will become vested and exercisable, any RSUs granted hereunder will vest and be settled, and any Restricted Shares issued hereunder will vest and no longer be subject to forfeiture, according to the terms hereof at such times and under such conditions as are determined by the Compensation Committee and set forth in the Award Agreement. Except in the case of an Award granted to Outside Directors and Consultants, unless the Compensation Committee determines otherwise, subject to approval of the full Board, as set forth in the Award Agreement, Options will vest and become exercisable, RSUs will vest and be settled, Restricted Shares will vest and no longer be subject to forfeiture, and other Awards will vest, in four equal annual installments beginning on the first anniversary of the date of grant or issuance of the Award or of such other vesting commencement date prior to the date of grant or issuance of the Award as specified by the Compensation Committee in its sole discretion.

(b) Settlement of RSUs

RSUs that will be settled upon vesting, subject to the terms of the Award Agreement, either by delivery to the holder of the number of Shares that equals the number of RSUs that then become vested or by the payment to the holder of cash equal to the then Fair Market Value of that number of Shares. It is contemplated that in most cases the Award Agreement will specify that settlement will be made in Shares rather than in cash.

(c) Exercise of Options

An Option will be deemed exercised when the Company receives:

- (i) written or electronic notice of exercise (in accordance with the Award Agreement) from the person entitled to exercise the Option, and
- (ii) full payment for the Shares with respect to which the Option is exercised.

Full payment may consist of any consideration and method of payment authorized by the Compensation Committee and permitted by the Award Agreement and this Plan. Shares issued upon exercise of an Option will be issued in the name of the Holder or, if requested by the Holder, in the name of the Holder and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a shareholder will exist with respect to the Shares, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly after the Option is exercised. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Shares are issued, except as provided in Section 10 below.

Exercise of an Option in any manner will result in a decrease in the number of Shares thereafter available, both for purposes of this Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

To the extent the aggregate Fair Market Value of Shares subject to U.S. Incentive Stock Options which become exercisable for the first time by a Holder during any calendar year (under all plans of the Company or any Parent or Subsidiary or VIE) exceeds \$100,000, such excess Options, to the extent of the Shares covered thereby in excess of the foregoing limitation, will be treated as Non-Qualified Stock Options. For this purpose, U.S. Incentive Stock Options will be taken into account in the order in which they were granted, and the Fair Market Value of the Shares will be determined as of the grant date of the relevant Option.

(d) Termination of Relationship as Service Provider of Holder of Options

If a Holder of Options ceases to be a Service Provider, such Holder may exercise his or her Options within such period of time as is specified in the Award Agreement to the extent that the Options are vested on the date of termination (but in no event later than the expiration of the term of the Options as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement the Options will remain exercisable until the expiration of the term set forth in the Award Agreement. If, on the date of termination, the Holder is not vested as to his or her entire Option, the Shares covered by the unvested portion of the Options will revert to this Plan. If, after termination, the Holder does not exercise his or her Options within the time specified in the Award Agreement or in this Section 8(d), as the case may be, the Options will terminate, and the Shares covered by such Options will revert to this Plan.

(e) Disability of Holder of Options

If a Holder of Options ceases to be a Service Provider as a result of the Holder's Disability, the Holder may exercise his or her Options within such period of time as is specified in the Award Agreement to the extent the Options are vested on the date of termination (but in no event later than the expiration of the term of the Options as set forth in the Award Agreement). In the absence of a specified time in the Award Agreement the Options will remain exercisable until the expiration of the term set forth in the Award Agreement.

If the Disability is not a "disability" as such term is defined in Section 22(e)(3) of the U.S. Internal Revenue Code, in the case of U.S. Incentive Stock Options, such U.S. Incentive Stock Options will automatically convert to U.S. Non-Qualified Stock Options on the day three (3) months and one day following the date such Holder ceased to be a Service Provider as a result of the Holder's Disability. If, on the date of termination, the Holder is not vested as to all of his or her Options, the Shares covered by the unvested Options will revert to this Plan. If, after termination, the Holder does not exercise his or her Options within the time specified in the Award Agreement or in this Section 8(e), as the case may be, the Options will terminate, and the Shares covered by such Options will revert to this Plan.

(f) *Death of Holder of Options*

If a Holder of Options dies while a Service Provider, the Options may be exercised within such period of time as is specified in the Award Agreement to the extent that the Options are vested on the date of death (but in no event later than the expiration of the term of such Options as set forth in the Award Agreement) by the Holder's estate or by a person who acquires the right to exercise the Options by bequest or inheritance. In the absence of a specified time in the Award Agreement, the Options will remain exercisable until the expiration of the term set forth in the Award Agreement. If, at the time of death, the Holder is not vested as to all of his or her Options, the Shares covered by the unvested Options will immediately revert to this Plan. If the Options are not so exercised within the time specified in the Award Agreement or in this Section 8(f), as the case may be, the Options will terminate, and the Shares covered by such Options will revert to this Plan.

(g) *Buyout Provisions*

The Compensation Committee may at any time offer to buy out an Award previously granted for a payment in cash or Shares, based on such terms and conditions as the Compensation Committee may establish, provided that the Company, without the approval of the Company's stockholders, may not buy out any outstanding Option where such buy out would be treated as a "repricing" for accounting purposes.

9. Awards

(a) *Rights to Receive or Purchase*

Awards may be issued either alone, in addition to, or in tandem with other Awards granted under this Plan and/or cash awards made outside of this Plan. After the Compensation Committee determines that it will offer Awards under this Plan, it will advise the offeree in writing or electronically of the terms, conditions and restrictions related to the offer, including the number of Shares that such person will be entitled to receive or purchase, the price to be paid, if any, and the time within which such person must accept such offer.

(b) *Repurchase Option; Forfeiture of Non-vested Shares*

Unless the Compensation Committee determines otherwise, the Award Agreement will grant the Company a repurchase option exercisable upon the voluntary or involuntary termination of the Holder's service with the Company for any reason (including death or Disability) in the event that the Holder purchased or otherwise received Shares under the Award Agreement and such Shares are non-vested. The purchase price for Shares repurchased pursuant to the Award Agreement will be the original price paid by the Holder and may be paid, at the Compensation Committee's option, by cancellation of any indebtedness of the Holder to the Company. The repurchase option will lapse at such rate as the Compensation Committee may determine. Except with respect to Shares purchased by Outside Directors and Consultants, unless set forth expressly in the Award Agreement, the repurchase option will in no case lapse at a rate of less than twenty-five percent per year over four years from the date of receipt or purchase. Unless the Compensation Committee determines otherwise, the Award Agreement will provide for the forfeiture of the non-vested Shares underlying an Award upon the voluntary or involuntary termination of the Holder's service with the Company for any reason (including death or Disability).

(c) Other Provisions

The Award Agreement will contain such other terms, provisions and conditions not inconsistent with this Plan as may be determined by the Compensation Committee in its sole discretion.

(d) Rights as a Shareholder

Once an Award is exercised, the Holder will have rights equivalent to those of a shareholder and will be a shareholder when his or her purchase is entered upon the records of the duly authorized transfer agent of the Company. No adjustment will be made for a dividend or other right for which the record date is prior to the date the Award is exercised, except as provided in Section 10 below.

10. Adjustments Upon Changes in Capitalization or Asset Sale

(a) Changes in Capitalization

Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under this Plan but as to which Awards have yet been granted or which have been returned to this Plan upon cancellation or expiration of an Award, as well as the price per Share covered by each such outstanding Award, will be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a reclassification of the Shares, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company. The conversion of any convertible securities of the Company will not be deemed to have been "effected without receipt of consideration." Such adjustment will be made by the Compensation Committee, whose determination in that respect will be final and binding. Except as expressly provided herein, no issuance by the Company of equity shares of any class, or securities convertible into equity shares of any class, will affect, and no adjustment by reason thereof will be made with respect to, the number or price of Shares subject to an Award.

(b) Adjustments for Share Splits and Share Dividends

If the Company at any time increases or decreases the number of its outstanding Shares, or changes in any way the rights and privileges of such Shares by means of the payment of a share dividend or any other distribution upon such Shares, or through a share split, subdivision, consolidation, combination, reclassification or recapitalization involving the Shares, then in relation to the Shares that are affected by one or more of the above events, the numbers, rights and privileges of the following will be increased, decreased or changed in like manner as if such Shares had been issued and outstanding, fully paid and nonassessable at the time of such occurrence: (i) the number of Shares as to which Awards may be made under this Plan: and (ii) the Shares included in each outstanding Award made hereunder.

(c) Dissolution or Liquidation

In the event of the proposed dissolution or liquidation of the Company, the Compensation Committee will notify each Holder as soon as practicable prior to the effective date of such proposed transaction. The Compensation Committee in its discretion may provide for a Holder to have the right to exercise his or her Options until fifteen (15) days prior to such transaction as to all of the Underlying Shares covered thereby, including Shares as to which the Options would not otherwise be exercisable. In addition, the Compensation Committee may provide that any Company repurchase option applicable to any Shares purchased pursuant to an Award will lapse as to all such Shares, provided the proposed dissolution or liquidation takes place at the time and in the manner contemplated. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(d) Consolidation or Asset Sale

If the Company is to be consolidated with or acquired by another person or entity in a sale of all or substantially all of the Company's assets or equity share capital or otherwise (an "Acquisition"), the committee or the board of directors of any entity assuming the obligations of the Company hereunder (the "Successor Board") may in its sole discretion, take one or more of the following actions with respect to outstanding Options, Shares acquired upon exercise of any Option, outstanding RSUs, or unvested Restricted Shares: (i) make appropriate provision for the continuation of such Awards by substituting on an equitable basis for the Underlying Shares the consideration payable with respect to the outstanding Shares in connection with the Acquisition; (ii) accelerate the date of exercise of such Options, vesting and settlement of RSUs, or vesting of Restricted Shares, or of any installment of any such Options, RSUs or Restricted Shares; (iii) upon written notice to the participants, 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 or RSUs in exchange for a cash payment equal to the excess of the fair market value of the shares subject to such Options or RSUs (to the extent then exercisable) over the exercise price thereof (if any); or (v) in the event of a Share sale, require that the participant sell to the purchaser to whom such Shares sale is to be made, all Shares previously issued to such participant upon exercise of any Option, pursuant to any RSU, or as Restricted Shares 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.

(e) No Fractional Shares

If any adjustment or substitution provided for in this Section 10 results in the creation of a fractional Share under any Option, the Company will, in lieu of issuing such fractional Share, pay to the Holder a cash sum in the amount equal to the product of such fraction multiplied by the Fair Market Value of a Share on the date the fractional Share otherwise would have been issued.

(f) Determination by the Compensation Committee

Adjustments under this Section 10 will be made by the Compensation Committee whose determinations with regard thereto will be final and binding upon all parties.

11. Time of Granting of Award

The date of grant of an Award will be the date on which the Compensation Committee makes the determination granting such Award, or such other date as is determined by the Compensation Committee; provided that such other date will not be prior to the date of the Compensation Committee's determination to grant such Award; provided, further, that the foregoing will not prohibit the Compensation Committee from determining, in its discretion, to specify a vesting commencement date prior to the date of the grant; and provided, further, that no grant of an Award will be binding upon the Company until it has been communicated to the Service Provider. Notice of the determination will be given to each Service Provider to whom an Award is so granted within a reasonable time after the date of such grant.

12. Non-Transferability of Awards

Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than as provided in the Award Agreement, this Plan, by will or by the laws of succession and may be exercised, during the lifetime of the Holder, only by the Holder.

13. Conditions Regarding Issuance of Shares

(a) *Legal Compliance*

Shares will not be issued pursuant to the exercise of Options, the settlement of RSUs, or the purchase of Restricted Shares unless the issuance and delivery of such Shares will comply with Applicable Laws, and the issuance of Shares will be subject to confirmation from legal counsel for the Company as to such compliance.

(b) *Investment Representations*

The Compensation Committee may require the person receiving Shares upon exercise of Options, settlement of RSUs, or purchase of Restricted Shares to represent and warrant, as a condition to such receipt, that the Shares are being purchased only for investment and not with a view to the distribution of such Shares.

(c) *Inability to Obtain Authority*

The inability of the Company to obtain authority from any regulatory body having jurisdiction will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority has not been obtained.

(d) *Withholding*

The Company's obligations to deliver Shares upon the exercise of an Award will be subject to the Holder's satisfaction of all applicable Tax Law, including withholding requirements, of all applicable jurisdictions.

14. Amendment and Termination of this Plan

(a) *Amendment and Termination*

The Board may at any time amend, suspend or terminate this Plan.

(b) *Shareholder Approval*

The Board will obtain shareholder approval of any Plan amendment to the extent necessary or desirable to comply with Applicable Laws.

(c) *Effect of Amendment or Termination*

Except as may be required by Applicable Law, no amendment, suspension or termination of this Plan will impair the rights of any Holder, unless agreed otherwise in writing between the Holder and the Compensation Committee. Termination of this Plan will not affect the Compensation Committee's ability to exercise the powers granted to it hereunder with respect to Awards granted under this Plan prior to the date of such termination.

15. Effectiveness and Term of Plan

This Plan will become effective upon its adoption by the Board and approval by the Company's shareholders. It will continue in effect, with regard to the making of Awards, for a term of ten (10) years unless sooner terminated under Section 14 above and with regard to the terms of an Award Agreement, for such longer term as may be required to give effect to that Award Agreement for a term of ten (10) years unless sooner terminated under Section 14 above.

Dated _____ 2020

**US\$250,000,000
TERM LOAN FACILITY**

for

SOHU.COM (GAME) LIMITED
as Borrower

from

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH
as Lender

FACILITY AGREEMENT

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THIS AGREEMENT is dated

2020 and made:

BETWEEN:

- (1) **SOHU.COM (GAME) LIMITED**, a company incorporated under the laws of the Cayman Islands (company number 204645) whose registered office is situated at Maples Corporate Services Limited, P.O. Box 309, Uglund House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands, as borrower (the “**Borrower**”);
- (2) **SOHU.COM LIMITED**, a company incorporated under the laws of the Cayman Islands (company number 126079) with its registered office situated at Maples Corporate Services Limited, P.O. Box 309, Uglund House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands, and is listed on NASDAQ trading under the symbol SOHU, as guarantor (the “**Guarantor**”); and
- (3) **INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH**, as lender (the “**Lender**”).

IT IS AGREED as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

“**Acquired Business Representations**” means those representations and warranties made by or in respect of the Target Company in the Merger Agreement which are material to the interest of the Lender (in its capacity as such) under the Finance Documents, but only to the extent that the Borrower has the right, according to the terms of the Merger Agreement, to terminate its obligations under the Merger Agreement, or decline to consummate the Merger, in either case as a result of a breach of any such representations and warranties.

“**Affiliate**” means, in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company.

“**All Honest**” means All Honest International Limited, a company incorporated under the laws of the British Virgin Islands (company no. 563326) whose registered office is situated at Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

“**APLMA**” means the Asia Pacific Loan Market Association Limited.

“**Authorisation**” means:

- (a) an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation, lodgement or registration; or
- (b) in relation to anything which will be fully or partly prohibited or restricted by law if a Governmental Agency intervenes or acts in any way within a specified period after lodgement, filing, registration or notification, the expiry of that period without intervention or action.

“**Availability Period**” means the period from and including the date of this Agreement to and including the date falling six (6) Months after the date of this Agreement.

Facility Agreement

“**Available Facility**” means the Facility Amount minus:

- (a) the aggregate amount of all outstanding Loans; and
- (b) in relation to any proposed Utilisation, the aggregate amount of any Loans that are due to be made on or before the proposed Utilisation Date.

“**Borrower Share Mortgage**” means the equitable share mortgage over 100% of the issued shares in the Borrower held by All Honest, as more particularly described in paragraph 1 of Schedule 4 (*Transaction Security Documents*).

“**Break Costs**” means the amount (if any) by which:

- (a) the interest which the Lender would have been entitled to receive for the period from the date of receipt of all or any part of a Loan or Unpaid Sum to the last day of the current Interest Period in respect of that Loan or Unpaid Sum had the principal amount or Unpaid Sum received been paid on the last day of that Interest Period;

exceeds:

- (b) the amount which the Lender would be able to obtain by placing an amount equal to the principal amount or Unpaid Sum received by it on deposit with a leading bank for a period starting on the Business Day following receipt or recovery and ending on the last day of the current Interest Period.

“**Business Day**” means:

- (a) in relation to the definition of “Quotation Day” and to any day on which LIBOR is to be determined, a day (other than a Saturday or a Sunday) on which commercial banks and the relevant financial markets are open for general business in London and Tokyo;
- (b) in relation to any day on which payment is to be made in US dollars, a day (other than a Saturday or a Sunday) on which commercial banks and the relevant financial markets are open for general business in New York and Tokyo; and
- (c) in relation to any other day, a day (other than a Saturday or a Sunday) on which commercial banks are open for general business in Tokyo, Hong Kong and Beijing.

“**Certain Funds Period**” means the period from and including the date of this Agreement to and including the date falling six (6) Months after the Effective Time; provided, that if such period overruns the Availability Period, such period shall instead end on the last day of the Availability Period.

“**Certain Funds Utilisation**” means a Loan made or to be made under the Facility during the Certain Funds Period.

“**Change of Control**” means:

- (a) Mr. Zhang Chaoyang (张朝阳, also known as Charles Zhang, with the PRC identity card number 110108196410319057) ceases to be the largest shareholder or the chairman of the board of directors of the Guarantor; or
- (b) the Guarantor ceases to have control of the Borrower.

For the purposes of this definition, “**control**” of the Borrower means:

- (i) the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to:
 - (A) cast, or control the casting of, more than 60% of the maximum number of votes that might be cast at a general meeting of the Borrower;
 - (B) appoint or remove all, or the majority, of the directors or other equivalent officers of the Borrower; or
 - (C) give directions with respect to the operating and financial policies of the Borrower with which the directors or other equivalent officers of the Borrower are obliged to comply; or
- (ii) the holding beneficially of more than 60% of the issued share capital of the Borrower (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital).

“**Charged Property**” means all of the assets which from time to time are, or are expressed to be, the subject of the Transaction Security.

“**Code**” means the US Internal Revenue Code of 1986.

“**Companies Law**” means the Companies Law, Cap. 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands.

“**Confidential Information**” means all information relating to any Obligor, the Group, the Finance Documents or the Facility of which the Lender becomes aware in its capacity as, or for the purpose of becoming, the Lender or which is received by the Lender in relation to, or for the purpose of becoming the Lender under, the Finance Documents or the Facility from any Obligor, any other member of the Group or any of its advisers, in whatever form, and includes information given orally and any document, electronic file or any other way of representing or recording information which contains or is derived or copied from such information but excludes information that:

- (a) is or becomes public information other than as a direct or indirect result of any breach by the Lender of Clause 29 (*Confidential Information*); or
- (b) is identified in writing at the time of delivery as non-confidential by any Obligor or any other member of the Group or any of its advisers; or
- (c) is known by the Lender before the date the information is disclosed to it in accordance with paragraph (a) or (b) above or is lawfully obtained by the Lender after that date, from a source which is, as far as the Lender is aware, unconnected with the Borrower or any other member of the Group and which, in either case, as far as the Lender is aware, has not been obtained in breach of, and is not otherwise subject to, any obligation of confidentiality.

“**Confidentiality Undertaking**” means a confidentiality undertaking substantially in a recommended form of the APLMA or in any other form agreed between the Borrower and the Lender.

“**Default**” means an Event of Default or any event or circumstance specified in Clause 20 (*Events of Default*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

“**Delegate**” means any delegate, agent, attorney or co-trustee appointed by the Lender.

“**Director’s Certificate**” means a certificate issued or to be issued by a director of each Obligor to the Lender substantially in the form set out in Schedule 3 (*Form of Director’s Certificate*).

“**Disruption Event**” means either or both of:

- (a) a material disruption to those payment or communications systems or to those financial markets which are, in each case, required to operate in order for payments to be made in connection with the Facility (or otherwise in order for the transactions contemplated by the Finance Documents to be carried out) which disruption is not caused by, and is beyond the control of, any of the Parties; and
- (b) the occurrence of any other event which results in a disruption (of a technical or systems-related nature) to the treasury or payments operations of a Party preventing that Party, or the other Party:
 - (i) from performing its payment obligations under the Finance Documents; or
 - (ii) from communicating with the other Party in accordance with the terms of the Finance Documents,
 and which (in either such case) is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“**Effective Time**” has the meaning defined in the Merger Agreement, being the completion of the Merger in accordance with the terms of the Merger Agreement.

“**Environmental Claim**” means any claim, proceeding or investigation by any person in respect of any Environmental Law.

“**Environmental Law**” means any applicable law in any jurisdiction in which any Obligor or any other member of the Group conducts business which relates to the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants.

“**Environmental Permits**” means any Authorisation and the filing of any notification, report or assessment required under any Environmental Law for the operation of the business of the any Obligor or any other member of the Group conducted on or from the properties owned or used by that Obligor or that member of the Group.

“**Escrow Agent**” means Industrial and Commercial Bank of China (Asia) Limited.

“**Escrow Agreement**” means an escrow agreement to be executed among the Borrower, the Lender, and the Escrow Agent.

“**Event of Default**” means any event or circumstance specified as such in Clause 20 (*Events of Default*).

“**Facility**” means the term loan facility made available to the Borrower under this Agreement as described in Clause 2 (*The Facility*), which consists of Facility A and Facility B.

“**Facility A**” means the one-year term loan facility made available to the Borrower under this Agreement as described in paragraph (a) of Clause 2 (*The Facility*).

“**Facility A Final Maturity Date**” means the date falling one (1) year after the first Utilisation Date under Facility A.

“**Facility Amount**” means US\$250,000,000.

“**Facility B**” means the four-year term loan facility made available to the Borrower under this Agreement as described in paragraph (b) of Clause 2 (*The Facility*).

“**Facility B Final Maturity Date**” means the date falling four (4) years after the first Utilisation Date under Facility A.

“**Facility B Repayment Date**” means each date for payment of a Facility B Repayment Instalment in accordance with Clause 6.2 (*Repayment of Loans under Facility B*).

“**Facility B Repayment Instalment**” has the meaning given to that term in Clause 6.2 (*Repayment of Loans under Facility B*).

“**Facility Office**” means the office or offices through which the Lender will perform its obligations under this Agreement.

“**Facility Period**” means the period from the date of this Agreement to the date upon which all monies owing by the Borrower to the Lender under the Finance Documents have been fully paid and the Available Facility has been reduced to zero.

“**FATCA**” means:

- (a) sections 1471 to 1474 of the Code or any associated regulations;
- (b) any treaty, law or regulation of any other jurisdiction, or relating to an intergovernmental agreement between the US and any other jurisdiction, which (in either case) facilitates the implementation of any law or regulation referred to in paragraph (a) above; or
- (c) any agreement pursuant to the implementation of any treaty, law or regulation referred to in paragraph (a) or (b) above with the US Internal Revenue Service, the US government or any governmental or taxation authority in any other jurisdiction.

“**FATCA Application Date**” means:

- (a) in relation to a “withholdable payment” described in section 1473(1)(A)(i) of the Code (which relates to payments of interest and certain other payments from sources within the US), 1 July 2014; or
- (b) in relation to a “passthru payment” described in section 1471(d)(7) of the Code not falling within paragraph (a) above, the first date from which such payment may become subject to a deduction of withholding required by FATCA.

“**FATCA Deduction**” means a deduction or withholding from a payment under a Finance Document required by FATCA.

“**FATCA Exempt Party**” means a Party that is entitled to receive payments free from any FATCA Deduction.

“**Finance Document**” means this Agreement, any Transaction Security Document, the Escrow Agreement, any Utilisation Request and any other document designated as a “Finance Document” by the Lender and the Borrower.

“**Financial Indebtedness**” means any indebtedness for or in respect of:

- (a) monies borrowed;

- (b) any amount raised by acceptance under any acceptance credit facility;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a balance sheet liability;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (f) any amount raised under any other transaction (including any forward sale or purchase agreement) of a type not referred to in any other paragraph of this definition having the commercial effect of a borrowing of money;
- (g) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the marked to market value (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount) shall be taken into account);
- (h) any counter-indemnity obligation in respect of a guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (i) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (a) to (h) above.

“**GAAP**” means, in relation to the Guarantor, generally accepted accounting principles in the United States of America.

“**Governmental Agency**” means any government or any governmental agency, semi-governmental or judicial entity or authority (including any stock exchange or any self-regulatory organisation established under statute).

“**Group**” means, collectively, the Guarantor, the Borrower and each of their respective Subsidiaries for the time being, including, for the avoidance of doubt, the Target Company Group, at and from the Effective Time.

“**Holding Company**” means, in relation to a person, any other person in respect of which it is a Subsidiary.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the PRC.

“**Indirect Tax**” means any goods and services tax, consumption tax, value added tax or any tax of a similar nature.

“**Information Package**” means all written information provided by the Borrower or the Guarantor to the Lender in relation to the Merger.

“**Initial CPs to Certain Funds Utilisations**” means the documents and other evidence listed in Part II of Schedule 1 (*Conditions Precedent*).

“**Insolvency Event**” means, in relation to any of the Borrower, the Guarantor, Merger Co. or the Target Company:

- (a) it is dissolved;

- (b) it becomes insolvent or is unable to pay its debts or fails or admits in writing its inability generally to pay its debts as they become due;
- (c) it makes a general assignment, arrangement or composition with or for the benefit of its creditors;
- (d) it institutes or has instituted against it, by a regulator, supervisor or any similar official with primary insolvency, rehabilitative or regulatory jurisdiction over it in the jurisdiction of its incorporation or the jurisdiction of its head or home office, a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation by it or such regulator, supervisor or similar official;
- (e) has instituted against it a proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or a petition is presented for its winding-up or liquidation, and, in the case of any such proceeding or petition instituted or presented against it, such proceeding or petition is instituted or presented by a person or entity not described in paragraph (d) above and:
 - (i) results in a judgment of insolvency or bankruptcy or the entry of an order for relief or the making of an order for its winding-up or liquidation; or
 - (ii) is not dismissed, discharged, stayed or restrained in each case within 45 days of the institution or presentation thereof;
- (f) it has a resolution passed for its winding-up, striking-off, official management or liquidation;
- (g) it seeks or becomes subject to the appointment of an administrator, provisional liquidator, conservator, receiver, trustee, custodian or other similar official for it or for all or substantially all its assets;
- (h) it has a secured party take possession of all or substantially all its assets or has a distress, execution, attachment, sequestration or other legal process levied, enforced or sued on or against all or substantially all its assets and such secured party maintains possession, or any such process is not dismissed, discharged, stayed or restrained, in each case within 45 days thereafter;
 - (i) it causes or is subject to any event with respect to it which, under the applicable laws of any jurisdiction, has an analogous effect to any of the events specified in paragraphs (a) to (h) above; or
 - (j) it takes any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the foregoing acts.

“Interest Payment Date” means, in respect of an Interest Period, the 1st day after the end of such Interest Period.

“Interest Period” means, in relation to a Loan, each period determined in accordance with Clause 9 (*Interest Periods and Interest Payment Dates*) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 8.4 (*Default interest*).

“Interest Reserve Account” means the bank account (or Escrow Account under the Escrow Agreement) opened and maintained, or to be opened and maintained by the Borrower with the Escrow Agent in which the Interest Reserve Funds shall be deposited, which includes any sub-division or sub-account thereof and any addition, substitute or replacement of the same.

“**Interest Reserve Funds**” has the meaning given to that term in paragraph (a) of Clause 19.21 (*Interest Reserve Account*).

“**Interpolated Screen Rate**” means, in relation to any Loan, the rate (rounded to the same number of decimal places as the two relevant Screen Rates) which results from interpolating on a linear basis between:

- (a) the applicable Screen Rate for the longest period (for which that Screen Rate is available) which is less than the Interest Period of that Loan; and
- (b) the applicable Screen Rate for the shortest period (for which that Screen Rate is available) which exceeds the Interest Period of that Loan, each as of 11:00 a.m. (Tokyo time) on the Quotation Day for US dollars.

“**LIBOR**” means, in relation to any Loan:

- (a) the applicable Screen Rate as of 11:00 a.m. (Tokyo time) on the Quotation Day for US dollars and for a period equal in length to the Interest Period of that Loan; or
 - (b) as otherwise determined pursuant to Clause 10.1 (*Unavailability of Screen Rate*),
- and if, in either case, that rate is less than zero, LIBOR shall be deemed to be zero.

“**Loan**” means, as the context requires, a loan made or to be made under the Facility or the principal amount outstanding for the time being of that loan.

“**Major Event of Default**” means an Event of Default resulting from a material breach of any Specified Representation, on any date when such a Specified Representation is made and required to be true under Clause 4.4 (*Utilisations during the Certain Funds Period*) of this Agreement.

“**Margin**” means one point seventy-five per cent. (1.75%) per annum.

“**Material Adverse Effect**” means a material adverse effect on:

- (a) the business, operations, property or condition (financial or otherwise) of any Obligor or the Group taken as a whole; or
- (b) the ability of an Obligor to perform its obligations under the Finance Documents; or
- (c) the validity or enforceability of, or the effectiveness or ranking of any Security granted or purporting to be granted pursuant to, any of the Finance Documents; or
- (d) the rights or remedies of the Lender under any of the Finance Documents.

“**Merger**” means the merger of Merger Co. and the Target Company in accordance with Part XVI of the Companies Law, pursuant to which Merger Co. will merge with and into the Target Company, with the Target Company being the surviving company resulting from the merger, then being delisted from the NASDAQ and continuing as a privately-held, indirect wholly-owned subsidiary of the Guarantor.

“**Merger Agreement**” means the merger agreement (annexing the Plan of Merger) dated 24 January 2020 and made among the Target Company, the Borrower and Merger Co..

“Merger Co.” means Changyou Merger Co. Limited, a company incorporated under the laws of the Cayman Islands (company number 358665) which was newly formed by the Borrower as its wholly-owned subsidiary for the purpose of the Merger.

“Merger Co. Share Mortgage” means the equitable share mortgage over 100% of the issued shares in Merger Co. held by the Borrower, as more particularly described in paragraph 2 of Schedule 4 (*Transaction Security Documents*).

“Merger Documents” means the Merger Agreement, and any other document designated as a “Merger Document” by the Lender and the Borrower.

“Month” means a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month, except that:

- (a) subject to paragraph (c) below, if the numerically corresponding day is not a Business Day, that period shall end on the next Business Day in that calendar month in which that period is to end if there is one, or if there is not, on the immediately preceding Business Day;
- (b) if there is no numerically corresponding day in the calendar month in which that period is to end, that period shall end on the last Business Day in that calendar month; and
- (c) if an Interest Period begins on the last Business Day of a calendar month, that Interest Period shall end on the last Business Day in the calendar month in which that Interest Period is to end.

The above rules will only apply to the last Month of any period.

“NASDAQ” means NASDAQ Global Select Market.

“Obligors” means:

- (a) the Borrower;
- (b) the Guarantor;
- (c) All Honest; and
- (d) the Target Company,

and **“Obligor”** means each one of them.

“Onshore Collateral Agent” means Industrial and Commercial Bank of China Limited, Beijing Branch.

“Original Financial Statements” means the audited consolidated financial statements of the Guarantor (which have consolidated the Borrower and the Target Company) for its fiscal year ended December 31, 2018.

“Party” means a party to this Agreement.

“Perfection Requirements” means:

- (a) in respect of the Borrower Share Mortgage entered into by All Honest:

- (i) registration of the Borrower Share Mortgage with the Registrar of Corporate Affairs of the British Virgin Islands pursuant to section 163 of BVI Business Companies Act, 2004 (as amended);
 - (ii) update of the register of charges of All Honest to reflect the Security created thereunder pursuant to section 162 of the BVI Business Companies Act, 2004 (as amended); and
- (b) any perfection requirements under or arising out of any applicable law or regulation issued, enacted or put into effect after the date of this Agreement.

“Permitted Disposals” means, in respect of the Borrower, any sale, lease, transfer or other disposal which is on arm’s length terms:

- (a) of trading stock, inventory and/or receivables made in its ordinary course of trading or ordinary course of business;
- (b) of assets in exchange for other assets comparable or superior as to type, value and quality and for a similar purpose (other than an exchange of a non-cash asset for cash);
- (c) of any intellectual property that is no longer used or useful in the Borrower’s business, and licenses of any intellectual property in the ordinary course of business; or
- (d) of obsolete or redundant plant and equipment for cash.

“Permitted Financial Indebtedness” means:

- (a) any Financial Indebtedness of the Borrower which is existing at the date of this Agreement and which has been notified by the Borrower to the Lender in writing, and any amendments, extensions or refinancings of such Financial Indebtedness provided that the principal amount is not increased;
- (b) any money borrowed by the Borrower from any other Obligor;
- (c) any Financial Indebtedness incurred under any Finance Document;
- (d) any Financial Indebtedness which is incurred by the Borrower with the Lender’s prior written consent.

“Permitted Security” means:

- (a) any Security existing as at the date of this Agreement and notified by the Borrower to the Lender in writing, the terms of which may be amended, extended or otherwise modified so long as (i) the principal amount secured thereby is not increased and (ii) such Security does not spread to encumber any new or other assets not previously encumbered thereby;
- (b) any netting or set-off arrangement entered into by the Borrower in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
- (c) any payment or close-out netting or set-off arrangement pursuant to any hedging transaction entered into by the Borrower for the purpose of:
 - (i) hedging any risk to which the Borrower is exposed in its ordinary course of trading; or

- (ii) its interest rate or currency management operations which are carried out in the ordinary course of business and for non-speculative purposes only, excluding, in each case, any Security or Quasi-Security under a credit support arrangement in relation to a hedging transaction;
- (d) any lien arising by operation of law and in the ordinary course of trading provided that the debt which is secured thereby is paid when due or contested in good faith by appropriate proceedings and properly provisioned;
- (e) any Security or Quasi-Security over or affecting any asset acquired by the Borrower after the date of this Agreement if:
 - (i) the Security or Quasi-Security was not created in contemplation of the acquisition of that asset by the Borrower; and
 - (ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by the Borrower;
- (f) any Security or Quasi-Security created pursuant to any Finance Document;
- (g) any Security or Quasi-Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Borrower in the ordinary course of trading and on the supplier's standard or usual terms and not arising as a result of any default or omission by the Borrower;
- (h) any Security or Quasi-Security created with the prior written consent of the Lender.

“**Plan of Merger**” has the meaning defined in the Merger Agreement.

“**Pledge**” has the meaning given to that term in paragraph (a)(i) of Clause 4.5 (*Condition subsequent*).

“**PRC**” means the People's Republic of China.

“**PRC Properties**” means the office building located at 65 Bajiao East Road, Shijingshan District, Beijing with the property ownership certificate numbers existing as at the date of this Agreement and notified by the Borrower to the Lender in writing, and the office building located at 18 Shijingshan Road Yi, Shijingshan District, Beijing with the property ownership certificate numbers existing as at the date of this Agreement and notified by the Borrower to the Lender in writing, each of which is owned by the Target Company.

“**PRC Subsidiaries**” means those Subsidiaries of the Borrower which are incorporated in the PRC at the relevant time.

“**Quotation Day**” means:

- (a) in relation to any period for which an interest rate is to be determined, two Business Days before the first day of that period (unless market practice differs in the London interbank market in which case the Quotation Day will be determined by the Lender in accordance with market practice in the London interbank market (and if quotations would normally be given on more than one day, the Quotation Day will be the last of those days); or
- (b) in relation to any Interest Period the duration of which is selected by the Lender pursuant to Clause 8.4 (*Default interest*), such date as may be determined by the Lender (acting reasonably).

“**Receiver**” means a receiver or receiver and manager or administrative receiver of the whole or any part of the Charged Property.

“**Relevant Jurisdiction**” means, in relation to an Obligor:

- (a) its jurisdiction of incorporation;
- (b) any jurisdiction where any of its material assets is situated;
- (c) any jurisdiction where it conducts any material portion of its business; and
- (d) the jurisdiction whose laws govern any Finance Document.

“**Repeating Representations**” means the representations and warranties in Clause 17.1 (*Status*) to Clause 17.5 (*Validity and Admissibility in evidence*), Clause 17.9 (*No misleading information*), paragraph (c) of Clause 17.10 (*Financial statements*) (insofar as it relates to information provided by the Guarantor after the date on which such representation is last made or repeated), Clause 17.11 (*Pari passu ranking*) to Clause 17.22 (*Sanctions*).

“**Representative**” means any delegate, agent, manager, administrator, nominee, attorney, trustee or custodian.

“**RMB Deposit Certificate**” means a deposit certificate issued by a reputable bank in the PRC, evidencing a deposit of RMB amount of not less than the amount which is equivalent to the Facility Amount at the exchange rate of US\$1.00 = RMB7.20 owned by the Target Company.

“**Screen Rate**” means the London interbank offered rate administered by ICE Benchmark Administration Limited (or any other person which takes over the administration of that rate) for US dollars and 3-month period displayed (before any correction, recalculation or republication by the administrator) on page LIBOR01 or LIBOR02 of the Thomson Reuters screen (or any replacement Thomson Reuters page which displays that rate), or on the appropriate page of such other information service which publishes that rate from time to time in place of Thomson Reuters. If such page or service ceases to be available, the Lender (acting reasonably and in good faith) may specify another page or service displaying the relevant rate after consultation with the Borrower.

“**Secured Liabilities**” means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of the Borrower to the Lender under each Finance Document.

“**Security**” means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

“**Specified Representations**” means the representations and warranties set out in Schedule 5 (*Specified Representations*).

“**Subsidiary**” means, with respect to any company or other entity (a “Person”), any corporation, limited liability company, partnership or other organization, whether incorporated or unincorporated, (a) of which (i) at least a majority of the outstanding shares of equity capital, or other equity interests, having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such corporation or other organization, is directly or indirectly owned or controlled by such Person or by any one or more of its Subsidiaries, or (ii) with respect to a partnership, such Person or any other Subsidiary of such Person is a general partner of such partnership; or (b) which is a consolidated variable interest entity of such Person under GAAP.

“**Target Company**” means Changyou.com Limited, a company incorporated under the laws of the Cayman Islands (company number 192730) with its registered office situated at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and is currently listed on NASDAQ trading under the symbol CYOU.

“**Target Company Group**” means the Target Company and its Subsidiaries.

“**Target Company Share Mortgage**” means the equitable share mortgage over 20% of the issued shares in the Target Company (as the surviving company resulting from the Merger) to be held by the Borrower, commencing from the Effective Time, as more particularly described in paragraph 3 of Schedule 4 (*Transaction Security Documents*).

“**Target Company Shares**” means 20% of the issued shares of the Target Company (as the surviving company resulting from the Merger), to be held by the Borrower, commencing from the Effective Time.

“**Tax**” means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

“**Tax Deduction**” has the meaning given to that term in Clause 11.1 (*Tax definitions*).

“**Transaction Documents**” means the Finance Documents and the Merger Documents.

“**Transaction Security**” means the Security created or evidenced or expressed to be created or evidenced under the Transaction Security Documents.

“**Transaction Security Documents**” means:

- (a) each of the documents described in Schedule 4 (*Transaction Security Documents*), to the extent not released and discharged by the Lender pursuant to Clause 4.5 (*Condition subsequent*);
- (b) upon execution by the Target Company, the Pledge; and
- (c) any other document entered into by any person evidencing or creating or expressed to evidence or create any Security over any asset to secure, or providing any guarantee or indemnity in respect of, the obligations of the Borrower under any of the Finance Documents.

“**Unpaid Sum**” means any sum due and payable but unpaid by the Borrower under any of the Finance Documents.

“**US**” means the United States of America.

“**US Tax Obligor**” means:

- (a) an Obligor which is resident for tax purposes in the US; or
- (b) an Obligor some or all of whose payments under the Finance Documents are from sources within the US for US federal income tax purposes.

“**Utilisation**” means a utilisation of the Facility.

“**Utilisation Date**” means the date of a Utilisation, being the date on which the relevant Loan is to be made.

“**Utilisation Request**” means a notice substantially in the form set out in Schedule 2 (*Form of Utilisation Requests*).

1.2 Construction

- (a) Unless a contrary indication appears, any reference in this Agreement to:
- (i) the “**Lender**”, the “**Borrower**”, any “**Obligor**”, the “**Onshore Collateral Agent**” or any “**Party**” shall be construed so as to include its successors in title, permitted assigns and permitted transferees to, or of, its rights and/or obligations under the Finance Documents;
 - (ii) “**assets**” includes present and future properties, revenues and rights of every description;
 - (iii) a “**Finance Document**” or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended, supplemented, extended, restated or novated from time to time (however fundamentally and even if any of the same increases the obligations of the Borrower or provides for further advances);
 - (iv) a “**guarantee**” means any guarantee, letter of credit, bond, indemnity or similar assurance against financial loss or any obligation, direct or indirect, actual or contingent, to purchase or assume any indebtedness of any person or to make an investment in or loan to any person or to purchase assets of any person where, in each case, such obligation is assumed in order to maintain or assist the ability of such person to meet any of its indebtedness;
 - (v) “**including**” shall be construed as “including without limitation” (and cognate expressions shall be construed similarly);
 - (vi) “**indebtedness**” includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent, secured or unsecured;
 - (vii) a “**person**” includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium, partnership or other entity (whether or not having separate legal personality);
 - (viii) a “**regulation**” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law) of any governmental, intergovernmental or supranational body, agency, department or of any regulatory, self-regulatory or other authority or organisation;
 - (ix) any reference in this Agreement to the “**Target Company**” shall, from the Effective Time, mean the Target Company as the surviving company resulting from the Merger unless the context otherwise requires;
 - (x) a provision of law is a reference to that provision as amended or re-enacted;
 - (xi) unless otherwise stated, a time of day is a reference to Tokyo time;
 - (xii) the plural includes the singular and vice versa; and
 - (xiii) a gender includes every gender.
- (b) Section, Clause and Schedule headings are for ease of reference only.

- (c) Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
- (d) A Default and/or an Event of Default is “continuing” if it has not been remedied or waived.
- (e) Where this Agreement specifies an amount in a given currency (the “**specified currency**”) or its “**equivalent**”, the “**equivalent**” is a reference to the amount of any other currency which, when converted into the specified currency utilising the Lender’s spot rate of exchange (or, if the Lender does not have an available spot rate of exchange, any publicly available spot rate of exchange selected by the Lender) for the purchase of the specified currency with that other currency in the Tokyo foreign exchange market at or about 11 a.m. on the relevant date, is equal to the relevant amount in the specified currency.

1.3 Currency symbols and definitions

- (a) “**US\$**”, “**US dollar**” and “**US dollars**” denote the lawful currency of the United States of America.
- (b) “**RMB**” means Renminbi, the lawful currency of the PRC.

1.4 Third party rights

- (a) Unless expressly provided to the contrary in a Finance Document a person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 (the “**Third Parties Act**”) to enforce or enjoy the benefit of any term of this Agreement.
- (b) Notwithstanding any term of any Finance Document, the consent of any person who is not a Party is not required to rescind or vary this Agreement at any time.

1.5 Consent

The Lender confirms its consent to the Merger for the purposes of section 233(8) of the Companies Law.

2. THE FACILITY

Subject to the terms and conditions of this Agreement, the Lender makes available to the Borrower a term loan facility in the principal amount equal to the Facility Amount, which consists of:

- (a) Facility A: a one-year term loan facility of a principal amount up to US\$100,000,000; and
- (b) Facility B: a four-year term loan facility of a principal amount up to US\$150,000,000.

The Parties agree and confirm that any amount under Facility B shall not be utilised unless the whole of the amount (a principal amount up to US\$100,000,000) under Facility A has been utilised.

Facility Agreement

3. PURPOSE**3.1 Purpose**

- (a) The Borrower shall apply all amounts borrowed by it under the Facility towards financing the transactions contemplated under the Merger Agreement in the following manner:
- (i) payment of the Merger Consideration (as defined in the Merger Agreement);
 - (ii) payment of the Option Consideration (as defined in the Merger Agreement); and
 - (iii) payment of other amounts to be paid in connection with the consummation of the Merger and the other transactions contemplated by the Merger Agreement, and all related fees and expenses associated therewith.
- (b) For the avoidance of doubt, no amount borrowed under the Facility may be used as the Interest Reserve Funds.

3.2 Monitoring

The Lender is not bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4. CONDITIONS OF UTILISATION**4.1 Initial conditions precedent**

Subject to Clause 4.4 (*Utilisations during the Certain Funds Period*), the Borrower may not deliver a Utilisation Request unless the Lender has received all of the documents and other evidence listed in Schedule 1 (*Conditions Precedent*). The Lender shall notify the Borrower promptly upon being so satisfied and shall remit the Loan on the Proposed Utilisation Date according to the Utilisation Request.

4.2 Further conditions precedent

The availability of a Loan (other than one to which Clause 4.4 (*Utilisations during the Certain Funds Period*) applies) is subject to the further conditions that on the date of the Utilisation Request and on the proposed Utilisation Date:

- (a) no Default is continuing or would result from the proposed Loan; and
- (b) the Repeating Representations to be made by the Borrower are true in all material respects by reference to the facts and circumstances existing on that date.

4.3 Maximum number of Loans

The Borrower may not deliver a Utilisation Request if, as a result of the proposed Utilisation, more than three (3) Loans would be outstanding.

4.4 Utilisations during the Certain Funds Period

- (a) During the Certain Funds Period, the Lender agrees to, and will, make available a Certain Funds Utilisation to the Borrower if:
- (i) the Initial CPs to Certain Funds Utilisations have been satisfied;

- (ii) on the proposed Utilisation Date, all the Acquired Business Representations are true in all material respects (without duplication of any materiality qualifier set forth therein), provided that to the extent any such representation and warranty specifically refers to an earlier date, such representation and warranty shall be true in all material respects as of such earlier date;
 - (iii) on the proposed Utilisation Date, all the Specified Representations are true in all material respects, provided that to the extent any such representation and warranty specifically refers to an earlier date, such representation and warranty shall be true in all material respects as of such earlier date;
 - (iv) the Lender has received the Utilisation Request of the proposed Certain Funds Utilisation in compliance with Clause 5.1 (*Delivery of a Utilisation Request*); and
 - (v) on the date of the Utilisation Request and on the proposed Utilisation Date:
 - (A) no Material Adverse Effect (as defined in the Merger Agreement) shall have occurred; and
 - (B) no Insolvency Event affecting the Borrower, the Guarantor, the Target Company or Merger Co. shall have occurred.
- (b) During the Certain Funds Period (save in circumstances where, pursuant to paragraph (a) above, the Lender is not obliged to make available a Certain Funds Utilisation and subject as provided in Clause 7.1 (*Illegality*)), the Lender shall not be entitled to:
- (i) cancel any part of the Facility to the extent to do so would prevent or limit the making of a Certain Funds Utilisation;
 - (ii) rescind, terminate or cancel this Agreement or exercise any similar right or remedy or make or enforce any claim under the Finance Documents it may have to the extent to do so would prevent or limit the making of a Certain Funds Utilisation;
 - (iii) refuse to make a Certain Funds Utilisation;
 - (iv) exercise any right of set-off or counterclaim in respect of a Utilisation to the extent to do so would prevent or limit the making of a Certain Funds Utilisation; or
 - (v) cancel, accelerate or cause repayment or prepayment of any amounts owing under this Agreement or under any other Finance Document to the extent to do so would prevent or limit the making of a Certain Funds Utilisation (unless the Lender's entitlement to take any such action arises as a result of a Major Event of Default having occurred and been continuing),
- provided that immediately upon the expiry of the Certain Funds Period, all such rights, remedies and entitlements (whether those relate to events or circumstances occurring or subsisting during, or prior to, on or after the expiry of the Certain Funds Period) shall be available to the Lender notwithstanding that they may not have been used or been available for use during the Certain Funds Period.

- (c) Notwithstanding paragraph (a) above or any other provision of this Agreement, if the Borrower fails to deliver to the Lender on or before the first Utilisation Date any ancillary documents or certificates (including any share certificates) relating to any Transaction Security Document after the Borrower has used its commercially reasonable effort to do so, such ancillary documents or certificates shall not constitute a condition or part of the Initial CPs to Certain Funds for the first Certain Funds Utilisation, but shall be delivered to the Lender not later than 60 days after the Effective Time.

4.5 Conditions subsequent

- (a) The Borrower shall, within three (3) Months after the first Utilisation Date, procure the Target Company to, at its own cost:
- (i) enter into a pledge agreement (or any document creating the appropriate Security) over the RMB Deposit Certificate in favour of the Onshore Collateral Agent as security for the Secured Liabilities (the "**Pledge**"), which should be in a form and substance reasonably satisfactory to the Lender;
 - (ii) within one (1) Month after the first Utilisation Date, procure the Target Company to pledge a deposit certificate evidencing a deposit of RMB amount of not less than the amount which is equivalent to US\$125,000,000 at the exchange rate of US\$1.00 = RMB7.20 owned by the Target Company, as the first part of the RMB Deposit Certificate, and complete the registration of the pledge with the relevant Governmental Agency in the PRC (if necessary); and
 - (iii) complete the registration of the Pledge with the relevant Governmental Agency in the PRC (if necessary).
- (b) After the Borrower has fully complied with paragraph (a) above to the satisfaction of the Lender and the Onshore Collateral Agent, acting reasonably, the Lender will, as soon as practicable and at the cost of the Borrower, release and discharge the Security created under the Transaction Security Documents listed in Schedule 4 (*Transaction Security Documents*).

4.6 Further condition subsequent

- (a) The Borrower shall:
- (i) within two (2) Business Days of the Effective Time, provide to the Lender a PDF of the application letter to register the Plan of Merger stamped by the Registrar of Companies of the Cayman Islands and a copy of the Plan of Merger filed with the Registrar of Companies in the Cayman Islands;
 - (ii) within five (5) Business Days of the Effective Time, provide to the Lender a certified copy of the certificate of merger issued by the Registrar of Companies in the Cayman Islands in connection with the Merger; and
 - (iii) within five (5) Business Days of the Effective Time, provide to the Lender a certified copy of the constitutional documents of the Target Company (including its statutory registers) as the surviving company resulting from the Merger and a certificate of good standing relating to the Target Company following completion of the Merger.
- (b) The Borrower shall, within five (5) Business Days from the Effective Time, provide to the Lender:
- (i) a certified copy of the Borrower's register of mortgages and charges showing that the particulars of the Security created pursuant to the Target Company Share Mortgage have been entered in the Borrower's register of mortgages and charges;

- (ii) a certified copy of the Target Company's register of members evidencing the Borrower's shareholding in the Target Company following completion of the Merger and showing the following annotation:
 "SOHU.COM (GAME) LIMITED has created a mortgage and charge over 14,350,000 Class B ordinary shares registered in its name in favour of INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH under an equitable share mortgage dated [●] between SOHU.COM (GAME) LIMITED and INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH. This note was entered on the Company's register of members on [●]"; and
- (iii) all share certificates in respect of the Borrower's shareholding in the Target Company secured or to be secured pursuant to the Target Company Share Mortgage and all other share transfer forms and deliverables to be provided under the Target Company Share Mortgage.

5. UTILISATION

5.1 Delivery of a Utilisation Request

The Borrower may utilise the Facility by delivery to the Lender of a duly completed Utilisation Request not later than 11:00 a.m. (Tokyo time) on the date which is not less than five (5) Business Days (or such shorter period as may be agreed by the Lender) before the proposed Utilisation Date.

5.2 Completion of a Utilisation Request

- (a) Each Utilisation Request is irrevocable and will not be regarded as having been duly completed unless:
 - (i) it identifies whether Facility A or Facility B to be utilised;
 - (ii) the proposed Utilisation Date is a Business Day within the Availability Period; and
 - (iii) the currency and amount of the proposed Loan comply with Clause 5.3 (*Currency and amount*).
- (b) Only one Loan may be requested in each Utilisation Request.

5.3 Currency and amount

- (a) The currency specified in a Utilisation Request must be US dollars.
- (b) The amount of the proposed Loan must be a minimum of (i) US\$10,000,000 and an integral multiple of US\$100,000 or, (ii) if less, the Available Facility.

5.4 Cancellation of Available Facility

Any part of the Facility which, at that time, is unutilised shall be immediately cancelled at 5 p.m. on the last day of the Availability Period.

6. REPAYMENT

6.1 Repayment of Loans under Facility A

The Borrower shall repay all Loan(s) drawn under Facility A and all accrued but unpaid interest thereon and all other sums then outstanding under the Finance Documents on the Facility A Final Maturity Date.

6.2 Repayment of Loans under Facility B

The Borrower shall repay all Loan(s) drawn under Facility B in three (3) instalments (each a “**Facility B Repayment Instalment**”) to be made on each Facility B Repayment Date. Each Facility B Repayment Instalment shall be in an amount set opposite to that Facility B Repayment Date in the table below:

Facility B Repayment Instalment	Facility B Repayment Date	Amount US\$
1 st	The date falling 24 Months after the first Utilisation Date of Facility A	7,500,000
2 nd	The date falling 36 Months after the first Utilisation Date of Facility A	7,500,000
3 rd	The Facility B Final Maturity Date	all remaining principal amount of the Loan(s) outstanding under Facility B

6.3 Reborrowing

The Borrower may not reborrow any part of the Facility which is repaid.

7. PREPAYMENT AND CANCELLATION

7.1 Illegality

If, at any time, it is or will become unlawful in any applicable jurisdiction for the Lender to perform any of its obligations as contemplated by this Agreement or to fund or maintain any Loan or it is or will become unlawful for any Affiliate of the Lender for the Lender to do so:

- (a) the Lender shall promptly notify the Borrower upon becoming aware of that event;
- (b) upon the Lender notifying the Borrower, the Facility will be immediately cancelled; and
- (c) the Borrower shall repay the Loans on the last day of the Interest Period for each Loan occurring after the Lender has notified the Borrower or, if earlier, the date specified by the Lender in the notice delivered to the Borrower (being no earlier than the last day of any applicable grace period permitted by law).

7.2 Mandatory prepayment

If, during the Facility Period, the Target Company receives any sum of cash proceeds from any strategic investor (which, for avoidance of doubt, shall not include any existing member of the Group), the Borrower shall promptly inform the Lender of the same and apply such sum of cash proceeds towards prepayment of the then outstanding Loans.

7.3 Voluntary prepayment of Loans

- (a) The Borrower may, if it gives the Lender not less than seven (7) Business Days' (or such shorter period as the Lender may agree) prior written notice, prepay on an Interest Payment Date the whole or any part of a Loan outstanding under Facility A or Facility B (but, if in part, being an amount that reduces the amount of that Loan by a minimum amount of US\$100,000 and in integral multiples thereof). Any prepayment under this Clause must be made together with all interest accrued thereon but unpaid.
- (b) Any prepayment of Facility B under paragraph (a) above shall not be made unless the whole of the Facility Amount (a principal amount up to US\$100,000,000) under Facility A has been prepaid.
- (c) Any prepayment of Facility B under paragraph (a) above shall be applied to and satisfy the Facility B Repayment Instalments in chronological order.
- (d) If the Borrower fails to pay the prepayment amount in full on the specified prepayment date after notice has been given to the Lender under paragraph (a) above, it shall, immediately upon demand, pay to the Lender any Break Costs incurred by the Lender.

7.4 Right of prepayment and cancellation

- (a) If:
 - (i) any sum payable to the Lender by the Borrower is required to be increased under paragraph (a) of Clause 11.2 (*Tax gross-up*); or
 - (ii) the Lender claims indemnification from the Borrower under Clause 11.3 (*Tax indemnity*) or Clause 12.1 (*Increased Costs*), the Borrower may, whilst the circumstance giving rise to the requirement for that increase or indemnification continues, give the Lender notice of cancellation of the Facility or its intention to procure the prepayment of the Loans.
- (b) On receipt of a notice of cancellation referred to in paragraph (a) above, the Facility shall immediately be reduced to zero.
- (c) On the last day of the Interest Period which ends after the Borrower has given notice of cancellation under paragraph (a) above (or, if earlier, the date specified by the Borrower in that notice), the Borrower shall prepay the Loans to the Lender.

7.5 Restrictions

- (a) Any notice of cancellation or prepayment given by any Party under this Clause 7 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- (b) Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid and, subject to any Break Costs, without premium or penalty.

- (c) The Borrower may not reborrow any part of the Facility which is prepaid.
- (d) The Borrower shall not repay or prepay all or any part of the Loans or cancel all or any part of the Available Facility except at the times and in the manner expressly provided for in this Agreement.
- (e) No amount of the Facility cancelled under this Agreement may be subsequently reinstated.

8. INTEREST

8.1 Rate of interest and calculation

The rate of interest on each Loan for each Interest Period is the percentage rate per annum which is the aggregate of:

- (a) the Margin; and
- (b) LIBOR.

8.2 Accrual of interest

Interest shall accrue on the outstanding principal balance of each Loan at the rate of interest defined in the Clause 8.1.

8.3 Payment of interest

The Borrower shall pay accrued interest on each Loan for each Interest Period on the Interest Payment Date applicable to that Interest Period.

8.4 Default interest

- (a) If the Borrower fails to pay any amount payable by it under a Finance Document on its due date, interest shall accrue on the Unpaid Sum from the due date to the date of actual payment (both before and after judgment) at a rate which is, subject to paragraph (b) below, two per cent. (2%) per annum higher than the rate which would have been payable if the Unpaid Sum had, during the period of non-payment and only until the Unpaid Sum is paid, constituted a Loan in the currency of the Unpaid Sum for successive Interest Periods, each of a duration selected by the Lender (acting reasonably). Such increase of two per cent. (2%) in the applicable interest rate shall end immediately upon payment of each Unpaid Sum. Any interest accruing under this Clause 8.4 shall be immediately payable by the Borrower on demand by the Lender.
- (b) If any Unpaid Sum consists of all or any part of a Loan which became due on a day which was not the last day of an Interest Period relating to that Loan:
 - (i) the first Interest Period for that Unpaid Sum shall have a duration equal to the unexpired portion of the current Interest Period relating to that Loan; and
 - (ii) the rate of interest applying to the Unpaid Sum during that first Interest Period shall be two per cent. (2%) per annum higher than the rate which would have applied if the Unpaid Sum had not become due.

- (c) Default interest (if unpaid) arising on an Unpaid Sum will be compounded with the Unpaid Sum at the end of each Interest Period applicable to that Unpaid Sum but will remain immediately due and payable.

8.5 Notification of rates of interest

The Lender shall promptly notify the Borrower of the determination of a rate of interest under this Agreement.

9. INTEREST PERIODS AND INTEREST PAYMENT DATES

9.1 Interest Periods; Interest Payment Dates

- (a) The duration of each Interest Period shall be three (3) Months.
- (b) No Interest Period or Interest Payment Date applicable to Facility A shall extend beyond the Facility A Final Maturity Date. Any Interest Period or Interest Payment Date applicable to Facility A which would otherwise overrun the Facility A Final Maturity Date shall instead end on the Facility A Final Maturity Date.
- (c) No Interest Period or Interest Payment Date applicable to Facility B shall extend beyond the Facility B Final Maturity Date. Any Interest Period or Interest Payment Date applicable to Facility B which would otherwise overrun the Facility B Final Maturity Date shall instead end on the Facility B Final Maturity Date.
- (d) The first Interest Period of a Loan shall start on its Utilisation Date, and each subsequent Interest Period of a Loan will start on the last day of the preceding Interest Period.

9.2 Non-Business Days

If an Interest Payment Date would otherwise fall on a day which is not a Business Day, that Interest Payment Date will instead fall on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

9.3 Consolidation of Loans

At any time when there are two or more Loans drawn under Facility A or Facility B, those Loans will be consolidated into, and treated as, a single Loan under Facility A or Facility B (as the case may be) on the last day of the current Interest Period.

10. CHANGES TO THE CALCULATION OF INTEREST

10.1 Unavailability of Screen Rate

- (a) *Interpolated Screen Rate*: If no Screen Rate is available for LIBOR for the Interest Period of a Loan, the applicable LIBOR shall be the Interpolated Screen Rate for a period equal in length to the Interest Period of that Loan.
- (b) *Cost of funds*: If no Screen Rate is available for LIBOR for:
 - (i) US dollars; or
 - (ii) the Interest Period of a Loan and it is not possible to calculate the Interpolated Screen Rate, there shall be no LIBOR for that Loan and Clause 10.3 (*Cost of funds*) shall apply to that Loan for that Interest Period.

10.2 Market disruption

If before 5 p.m. in Tokyo on the Business Day immediately following the Quotation Day for the relevant Interest Period the Borrower receives notification from the Lender (acting reasonably and in good faith) that the cost to the Lender of funding that Loan from whatever source it may reasonably select would be in excess of LIBOR then Clause 10.3 (*Cost of funds*) shall apply to that Loan for the relevant Interest Period.

10.3 Cost of funds

- (a) If this Clause 10.3 applies, the rate of interest on the relevant Loan for the relevant Interest Period shall be the percentage rate per annum which is the sum of:
 - (i) the Margin; and
 - (ii) the rate notified to the Borrower by the Lender (acting reasonably and in good faith) as soon as practicable and in any event by 5 p.m. on the date falling five (5) Business Days after the Quotation Day to be that which expresses as a percentage rate per annum the cost to the Lender of funding that Loan from whatever source it may reasonably select.
- (b) If this Clause 10.3 applies and the Lender or the Borrower so requires, the Lender and the Borrower shall enter into negotiations in good faith (for a period of not more than 30 days) with a view to agreeing a substitute basis for determining the rate of interest.
- (c) Any alternative basis agreed pursuant to paragraph (b) above shall be binding on the Parties. All provisions of this Clause 10 are further subject to the provisions of Clause 28.2 (*Replacement of Screen Rate*).

10.4 Break Costs

- (a) The Borrower shall, within five (5) Business Days of demand by the Lender, pay to the Lender its Break Costs attributable to all or any part of a Loan or Unpaid Sum being paid by the Borrower on a day other than an Interest Payment Date for that Loan or the last day of an Interest Period for that Unpaid Sum.
- (b) The Lender shall, as soon as reasonably practicable after a demand by the Borrower, provide a certificate confirming the amount of its Break Costs for any Interest Period in which they accrue.

11. TAX GROSS-UP AND INDEMNITIES**11.1 Tax definitions**

- (a) In this Clause 11:
 - “**Tax Credit**” means a credit against, relief or remission for, or repayment of any Tax.
 - “**Tax Deduction**” means a deduction or withholding for or on account of Tax from a payment under a Finance Document, other than a FATCA Deduction.

“**Tax Payment**” means an increased payment made by the Borrower to the Lender under Clause 11.2 (*Tax gross-up*) or a payment under Clause 11.3 (*Tax indemnity*).

- (b) Unless a contrary indication appears, in this Clause 11, a reference to “determines” or “determined” means a determination made in the absolute discretion of the person making the determination.

11.2 Tax gross-up

- (a) All payments to be made by the Borrower to the Lender under the Finance Documents shall be made free and clear of and without any Tax Deduction unless the Borrower is required to make a Tax Deduction, in which case, the sum payable by the Borrower (in respect of which such Tax Deduction is required to be made) shall be increased to the extent necessary to ensure that the Lender receives a sum net of any deduction or withholding equal to the sum which it would have received had no such Tax Deduction been made or required to be made.
- (b) The Borrower shall promptly upon becoming aware that the Borrower must make a Tax Deduction (or that there is any change in the rate or the basis of a Tax Deduction) notify the Lender accordingly. Similarly, the Lender shall notify the Borrower on becoming so aware in respect of a payment payable to the Lender.
- (c) If the Borrower is required to make a Tax Deduction, the Borrower shall make that Tax Deduction and any payment required in connection with that Tax Deduction within the time allowed and in the minimum amount required by law.
- (d) Within 30 days of making either a Tax Deduction or any payment required in connection with that Tax Deduction, the Borrower making that Tax Deduction shall deliver to the Lender evidence reasonably satisfactory to the Lender that the Tax Deduction has been made or (as applicable) any appropriate payment paid to the relevant taxing authority.

11.3 Tax indemnity

- (a) Without prejudice to Clause 11.2 (*Tax gross-up*), if the Lender is required to make any payment of or on account of Tax on or in relation to any sum received or receivable under the Finance Documents (including any sum deemed for the purposes of Tax to be received or receivable by the Lender whether or not actually received or receivable) or if any liability in respect of any such payment is asserted, imposed, levied or assessed against the Lender, the Borrower shall, within three (3) Business Days of demand of the Lender, promptly indemnify, to the maximum extent permitted under all applicable laws, the Lender which suffers a loss or liability as a result against such payment or liability, together with any interest, penalties, costs and expenses payable or incurred in connection therewith, provided that this Clause 11.3 shall not apply to:
- (i) any Tax imposed on and calculated by reference to the net income actually received or receivable by the Lender (but, for the avoidance of doubt, not including any sum deemed for the purposes of Tax to be received or receivable by the Lender but not actually receivable) by the jurisdiction in which the Lender is incorporated;
- (ii) any Tax imposed on and calculated by reference to the net income of the Facility Office of the Lender actually received or receivable by the Lender (but, for the avoidance of doubt, not including any sum deemed for the purposes of Tax to be received or receivable by the Lender but not actually receivable) by the jurisdiction in which its Facility Office is located; or

(iii) a FATCA Deduction required to be made by a Party.

(b) If the Lender intends to make a claim under paragraph (a) above, it shall notify the Borrower of the event giving rise to the claim.

11.4 Tax Credit

If the Borrower makes a Tax Payment and the Lender determines that:

- (a) a Tax Credit is attributable to an increased payment of which that Tax Payment forms part, to that Tax Payment or to a Tax Deduction in consequence of which that Tax Payment was required; and
- (b) the Lender has obtained and utilised that Tax Credit,

the Lender shall pay an amount to the Borrower which the Lender determines will leave it (after that payment) in the same after-Tax position as it would have been in had the Tax Payment not been required to be made by the Borrower.

11.5 Stamp taxes

The Borrower shall:

- (a) pay all stamp duty, registration and other similar Taxes payable in respect of any Finance Document; and
- (b) within five (5) Business Days of demand, indemnify, to the maximum extent permitted under all applicable laws, the Lender against any cost, loss or liability the Lender incurs in relation to any stamp duty, registration or other similar Tax paid or payable in respect of any Finance Document.

11.6 Indirect Tax

- (a) All amounts set out or expressed in a Finance Document to be payable by the Borrower to the Lender shall be deemed to be exclusive of any Indirect Tax. If any Indirect Tax is chargeable on any supply made by the Lender to the Borrower in connection with a Finance Document, the Borrower shall pay to the Lender (in addition to and at the same time as paying the consideration) an amount equal to the amount of the Indirect Tax.
- (b) Where a Finance Document requires the Borrower to reimburse or indemnify the Lender for any costs or expenses, the Borrower shall also at the same time pay and indemnify, to the maximum extent permitted under all applicable laws, the Lender against all Indirect Tax incurred by the Lender in respect of the costs or expenses to the extent that the Lender reasonably determines that it is not entitled to credit or repayment in respect of the Indirect Tax.

11.7 FATCA information

- (a) Subject to paragraph (c) below, each Party shall, within ten (10) Business Days of a reasonable request by another Party:
 - (i) confirm to that other Party whether it is:
 - (A) a FATCA Exempt Party; or
 - (B) not a FATCA Exempt Party; and

- (ii) supply to that other Party such forms, documentation and other information relating to its status under FATCA as that other Party reasonably requests for the purposes of that other Party's compliance with FATCA; and
 - (iii) supply to that other Party such forms, documentation and other information relating to its status as that other Party reasonably requests for the purposes of that other Party's compliance with any other law, regulation, or exchange of information regime.
- (b) If a Party confirms to another Party under paragraph (a)(i) above that it is a FATCA Exempt Party and it subsequently becomes aware that it is not or has ceased to be a FATCA Exempt Party, that Party shall notify that other Party reasonably promptly.
- (c) Paragraph (a) above shall not oblige the Lender to do anything, and paragraph (a)(iii) above shall not oblige any other Party to do anything, which would or might in its reasonable opinion constitute a breach of:
- (i) any law or regulation;
 - (ii) any fiduciary duty; or
 - (iii) any duty of confidentiality.
- (d) If a Party fails to confirm whether or not it is a FATCA Exempt Party or to supply forms, documentation or other information requested in accordance with paragraph (a)(i) or (a)(ii) above (including, for the avoidance of doubt, where paragraph (c) above applies), then such Party shall be treated for the purposes of the Finance Documents (and payments under them) as if it is not a FATCA Exempt Party until such time as the Party in question provides the requested information, forms, documentation or other information.

11.8 FATCA Deduction and gross-up by the Borrower

- (a) If the Borrower is required to make a FATCA Deduction, the Borrower shall make that FATCA Deduction and any payment required in connection with that FATCA Deduction within the time allowed and in the minimum amount required by FATCA, and the Borrower shall not be required to increase any payment in respect of which it makes such a FATCA Deduction or otherwise compensate the recipient of the payment for that FATCA Deduction.
- (b) The Borrower shall promptly upon becoming aware that the Borrower must make a FATCA Deduction (or that there is any change in the rate or the basis of a FATCA Deduction) notify the Lender accordingly. Similarly, the Lender shall notify the Borrower on becoming so aware in respect of a payment payable to the Lender.
- (c) Within 30 days of making either a FATCA Deduction, the Borrower making that FATCA Deduction shall deliver to the Lender evidence reasonably satisfactory to the Lender that the FATCA Deduction has been made or (as applicable) any appropriate payment paid to the relevant governmental or taxation authority.

11.9 FATCA Deduction by the Lender

The Lender may make any FATCA Deduction it is required by FATCA to make and any payment required in connection with that FATCA Deduction, and the Lender shall not be required to increase any payment in respect of which it makes such a FATCA Deduction or otherwise compensate the recipient of the payment for that FATCA Deduction. The Lender upon becoming aware that it must make a FATCA Deduction in respect of a payment to the Borrower (or that there is any change in the rate or the basis of such FATCA Deduction) shall notify the Borrower.

12. INCREASED COSTS

12.1 Increased Costs

- (a) Subject to Clause 12.3 (*Exceptions*), the Borrower shall, within five (5) Business Days of a demand by the Lender, pay for the account of the Lender the amount of any Increased Costs incurred by the Lender or any of its Affiliates as a result of (i) the introduction of or any change in (or in the interpretation, administration or application of) any law or regulation or (ii) compliance with any law or regulation made after the date of this Agreement. The terms “law” and “regulation” in this paragraph (a) shall include, without limitation, any law or regulation concerning capital adequacy, prudential limits, liquidity, reserve assets or Tax.
- (b) In this Agreement, “**Increased Costs**” means:
- (i) a reduction in the rate of return from the Facility or on the Lender’s (or its Affiliate’s) overall capital (including as a result of any reduction in the rate of return on capital brought about by more capital being required to be allocated by the Lender);
 - (ii) an additional or increased cost; or
 - (iii) a reduction of any amount due and payable under any Finance Document,
- which is incurred or suffered by the Lender or any of its Affiliates to the extent that it is attributable to the undertaking, funding or performance by the Lender of any of its obligations under any Finance Document.

12.2 Increased Cost claims

- (a) If the Lender intends to make a claim pursuant to Clause 12.1 (*Increased Costs*) it shall promptly notify the Borrower of the event giving rise to the claim.
- (b) The Lender shall, as soon as practicable after a demand by the Borrower, provide a certificate confirming in good faith the amount of its Increased Costs.

12.3 Exceptions

Clause 12.1 (*Increased Costs*) does not apply to the extent any Increased Cost is:

- (a) attributable to a Tax Deduction required by law to be made by the Borrower;
- (b) attributable to a FATCA Deduction required to be made by the Borrower or the Lender;
- (c) compensated for by Clause 11.3 (*Tax indemnity*) (or would have been compensated for under Clause 11.3 (*Tax indemnity*) but was not so compensated solely because any of the exclusions in paragraph (a) of Clause 11.3 (*Tax indemnity*) applied); or
- (d) attributable to any wilful breach by the Lender or its Affiliates of any law or regulation.

13. MITIGATION BY THE LENDER**13.1 Mitigation**

- (a) The Lender shall, in consultation with the Borrower, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to, any of Clause 7.1 (*Illegality*), Clause 11 (*Tax Gross-Up and Indemnities*) or Clause 12 (*Increased Costs*), including:
- (i) providing such information as the Borrower may reasonably request in order to permit the Borrower to determine its entitlement to claim any exemption or other relief (whether pursuant to a double taxation treaty or otherwise) from any obligation to make a Tax Deduction; and
 - (ii) in relation to any circumstances which arise following the date of this Agreement, transferring its rights and obligations under the Finance Documents to another Affiliate or Facility Office.
- (b) Paragraph (a) above does not in any way limit the obligations of the Borrower under the Finance Documents.

13.2 Limitation of liability

- (a) The Borrower shall promptly indemnify, to the maximum extent permitted under all applicable laws, the Lender for all out-of-pocket costs and expenses reasonably incurred by the Lender as a result of steps taken by it under Clause 13.1 (*Mitigation*).
- (b) The Lender is not obliged to take any steps under Clause 13.1 (*Mitigation*) if, in the opinion of the Lender (acting reasonably), to do so might be prejudicial to it.

13.3 Conduct of business by the Lender

No provision of this Agreement will:

- (a) interfere with the right of the Lender to arrange its affairs (tax or otherwise) in whatever manner it thinks fit;
- (b) oblige the Lender to investigate or claim any credit, relief, remission or repayment available to it or the extent, order and manner of any claim;
- (c) oblige the Lender to disclose any information relating to its affairs (tax or otherwise) or any computations in respect of Tax; or
- (d) oblige the Lender to do or omit to do anything which would, or might in the Lender's reasonable opinion, constitute a breach of any anti-money laundering, counter-terrorism financing, economic or trade sanction laws or regulations.

14. OTHER INDEMNITIES**14.1 Currency indemnity**

- (a) If any sum due from the Borrower under the Finance Documents (a "**Sum**"), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the "**First Currency**") in which that Sum is payable into another currency (the "**Second Currency**") for the purpose of:
- (i) making or filing a claim or proof against the Borrower; or

- (ii) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings, the Borrower shall as an independent obligation, within five (5) Business Days of demand, indemnify, to the maximum extent permitted under all applicable laws, the Lender against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (A) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (B) the rate or rates of exchange available to that person at the time of its receipt of that Sum.
- (b) The Borrower waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

14.2 Other indemnities

The Borrower shall within five (5) Business Days of demand, indemnify, to the maximum extent permitted under all applicable laws, the Lender against any cost, loss or liability incurred by the Lender as a result of:

- (a) the occurrence of any Event of Default;
- (b) any information provided by the Borrower being false or misleading in any material respect;
- (c) any enquiry, investigation, subpoena (or similar order) or litigation with respect to the Borrower or with respect to the transactions contemplated or financed under this Agreement;
- (d) a failure by the Borrower to pay any amount due under a Finance Document on its due date or in the relevant currency;
- (e) funding, or making arrangements to fund, a Loan requested by the Borrower in a Utilisation Request but not made by reason of the operation of any one or more of the provisions of this Agreement (other than by reason of default or negligence by the Lender alone); or
- (f) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower.

14.3 Further indemnities

The Borrower shall promptly indemnify, to the maximum extent permitted under all applicable laws, the Lender against any cost, loss or liability incurred by the Lender (acting reasonably) as a result of:

- (a) investigating any event which it reasonably believes is a Default;
- (b) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised; or
- (c) instructing lawyers, accountants, tax advisers, surveyors or other professional advisers or experts as permitted under this Agreement.

14.4 Indemnities relating to Security

- (a) The Borrower shall promptly indemnify, to the maximum extent permitted under all applicable laws, the Lender and every Receiver and Delegate against any cost, loss or liability incurred by any of them:
 - (i) as a result of:
 - (A) the taking, holding, protection or enforcement of the Transaction Security;
 - (B) the exercise of any of the rights, powers, discretions and remedies vested in the Lender and each Receiver and Delegate by the Finance Documents or by law; and
 - (C) any Default by the Borrower in the performance of any of the obligations expressed to be assumed by it in the Finance Documents;
 - (ii) which otherwise relates to any of the Charged Property or the performance of the terms of the Finance Documents (otherwise than as a result of the Lender's, Receiver's or Delegate's gross negligence or wilful misconduct).
- (b) The Lender and every Receiver and Delegate may, in priority to any other payment, indemnify itself out of the Charged Property in respect of, and pay and retain, all sums necessary to give effect to the indemnity in this Clause 14.4 and shall have a lien on the Transaction Security and the proceeds on the enforcement of the Transaction Security for all monies payable to it.

14.5 Indemnity relating to anti-money laundering

- (a) The Borrower shall fully indemnify, to the maximum extent permitted under all applicable laws, the Lender for any reasonable action taken by the Lender in connection with the fulfilment of any anti-money laundering and anti-terrorism requirements to the extent that such action is taken by the Lender as a direct result of any action or inaction by or on behalf of the Borrower.
- (b) The Lender shall not be liable for any loss caused in whole or in part by any action of the Lender regarding the fulfilment of any anti-money laundering and anti-terrorism requirements which may delay or prevent the processing of instructions.
- (c) The Lender shall have full recourse to the Borrower in the event that any payment or repayment previously made by the Borrower to the Lender has been found to be in breach of any anti-money laundering and anti-terrorism requirements.

15. EXPENSES**15.1 Transaction expenses**

The Borrower shall, within five (5) Business Days of demand, pay the Lender the amount of all out-of-pocket costs and expenses (including out-of-pocket legal fees, but no internal counsel legal fees) reasonably incurred by the Lender in connection with the due diligence, negotiation, preparation, printing and execution of:

- (a) this Agreement and any other documents referred to in this Agreement; and
- (b) any other Finance Document executed after the date of this Agreement.

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15.2 Amendment costs

If the Borrower requests an amendment, waiver or consent, the Borrower shall, within five (5) Business Days of demand, reimburse the Lender for the amount of all costs and expenses (including out-of-pocket legal fees, but no internal counsel legal fees) reasonably incurred by the Lender (and, any Receiver or Delegate if applicable) in responding to, evaluating, negotiating or complying with that request or requirement.

15.3 Enforcement and preservation costs

The Borrower shall, within five (5) Business Days of demand, pay to the Lender the amount of all costs and expenses (including out-of-pocket legal fees, but no internal counsel legal fees) on a full indemnity basis incurred by the Lender in connection with the enforcement of, or the preservation of any rights under, any Finance Document and the Transaction Security and any proceedings instituted by or against the Lender as a consequence of it entering into a Finance Document, taking or holding the Transaction Security or enforcing those rights.

16. GUARANTEE AND INDEMNITY**16.1 Guarantee and indemnity**

The Guarantor irrevocably and unconditionally:

- (a) guarantees to the Lender due and punctual performance by the Borrower of all the Borrower's obligations under the Finance Documents;
- (b) undertakes with the Lender that whenever the Borrower does not pay any amount when due under or in connection with any Finance Document, the Guarantor shall immediately on demand pay that amount as if it was the principal obligor; and
- (c) agrees with the Lender that if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal, it will, as an independent and primary obligation, indemnify, to the maximum extent permitted under all applicable laws, the Lender immediately on demand against any cost, loss or liability it incurs as a result of the Borrower not paying any amount which would, but for such unenforceability, invalidity or illegality, have been payable by it under any Finance Document on the date when it would have been due. The amount payable by the Guarantor under this indemnity will not exceed the amount it would have had to pay under this Clause 16 if the amount claimed had been recoverable on the basis of a guarantee.

16.2 Continuing guarantee

This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by any Obligor under the Finance Documents, regardless of any intermediate payment or discharge in whole or in part.

16.3 Reinstatement

If any discharge, release or arrangement (whether in respect of the obligations of any Obligor or any security for those obligations or otherwise) is made by the Lender in whole or in part on the basis of any payment, security or other disposition which is avoided or must be restored in insolvency, liquidation, administration or otherwise, without limitation, then the liability of the Guarantor under this Clause 16 will continue or be reinstated as if the discharge, release or arrangement had not occurred.

16.4 Waiver of defences

The obligations of the Guarantor under this Clause 16 will not be affected by an act, omission, matter or thing which, but for this Clause 16, would reduce, release or prejudice any of its obligations under this Clause 16 (without limitation and whether or not known to it or the Lender) including:

- (a) any time, waiver or consent granted to, or composition with, any Obligor or other person;
- (b) the release of any other Obligor or any other person under the terms of any composition or arrangement with any creditor of any Obligor or such other person;
- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, execute, take up or enforce, any rights against, or security over assets of, any Obligor or other person or any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (d) any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of an Obligor or any other person;
- (e) any amendment, novation, supplement, extension, restatement (however fundamental and whether or not more onerous) or replacement of any Finance Document or any other document or security including without limitation any change in the purpose of, any extension of or any increase in any facility or the addition of any new facility under any Finance Document or other document or security;
- (f) any unenforceability, illegality or invalidity of any obligation of any person under any Finance Document or any other document or security;
- (g) any insolvency or similar proceedings; or
- (h) this Agreement or any other Finance Document not being executed by or binding upon any other party.

16.5 Guarantor intent

Without prejudice to the generality of Clause 16.4 (*Waiver of defences*), the Guarantor expressly confirms that it intends that this guarantee shall extend from time to time to any (however fundamental) variation, increase, extension or addition of or to any of the Finance Documents and/or any facility or amount made available under any of the Finance Documents for the purposes of or in connection with any of the following: business acquisitions of any nature; increasing working capital; enabling investor distributions to be made; carrying out restructurings; refinancing existing facilities; refinancing any other indebtedness; making facilities available to new borrowers; any other variation or extension of the purposes for which any such facility or amount might be made available from time to time; and any fees, costs and/or expenses associated with any of the foregoing.

16.6 Immediate recourse

The Guarantor waives any right it may have of first requiring the Lender (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from the Guarantor under this Clause 16. This waiver applies irrespective of any law or any provision of a Finance Document to the contrary.

16.7 Appropriations

Until all amounts which may be or become payable by the Obligors under or in connection with the Finance Documents have been irrevocably paid in full, the Lender (or any trustee or agent on its behalf) may:

- (a) refrain from applying or enforcing any other moneys, security or rights held or received by the Lender (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and the Guarantor shall not be entitled to the benefit of the same; and
- (b) hold in an interest-bearing suspense account any moneys received from the Guarantor or on account of the Guarantor's liability under this Clause 16.

16.8 Deferral of Guarantors' rights

Until all amounts which may be or become payable by the Obligors under or in connection with the Finance Documents have been irrevocably paid in full and unless the Lender otherwise directs, the Guarantor will not exercise or otherwise enjoy the benefit of any right which it may have by reason of performance by it of its obligations under the Finance Documents or by reason of any amount being payable, or liability arising, under this Clause 16:

- (a) to be indemnified by an Obligor;
- (b) to claim any contribution from any other guarantor of or provider of security for any Obligor's obligations under the Finance Documents;
- (c) to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Lender under the Finance Documents or of any other guarantee or security taken pursuant to, or in connection with, the Finance Documents by the Lender;
- (d) to bring legal or other proceedings for an order requiring any Obligor to make any payment, or perform any obligation, in respect of which the Guarantor has given a guarantee, undertaking or indemnity under Clause 16.1 (*Guarantee and indemnity*);
- (e) to exercise any right of set-off against any Obligor; and/or
- (f) to claim or prove as a creditor of any Obligor in competition with the Lender.

If the Guarantor receives any benefit, payment or distribution in relation to any such right it shall hold that benefit, payment or distribution (or so much of it as may be necessary to enable all amounts which may be or become payable to the Lender by the Obligors under or in connection with the Finance Documents to be paid in full) on trust for the Lender, and shall promptly pay or transfer the same to the Lender or as the Lender may direct for application in accordance with Clause 22 (*Payment Mechanics*).

16.9 Additional security

This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Lender.

17. REPRESENTATIONS

Each of the Borrower and the Guarantor makes the representations and warranties set out in this Clause 17 to the Lender on the date of this Agreement.

17.1 Status

- (a) Each Obligor is a company, duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation.
- (b) Each Obligor has the power to own its assets and carry on its business as it is being conducted.
- (c) Each Obligor is acting as principal for its own account and not as agent or trustee in any capacity on behalf of any party in relation to the Finance Documents.

17.2 Binding obligations

Subject to any general principles of law limiting its obligations which are specifically referred to in any legal opinion delivered in accordance with Clause 4 (*Conditions of Utilisation*):

- (a) the obligations expressed to be assumed by each Obligor in each Transaction Document to which it is a party are legal, valid, binding and enforceable obligations; and
- (b) (without limiting the generality of paragraph (a) above), each Transaction Security Document creates the Security which that Transaction Security Document purports to create and such Security is valid and effective.

17.3 Non-conflict with other obligations

The entry into and performance by each Obligor of, and the transactions contemplated by, the Transaction Documents to which it is a party, and the granting of the Transaction Security, do not and will not conflict with:

- (a) to the best knowledge of the Obligor, any law or regulation applicable to it;
- (b) its constitutional documents; or
- (c) any agreement or instrument binding upon it or any of its assets or constitutes a default or termination event (however described) under any such agreement or instrument.

17.4 Power and authority

Each Obligor has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Transaction Documents to which it is a party and the transactions contemplated by those Finance Documents.

17.5 Validity and admissibility in evidence

All Authorisations required or desirable:

- (a) to enable each Obligor lawfully to enter into, exercise its rights and comply with its obligations in the Transaction Documents to which it is a party;
- (b) to ensure that the obligations expressed to be assumed by each Obligor in the Transaction Documents to which it is a party are legal, valid, binding and enforceable and that the ranking and priority of the Transaction Security are legal, valid and effective (other than the Perfection Requirements);

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- (c) to make the Transaction Documents to which each Obligor is a party admissible in evidence in its jurisdiction of incorporation (other than court filings in the normal course of proceedings) ; and
- (d) for each Obligor to carry on its business, and which are material, have been obtained or effected and are in full force and effect.

17.6 Deduction of Tax

It is not required under the law applicable where each Obligor is incorporated or resident or at its address specified in any Finance Document to make any Tax Deduction from any payment it may make under any Finance Document.

17.7 No filing or stamp taxes

It is not necessary under the laws of the Relevant Jurisdictions of each Obligor that the Finance Documents be filed, recorded or enrolled with any court or other Governmental Agency in that jurisdiction or that any stamp, registration or similar tax be paid on or in relation to the Finance Documents or the transactions contemplated by the Finance Documents, save for (a) the Perfection Requirements; and (b) that Cayman Islands stamp duty may be payable on a Finance Document if that original Finance Document is executed in the Cayman Islands or an executed original copy of that Finance Document is brought into the Cayman Islands.

17.8 No Default

- (a) No Event of Default and, on the date of this Agreement and at the Effective Time, no Default is continuing or would reasonably be expected to result from the making of any Utilisation or from the entry into, the performance of, or any transaction contemplated by, any Transaction Document.
- (b) No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on any Obligor or to which the assets of such Obligor are subject which might or would have a Material Adverse Effect.

17.9 No misleading information

- (a) Any factual information provided to the Lender by any Obligor or any other member of the Group in the Information Package or in relation to any Finance Document was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.
- (b) Any financial projections or forecasts provided by any Obligor to the Lender in the Information Package or otherwise have been prepared on the basis of recent historical information and on the basis of assumptions believed by such Obligor to be reasonable at the time such projections or forecasts were furnished.
- (c) Nothing has occurred or been omitted from any information so provided and no information has been given or withheld that results in the information so provided by each Obligor being, in the light of the circumstances of such occurrence or under which such information was provided, omitted, given, or withheld, untrue or misleading in any material respect.

17.10 Financial statements

- (a) The financial statements of the Guarantor most recently supplied to the Lender (which are, at the date of this Agreement, the Original Financial Statements) were prepared in accordance with GAAP consistently applied save to the extent expressly disclosed in such financial statements, provided that any such financial statements for fiscal quarters were prepared in accordance with GAAP for interim financial information.
- (b) The financial statements of the Guarantor most recently supplied to the Lender (which are, at the date of this Agreement, the Original Financial Statements) fairly present, in all material respects, its consolidated financial position as of the end of the most recent fiscal year (or, if applicable, fiscal quarter) of the Guarantor included in such financial statements and its results operations for such fiscal year (or, if applicable, such fiscal quarter).
- (c) There has been no material adverse change in the business or consolidated financial position of the Guarantor since the date of its financial statements most recently delivered to the Lender (which are, at the date of this Agreement, the Original Financial Statements).

17.11 Pari passu ranking

The payment obligations of each Obligor under the Finance Documents to which it is a party represent its direct, unsecured and unsubordinated obligations and rank at least *pari passu* with the claims of all of its other present and future unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

17.12 No proceedings pending or threatened

No litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency which, if adversely determined, would reasonably be expected to have a Material Adverse Effect has (to its knowledge and belief) been started or threatened against any Obligor or any other member of the Group.

17.13 Authorised signatures

Any person specified as its authorised signatory under Schedule 1 (*Conditions Precedent*) or paragraph (f) of Clause 18.3 (*Information: miscellaneous*) is authorised to sign the Utilisation Requests (in the case of the Borrower) and other notices on its behalf.

17.14 Ranking of Security

- (a) Each Transaction Security Document creates in favour of the Lender the Security which it is expressed to create and subject to the liens of any applicable Permitted Security.
- (b) The Transaction Security has or will have the ranking in priority which it is expressed to have in the relevant Transaction Security Documents and it is not subject to any prior ranking or *pari passu* ranking Security, subject to any applicable Permitted Security.

17.15 Good title to assets

Each Obligor has good, valid and marketable title to, or valid leases or licences of, and all appropriate Authorisations to use, the assets necessary to carry on its business as presently conducted.

17.16 Legal and beneficial ownership

Each Obligor is the sole legal and beneficial owner of the respective assets over which it purports to grant Security; provided, that with respect to ownership of the Target Company Shares, the Borrower will not become and be the owner of those shares until immediately after closing of the Merger at the Effective Time.

17.17 Shares

The shares of any member of the Target Company Group which are subject to the Transaction Security are fully paid and not subject to any option to purchase or similar rights. The constitutional documents of companies (other than Merger Co.) whose shares are subject to the Transaction Security do not and could not restrict or inhibit any transfer of those shares on creation or enforcement of the Transaction Security. There are no agreements in force which provide for the issue or allotment of, or grant any person (other than the Borrower and/or the employees under any Employee Stock Ownership Plan or ESOP) the right to call for the issue or allotment of, any share or loan capital of any member of the Target Company Group (including any option or right of pre-emption or conversion).

17.18 Merger Documents

- (a) The Merger Documents contain all the terms of the Merger.
- (b) To the best of its knowledge, no representation or warranty given by any party to the Merger Documents is untrue or misleading in any material respect.

17.19 No immunity

Each Obligor is generally subject to civil and commercial law and to legal proceedings and neither it nor any of its assets or revenues is entitled to any immunity or privilege (sovereign or otherwise) from any set-off, judgment, execution, attachment or other legal process.

17.20 Anti-bribery

No Obligor or any other member of the Group is, nor to its knowledge, any director, officer, agent, employee, Affiliate or other person acting on behalf of any Obligor or any other member of the Group is, aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of any anti-bribery law applicable to such persons. Furthermore, each Obligor, each other member of the Group and, to its knowledge, each of its Affiliates have conducted their businesses in compliance with such anti-bribery laws.

17.21 Anti-money laundering

The operations of each Obligor, each other member of the Group and each of its Affiliates are and have been conducted at all times in material compliance with applicable financial recordkeeping and reporting requirements and the money laundering statutes and the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any Governmental Agency having jurisdiction over such Obligor, such other member of the Group and such Affiliates (collectively, the “**Money Laundering Laws**”) and no action, suit or proceeding by or before any court or Governmental Agency or any arbitrator involving the Borrower, any other member of the Group or its Affiliates with respect to the Money Laundering Laws is pending or, to its knowledge, threatened.

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17.22 Sanctions

No Obligor or other member of the Group, or any director or officer, or any employee, agent, or Affiliate, of the Borrower and of any other member of the Group is an individual or entity ("**Persons**") that is, or is owned or controlled by Persons that are:

- (a) the target or subject of any sanctions administered or enforced by the US Department of the Treasury's Office of Foreign Assets Control, the US Department of State or the United Nations Security Council, the European Union, or Her Majesty's Treasury (collectively, "**Sanctions**"); or
- (b) located, organized or resident in a country or territory that is, or whose government is, the target or subject of Sanctions, including, without limitation, currently, the Crimea region, Cuba, Iran, North Korea, Sudan and Syria.

17.23 Repetition

- (a) The Repeating Representations are deemed to be made by the Borrower and the Guarantor by reference to the facts and circumstances then existing on the date of each Utilisation Request, on each Utilisation Date, other than for and with respect to any Utilisation Request or Utilisation made during the Certain Funds Period.
- (b) All the representations and warranties in this Clause 17 are also deemed to be made by the Borrower and the Guarantor by reference to the facts and circumstances then existing at the Effective Time.

18. INFORMATION UNDERTAKINGS

The undertakings in this Clause 18 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any part of the Facility is in force.

18.1 Financial statements

The Guarantor shall supply to the Lender:

- (a) as soon as the same become available, but in any event within 180 days after the end of each of its fiscal years, the audited consolidated financial statements of the Guarantor (which have consolidated the Borrower) for that fiscal year; and
- (b) as soon as the same become available, but in any event within 90 days after the end of each of its fiscal quarters, the unaudited consolidated financial statements of the Guarantor (which have consolidated the Borrower) for that fiscal quarter.

18.2 Requirements as to financial statements

- (a) Each set of the Guarantor's financial statements delivered pursuant to Clause 18.1 (Financial statements) shall be certified by an executive officer as fairly presenting, in all material respects, the financial position of the Guarantor as of the end of the most recent fiscal year or fiscal quarter, as applicable, presented in such financial statements and the results of operations of the Guarantor for the fiscal year or fiscal quarter, as applicable, then ended.
- (b) The Guarantor shall procure that each set of financial statements delivered pursuant to Clause 18.1 (Financial statements) is prepared in accordance with GAAP, provided that such financial statements delivered pursuant to paragraph (b) of Clause 18.1 (*Financial statements*) (for fiscal quarters) will be prepared of in accordance with GAAP for interim financial information.

18.3 Information: miscellaneous

Each of the Borrower and the Guarantor shall supply to the Lender (or procure the supply to the Lender of):

- (a) all documents despatched by any Obligor to its shareholders (or any class of them) and to its creditors generally at the same time as they are despatched;
- (b) promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which are current, threatened or pending against any Obligor, and which would, if adversely determined, have a Material Adverse Effect;
- (c) promptly, such information as the Lender may reasonably require about the Charged Property and the compliance by the Obligors with the terms of any Transaction Security Documents;
- (d) promptly upon becoming aware of them, the details of any judgment or order of a court, arbitral body or agency which is made against any Obligor and which would have a Material Adverse Effect;
- (e) promptly, such further information regarding the financial condition, assets, business or operations of any Obligor or any other member of the Group as the Lender may reasonably request; and
- (f) promptly, notice of any change in authorised signatories of the Borrower signed by a director of the Borrower accompanied by specimen signatures of any new authorised signatories.

18.4 Notification of Default

The Borrower shall notify the Lender of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.

18.5 “Know your customer” checks

Each of the Borrower and the Guarantor must (and shall ensure that each other member of the Group will) promptly upon the request of the Lender supply, or procure the supply of, such documentation or other evidence as is reasonably requested by the Lender in order for the Lender to conduct all “know your customer” and other similar procedures that is required (or deems desirable) to conduct.

19. GENERAL UNDERTAKINGS

The undertakings in this Clause 19 remain in force from the date of this Agreement until the expiry of the Facility Period.

19.1 Authorisations

The Borrower shall promptly obtain, comply with and do all that is necessary to maintain in full force and effect and supply certified copies to the Lender of any Authorisation required under any law or regulation:

- (a) to enable it to perform its obligations under the Transaction Documents to which it is a party;
- (b) to ensure the legality, validity, enforceability or admissibility in evidence of any Transaction Document in its jurisdiction of incorporation; and/or
- (c) for it to carry on its business and which is material.

19.2 Perfection Requirements

The Borrower shall ensure that all the Perfection Requirements will be duly completed within any time limit prescribed by the applicable law or as set out in the relevant Transaction Security Document.

19.3 Compliance with laws

The Borrower shall comply in all respects with all laws and regulations to which it may be subject, if failure so to comply has or is reasonably likely to have a Material Adverse Effect.

19.4 Environmental compliance

The Borrower shall comply in all material respects with all Environmental Law, obtain and maintain any Environmental Permits and take all reasonable steps in anticipation of known or expected future changes to or obligations under Environmental Law or any Environmental Permits, if a failure to do any of the foregoing would reasonably be expected to have a Material Adverse Effect.

19.5 Environmental Claims

The Borrower shall inform the Lender in writing as soon as reasonably practicable upon becoming aware of:

- (a) any Environmental Claim which has been commenced or (to the best of the Borrower's knowledge and belief) is threatened against any Obligor or any other member of the Group; or
- (b) any facts or circumstances which will or would reasonably be expected to result in any Environmental Claim being commenced or threatened against any Obligor or any other member of the Group,

in each case where such Environmental Claim would reasonably be expected, if determined against that Obligor or that member of the Group, to have a Material Adverse Effect.

19.6 Taxation

The Borrower shall pay and discharge all Taxes imposed upon it or its assets within the time period allowed without incurring penalties unless and only to the extent that:

- (a) such payment is being contested in good faith;
- (b) adequate reserves are being maintained for those Taxes and the costs required to contest them; and
- (c) such payment can be lawfully withheld.

19.7 Change of Control

The Borrower shall ensure that no Change of Control will occur.

19.8 Merger

The Borrower shall not enter into any amalgamation, demerger, merger or corporate reconstruction other than the Merger; *provided*, that the Borrower may enter into any amalgamation or merger (a) with any other member of the Group and (b) with any other entity if the Borrower is the surviving entity of the merger and such merger has no Material Adverse Effect.

19.9 PRC Subsidiaries

The Borrower shall not arbitrarily reduce or withdraw the registered capital of any of the PRC Subsidiaries without the prior written consent of the Lender (not to be unreasonably withheld or delayed).

19.10 Change of business

The Borrower shall procure that no fundamental change is made to the general nature and scope of the business of the Borrower and/or the Guarantor, or the Target Company Group taken as a whole (effective from the Effective Time), from that carried on at the date of this Agreement.

19.11 Constitutional documents

The Borrower shall procure that no material amendment or supplement is made to the constitutional documents of any Obligor and/or any member of the Target Company Group which would have a Material Adverse Effect.

19.12 Preservation of assets

The Borrower shall maintain in good working order and condition (fair wear and tear excepted) all of its assets necessary or desirable in the conduct of its business; provided, that this clause does not apply to or prohibit any sale, lease, transfer or other disposal of assets which is a Permitted Disposal.

19.13 Insurances

The Borrower shall maintain insurances on and in relation to its business and assets with reputable underwriters or insurance companies against those risks, and to the extent, usually insured against by prudent companies located in the same or similar location and carrying on a similar business.

19.14 Pari passu ranking

The Borrower shall ensure that the payment obligations of each Obligor under the Finance Documents to which it is a party rank and continue to rank at least *pari passu* with the claims of all of its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

19.15 Merger Documents

- (a) The Borrower shall (and will procure Merger Co. to) promptly pay all amounts payable by it under the Merger Documents as and when they become due (except to the extent that any such amounts are being contested in good faith and where adequate reserves are set aside for any such amount).
- (b) The Borrower shall (and will procure Merger Co. to) take all commercially reasonable and practical steps to preserve and enforce its rights and pursue any claims and remedies arising under any Merger Document.

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19.16 Negative pledge

In this Agreement, “**Quasi-Security**” means an arrangement or transaction described in paragraph (b) below.

- (a) The Borrower shall not create or permit to subsist any Security over any of its assets.
- (b) The Borrower shall not:
 - (i) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Borrower or any other member of the Group;
 - (ii) sell, transfer or otherwise dispose of any material amount of its receivables on recourse terms;
 - (iii) enter into or permit to subsist any title retention arrangement; or
 - (iv) enter into or permit to subsist any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts,in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.
- (c) The Borrower shall procure the Target Company not to create or permit to subsist any Security over the PRC Properties, other than liens arising by operation of law and except with the prior written consent of the Lender.
- (d) Paragraphs (a) and (b) above do not apply to any Permitted Security.

19.17 Disposals

- (a) The Borrower shall not enter into a single transaction or a series of transactions (whether related or not and whether voluntary or involuntary and whether at the same time or over a period of time) to sell, lease, transfer or otherwise dispose of any of its assets.
- (b) Paragraph (a) above does not apply to any sale, lease, transfer or other disposal which is a Permitted Disposal.

19.18 Guarantee

- (a) The Borrower shall not give or allow to remain outstanding any guarantee to or for the benefit of any person or otherwise voluntarily assume any liability, whether actual or contingent, in respect of any obligation of any person.
- (b) Paragraph (a) above does not apply to any guarantee given by the Borrower in respect of the obligations of any member of the Group.

19.19 Dividends

- (a) Without the written consent of the Lender, the Borrower shall not declare, make or pay any dividend, charge, fee or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital) before the expiry of the Facility Period.

- (b) If any part of a Loan or any interest is overdue or there occurs any other Major Event of Default, the Borrower shall procure the Target Company to, as soon as practicable, declare and pay dividends to its shareholders (including the Borrower) and upon receipt of such dividends payment from the Target, the Borrower shall apply the same for repayment of the then outstanding Loans and unpaid interest; provided, however, that the Borrower may choose other ways to repay the overdue Loan or interest and, in each case as applicable, the Borrower may, within five (5) Business Days after the original due date therefor, cause such overdue Loan or interest payment to be paid from any other source of funds as the Borrower may select in its discretion.

19.20 Financial Indebtedness

- (a) Except as permitted under paragraph (b) below, the Borrower shall not incur or allow to remain outstanding any Financial Indebtedness.
- (b) Paragraph (a) above does not apply to Financial Indebtedness which is a Permitted Financial Indebtedness.

19.21 Interest Reserve Account

- (a) The Borrower shall open and maintain the Interest Reserve Account with the Escrow Agent for the duration of the Facility Period, and ensure that there is at all times credited to and maintained in it a credit balance of not less than the aggregate amount of interest payable on the outstanding Loan(s) for the next three (3) months or, if shorter, the remaining period before the Facility B Final Maturity Date (the “**Interest Reserve Funds**”).
- (b) No withdrawal from the Interest Reserve Account by the Borrower is permitted unless with the prior written consent of the Lender.
- (c) If there occurs an Event of Default, the Lender may, and the Escrow Agent is irrevocably authorised by the Borrower to, apply all monies standing to the credit of the Interest Reserve Account for repayment or prepayment of the Loans and payment of all other sums owing under this Agreement.
- (d) The Interest Reserve Funds shall be determined by the Lender based on the current rate of interest applicable to the Loan(s) and notified to the Borrower from time to time.

19.22 Further assurances

The Borrower shall promptly do all such acts or execute all such documents (including assignments, transfers, mortgages, charges, notices and instructions) as the Lender may reasonably specify (in such form as the Lender may reasonably require):

- (a) to perfect or protect the Security created or intended to be created under or evidenced by the Transaction Security Documents (which may include the execution of a mortgage, charge, assignment or other Security over all or any of the assets which are, or are intended to be, the subject of the Transaction Security) or for the exercise of any rights, powers and remedies of the Lender provided by or pursuant to the Finance Documents or by law; and/or
- (b) to facilitate the realisation of the assets which are, or are intended to be, the subject of the Transaction Security.

20. EVENTS OF DEFAULT

Each of the events or circumstances set out in the following sub-clauses of this Clause 20 (other than Clause 20.15 (*Acceleration*)) is an Event of Default.

20.1 Non-payment

An Obligor does not pay on the due date any amount payable pursuant to a Finance Document at the place at and in the currency in which it is expressed to be payable.

20.2 Specific obligations

- (a) Any requirement of Clause 4.5 (*Conditions subsequent*) is not satisfied.
- (b) A Change of Control occurs.

20.3 Other obligations

An Obligor does not comply with any provision of the Finance Documents (other than those referred to in Clause 20.1 (*Non-payment*) and Clause 20.2 (*Specific obligations*)), in each case within three (3) Business Days after receiving written notice thereof from the Lender.

20.4 Misrepresentation

- (a) During the Certain Funds Period, any of the Acquired Business Representations or Specified Representations is incorrect in any material respect, as of the date when made or deemed to have been made under Clause 4.4 (*Utilisations during the Certain Funds Period*); or
- (b) At any time after the Certain Funds Period, any representation or statement made or deemed to be made by an Obligor in the Finance Documents or any other document delivered by or on behalf of any Obligor under or in connection with any Finance Document is or proves to have been incorrect or misleading in any material respect when made or deemed to be made.

20.5 Cross default

- (a) Any Financial Indebtedness of the Borrower or the Guarantor is not paid when due nor within any originally applicable grace period.
- (b) Any Financial Indebtedness of the Borrower or the Guarantor is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).
- (c) Any creditor of the Borrower or the Guarantor becomes entitled to declare any Financial Indebtedness due and payable prior to its specified maturity as a result of an event of default (however described).
- (d) No Event of Default will occur under this Clause 20.5 if the aggregate amount of Financial Indebtedness or any commitment for Financial Indebtedness falling within paragraphs (a) through (c) above is less than US\$700,000 (or its equivalent in any other currency or currencies).

20.6 Insolvency

- (a) The Borrower or the Guarantor is or admits its inability to pay its debts as they fall due, suspends making payments on any of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling any of its Financial Indebtedness.
- (b) A moratorium is declared in respect of any indebtedness of the Borrower or the Guarantor.

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20.7 Insolvency proceedings

Any corporate action, legal proceedings or other procedure or step is taken or occurs in relation to:

- (a) the suspension of payments, a moratorium of any indebtedness, winding-up, striking-off, dissolution, administration, provisional supervision or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of the Borrower or the Guarantor and, if any of the foregoing is involuntary and not consented to by the Borrower or the Guarantor (as applicable), the same is not dismissed or discharged within 60 days;
 - (b) a composition or arrangement with any creditor of the Borrower or the Guarantor, or an assignment for the benefit of creditors generally of the Borrower or the Guarantor or a class of such creditors;
 - (c) the appointment of a liquidator, receiver, administrator, administrative receiver, compulsory manager, provisional supervisor or other similar officer in respect of the Borrower or the Guarantor or any of its assets, and which, if any of the foregoing is involuntary and not consented to by the Borrower or the Guarantor, the same is not dismissed or discharged within 60 days after such appointment; or
 - (d) the enforcement of any Security over any assets of the Borrower or the Guarantor,
- or any analogous procedure or step is taken or occurs in any jurisdiction.

20.8 Creditors' process

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of the Borrower or the Guarantor having an aggregate value of not less than US\$10,000,000 and is not discharged within 45 days.

20.9 Unlawfulness and invalidity

- (a) It is or becomes unlawful for an Obligor to perform any of its obligations under the Finance Documents to which it is a party.
- (b) Any obligation of any Obligor under any Finance Documents to which it is a party is not or ceases to be or is claimed by it not to be legal, valid, binding or enforceable.
- (c) Any Finance Document ceases to be in full force and effect or any Transaction Security created or expressed to be created or evidenced by the Transaction Security Documents ceases to be legal, valid, binding, enforceable or effective or is alleged by a party to it to be ineffective (unless, in each case, the same is caused by or resulted from any negligence or failure to take appropriate action on the part of the Lender).

20.10 Repudiation

Any Obligor repudiates a Finance Document or evidences an intention to repudiate a Finance Document.

20.11 Cessation or curtailment of business

The Borrower suspends or ceases to carry on all or substantially all of its business or the Guarantor suspends or ceases to carry on all or substantially all of its business or as a result of intervention by or under any Governmental Agency, the profitable business of the Borrower or the Guarantor is wholly or materially curtailed or suspended, or all or more than 20% of the assets of the Borrower or the Guarantor is seized, nationalised, expropriated or compulsorily acquired.

20.12 Litigation

Any litigation, arbitration, administrative, governmental, regulatory or other investigations, proceedings or disputes are commenced or threatened against the Borrower or the Guarantor or its respective assets which, if adversely determined, has or is reasonably likely to have a Material Adverse Effect.

20.13 Transaction Security Documents

Any Transaction Security Document ceases to remain in full force and effect or does not create in favour of the Lender the Security which it is expressed to create with the ranking and priority it is expressed to have (unless, in each case, the same is directly caused by or results from intentional action or failure to take appropriate action on the part of the Lender).

20.14 Material adverse change

There occurs a change in the financial or business condition or operation or trading position of any Obligor or the Group or any other event occurs or circumstance arises which would have a Material Adverse Effect.

20.15 Acceleration

- (a) On and at any time after the occurrence of any Event of Default which is continuing, the Lender may, by notice to the Borrower:
- (i) suspend or cancel all or any part of the Facility whereupon all or such part of the Facility shall immediately be suspended or cancelled; and/or
 - (ii) declare that all or part of the Loans, together with accrued interest and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or
 - (iii) declare that all or part of the Loans be payable on demand, whereupon they shall immediately become payable on demand by the Lender.
- (b) On and at any time after the occurrence of any Event of Default which is continuing, the Lender may, exercise any or all of its rights, remedies, powers or discretions under the Finance Documents.

21. CHANGES TO THE PARTIES**21.1 Benefit of Agreement**

This Agreement shall be binding upon and enure for the benefit of the Parties and their respective successors and permitted assigns.

21.2 Assignment and transfer by the Borrower

The Borrower may not assign any of its rights or transfer any of its rights and obligations under any of the Finance Documents.

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21.3 Assignment and transfer by the Lender

- (a) Subject to Clause 21.4 (*Borrower's consent*), the Lender (in such case, the “**Existing Lender**”) may assign any of its rights or transfer by novation any of its rights and obligations under the Finance Documents to another bank or financial institution or to a trust, fund or other entity which is regularly engaged in or established for the purpose of making, purchasing or investing in loans, securities or other financial assets (the “**New Lender**”).
- (b) On the transfer pursuant to paragraph (a) above becoming effective:
 - (i) to the extent the Lender seeks to transfer by novation its rights and obligations under the Finance Documents, the Borrower and the Lender shall be released from further obligations towards one another under the Finance Documents and their respective rights against one another under the Finance Documents shall be cancelled (being the “**Discharged Rights and Obligations**”);
 - (ii) the Borrower and the New Lender shall assume obligations towards one another and/or acquire rights against one another which differ from the Discharged Rights and Obligations only insofar as the Borrower and the New Lender have assumed and/or acquired the same in place of the Borrower and the Lender; and
 - (iii) the New Lender shall become a Party as “Lender”.
- (c) On the assignment pursuant to paragraph (a) above becoming effective:
 - (i) the Lender has assigned absolutely to the New Lender the rights under the Finance Documents expressed to be the subject of the assignment; and
 - (ii) the New Lender shall become a Party as “Lender” to the extent of the assignment.
- (d) Nothing in this Agreement restricts the ability of the Lender to sub-contract out an obligation if it remains liable under the Finance Documents for that obligation.

21.4 Borrower's consent

- (a) The consent of the Borrower is required for an assignment or transfer by the Existing Lender, unless the assignment or transfer is:
 - (i) to an Affiliate of the Existing Lender; or
 - (ii) made at a time when a Major Event of Default is continuing.
- (b) The consent of the Borrower to an assignment or transfer must not be unreasonably withheld or delayed. The Borrower will be deemed to have given its consent ten (10) Business Days after the Existing Lender has requested it unless consent is expressly refused by the Borrower within that time.

21.5 Security over the Lender's rights

In addition to the other rights provided to the Lender under this Clause 21, the Lender may without consulting with or obtaining consent from the Borrower, at any time charge, assign or otherwise create Security in or over (whether by way of collateral or otherwise) all or any of its rights under any Finance Document to secure obligations of the Lender including, without limitation, any charge, assignment or other Security to secure obligations to a federal reserve or central bank, except that no such charge, assignment or Security shall:

- (a) release the Lender from any of its obligations under the Finance Documents or substitute the beneficiary of the relevant charge, assignment or Security for the Lender as a party to any of the Finance Documents; or
- (b) require any payments to be made by the Borrower other than or in excess of, or grant to any person any more extensive rights than, those required to be made or granted to the Lender under the Finance Documents.

21.6 References

If the Lender assigns or transfers all or any part of its rights and/or obligations in accordance with Clause 21.3 (*Assignment and transfer by the Lender*) all relevant references in the Finance Documents to the Lender shall thereafter be construed as a reference to the Lender and/or its assignee or transferee (as the case may be) to the extent of their respective interests.

21.7 Mitigation effect

If:

- (a) the Lender assigns or transfers any of its rights or obligations under the Finance Documents or changes its Facility Office; and
- (b) as a result of circumstances existing at the date the assignment, transfer or change occurs, an Obligor would be obliged to make a payment to the New Lender or Lender acting through its new Facility Office under Clause 11.2 (*Tax gross-up*) or Clause 12 (*Increased Costs*),

then (unless the assignment, transfer or change has been made in mitigation in accordance with Clause 13 (*Mitigation by the Lender*)) the New Lender or Lender acting through its new Facility Office is only entitled to receive payment under those Clauses to the same extent as the Existing Lender or Lender acting through its previous Facility Office would have been if the assignment, transfer or change had not occurred.

22. PAYMENT MECHANICS; AND RELEASE**22.1 Payments to the Lender**

- (a) On each date on which the Borrower is required to make a payment under a Finance Document, the Borrower shall make the same available to the Lender for value on the due date at the time and in such funds specified by the Lender as being customary at the time for settlement of transactions in the relevant currency in the place of payment.
- (b) Payment shall be made to such account in the principal financial centre of the country of that currency with such bank as the Lender specifies.

22.2 Partial payments

- (a) If the Lender receives a payment that is insufficient to discharge all the amounts then due and payable by the Borrower under the Finance Documents, the Lender shall apply that payment towards the obligations of the Borrower under the Finance Documents in the following order:
 - (i) **first**, in or towards payment *pro rata* of any unpaid fees, commission, costs and expenses of the Lender under the Finance Documents;

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- (ii) **secondly**, in or towards payment *pro rata* of any accrued interest due but unpaid under the Finance Documents;
 - (iii) **thirdly**, in or towards payment of any principal due but unpaid under this Agreement; and
 - (iv) **fourthly**, in or towards payment of any other sum due but unpaid under the Finance Documents.
- (b) The Lender may vary the order set out in paragraphs (a)(ii) to (iv) above.
- (c) Paragraphs (a) and (b) above will override any appropriation made by the Borrower.

22.3 No set-off by the Borrower

All payments to be made by the Borrower under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set-off or counterclaim.

22.4 Business Days

- (a) Any payment under the Finance Documents which is due to be made on a day that is not a Business Day shall be made on the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not).
- (b) During any extension of the due date for payment of any principal or Unpaid Sum under this Agreement, interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

22.5 Currency of account

- (a) Subject to paragraphs (b) to (c) below, US dollar is the currency of account and payment for any sum due from the Borrower under any Finance Document.
- (b) Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.
- (c) Any amount expressed to be payable in a currency other than US dollars shall be paid in that other currency.

22.6 Disruption to payment systems etc.

If either the Lender determines (in its discretion) that a Disruption Event has occurred or the Lender is notified by the Borrower that a Disruption Event has occurred:

- (a) the Lender may, and shall if requested to do so by the Borrower, consult with the Borrower with a view to agreeing with the Borrower such changes to the operation or administration of the Facility as the Lender may reasonably deem necessary in the circumstances;
- (b) any such changes agreed upon by the Lender and the Borrower shall (whether or not it is finally determined that a Disruption Event has occurred) be binding upon the Parties as an amendment to (or, as the case may be, waiver of) the terms of the Finance Documents notwithstanding the provisions of Clause 28 (*Amendments and Waivers*); and

- (c) the Lender shall not be liable for any damages, costs or losses to any person, any diminution in value or any liability whatsoever (including for negligence, gross negligence or any other category of liability whatsoever but not including any claim based on the fraud of the Lender) arising as a result of its taking, or failing to take, any actions pursuant to or in connection with this Clause 22.6.

22.7 Release of Transaction Security Documents.

At such time as the Loans, together with all accrued interest and all other amounts accrued or outstanding under the Finance Documents, have been paid in full, (i) the Lender shall promptly (and not later than five (5) Business Days after such payment in full) release all of the Transaction Security from any and all Transaction Security Documents, including but not limited to the Escrow Agreement and all amounts held under the Escrow Agreement, and (ii) this Agreement and all obligations and liabilities (other than those expressly stated to survive such termination) of each Obligor and the Lender hereunder shall terminate, all without delivery of any instrument or performance of any act by any party, and all rights to any and all Transaction Security shall revert to the Obligors. At the request and sole expense of the Borrower or any Obligor following any such termination, the Lender shall deliver to the Obligors any Transaction Security held by the Lender under any Transaction Security Document or Finance Document, and execute and deliver to the Obligors such documents as the Obligors shall reasonably request to evidence such termination.

23. SET-OFF

At any time after the occurrence of any Event of Default which is continuing, the Lender may set off any matured obligation due from the Borrower under the Finance Documents (to the extent beneficially owned by the Lender) against any obligation (whether or not matured) owed by the Lender to the Borrower, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Lender may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set-off.

24. NOTICES

24.1 Communications in writing

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax, letter or .

24.2 Addresses

The address and fax number (and the department or officer, if any, for whose attention the communication is to be made) of each Party for any communication or document to be made or delivered under or in connection with the Finance Documents is:

- (a) in the case of the Borrower:

Address: Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road
Haidian District, Beijing 100190
People's Republic of China

Tel No.: (8610) 62726611
Fax No.: 86-10-5641 2878
E-mail: joannalu@sohu-inc.com

Attention: Ms. Joanna Lv

(b) in the case of the Guarantor:

Address: Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road
Haidian District, Beijing 100190
People's Republic of China

Tel No.: (8610) 62726611
Fax No.: 86-10-5641 2878
E-mail: joannalu@sohu-inc.com

Attention: Ms. Joanna Lv

(c) in the case of the Lender:

Address: Shin-Marunouchi Building 12F
1-5-1 Marunouchi
Chiyoda-ku, Tokyo, Japan, 100-6512

Fax No.: +81 03-5219 8525
E-mail: wangmeng@tk.icbc.com.cn/hanjiangpeng@tk.icbc.com.cn

Attention: Wang Meng/Han Jiangpeng

or any substitute address, fax number or department or officer as one Party may notify to the other Party by not less than five (5) Business Days' notice.

24.3 Delivery

- (a) Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will be effective:
- (i) if by way of fax, only when received in legible form; or
 - (ii) if by way of letter, only when it has been left at the relevant address or five (5) Business Days after being deposited in the post postage prepaid in an envelope addressed to it at that address,
- and, if a particular department or officer is specified as part of its address details provided under Clause 24.2 (*Addresses*), if addressed to that department or officer.
- (b) Any communication or document to be made or delivered to the Lender will be effective only when actually received by the Lender and then only if it is expressly marked for the attention of the department or officer specified by the Lender as part of its address details provided under Clause 24.2 (*Addresses*) (or any substitute department or officer as the Lender shall specify for this purpose).
- (c) Any communication or document made or delivered to the Borrower in accordance with this Clause 24.3 will be deemed to have been made or delivered to each of the Obligors.
- (d) Any communication or document which becomes effective, in accordance with paragraphs (a) to (c) above, after 5 p.m. in the place of receipt shall be deemed only to become effective on the following day.

24.4 Electronic communication

- (a) Any communication to be made between the Parties under or in connection with the Finance Documents may be made by electronic mail or other electronic means (including by way of posting to a secure website) if the Parties:
 - (i) notify each other in writing of their electronic mail address and/or any other information required to enable the transmission of information by that means and the Parties agree that, unless and until notified to the contrary, this is to be an accepted form of communication; and
 - (ii) notify each other of any change to their address or any other such information supplied by them by not less than five (5) Business Days' notice.
- (b) Any such electronic communication as specified in paragraph (a) above made between the Parties will be effective only when actually received (or made available) in readable form and in the case of any electronic communication made by the Borrower to the Lender only if it is addressed in such a manner as the Lender shall specify for this purpose.
- (c) Any electronic communication which becomes effective, in accordance with paragraph (b) above, after 5 p.m. in the place in which the Party to whom the relevant communication is sent or made available has its address for the purpose of this Agreement shall be deemed only to become effective on the following day.
- (d) Any reference in a Finance Document to a communication being sent or received shall be construed to include that communication being made available in accordance with this Clause 24.4.

24.5 English language

- (a) Any notice given under or in connection with any Finance Document must be in English.
- (b) All other documents provided under or in connection with any Finance Document must be:
 - (i) in English; or
 - (ii) if not in English, and if so required by the Lender, accompanied by a certified English translation and, in this case, such English translation will prevail unless the document is a constitutional, statutory or other official document.

25. CALCULATIONS AND CERTIFICATES**25.1 Accounts**

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by the Lender are *prima facie* evidence of the matters to which they relate.

25.2 Certificates and determinations

Any certification or determination by the Lender of a rate or amount under any Finance Document is, in the absence of manifest error, conclusive evidence of the matters to which it relates.

25.3 Day count convention

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days.

26. PARTIAL INVALIDITY

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

27. REMEDIES AND WAIVERS

No failure to exercise, nor any delay in exercising, on the part of the Lender, any right or remedy under the Finance Documents shall operate as a waiver of any such right or remedy or constitute an election to affirm any of the Finance Documents. No election to affirm any of the Finance Documents on the part of the Lender shall be effective unless it is in writing. No single or partial exercise of any right or remedy shall prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in each Finance Document are cumulative and not exclusive of any rights or remedies provided by law.

28. AMENDMENTS AND WAIVERS**28.1 Required consents**

Any term of the Finance Documents may be amended or waived only with the written consent of the Lender and the Borrower and any such amendment or waiver will be binding on all Parties. Any waiver by the Lender of any term of the Finance Documents must be evidenced in writing by the Lender.

28.2 Replacement of Screen Rate

If a Screen Rate Replacement Event has occurred in relation to the Screen Rate, any amendment or waiver which relates to:

- (a) providing for the use of a Replacement Benchmark; and
- (b)
 - (i) aligning any provision of any Finance Document to the use of that Replacement Benchmark;
 - (ii) enabling that Replacement Benchmark to be used for the calculation of interest under this Agreement (including, without limitation, any consequential changes required to enable that Replacement Benchmark to be used for the purposes of this Agreement);
 - (iii) implementing market conventions applicable to that Replacement Benchmark;
 - (iv) providing for appropriate fallback (and market disruption) provisions for that Replacement Benchmark; or

- (v) adjusting the pricing to reduce or eliminate, to the extent reasonably practicable, any transfer of economic value from one Party to another as a result of the application of that Replacement Benchmark (and if any adjustment or method for calculating any adjustment has been formally designated, nominated or recommended by the Relevant Nominating Body, the adjustment shall be determined on the basis of that designation, nomination or recommendation),

may be made with the consent of the Lender and the Borrower.

In this Clause 28.2:

“Relevant Nominating Body” means any applicable central bank, regulator or other supervisory authority or a group of them, or any working group or committee sponsored or chaired by, or constituted at the request of, any of them or the Financial Stability Board.

“Replacement Benchmark” means a benchmark rate which is:

- (a) formally designated, nominated or recommended as the replacement for the Screen Rate by:
 - (i) the administrator of that Screen Rate; or
 - (ii) any Relevant Nominating Body,
 and if replacements have, at the relevant time, been formally designated, nominated or recommended under both paragraphs, the “Replacement Benchmark” will be the replacement under paragraph (ii) above;
- (b) in the opinion of the Lender and the Borrower, generally accepted in the international or any relevant domestic syndicated loan markets as the appropriate successor to the Screen Rate; or
- (c) in the opinion of the Lender and the Borrower, an appropriate successor to the Screen Rate.

“Screen Rate Replacement Event” means, in relation to the Screen Rate:

- (a) the methodology, formula or other means of determining the Screen Rate has, in the opinion of the Lender and the Borrower, materially changed;
- (b)
 - (i)
 - (A) the administrator of the Screen Rate or its supervisor publicly announces that such administrator is insolvent; or
 - (B) information is published in any order, decree, notice, petition or filing, however described, of or filed with a court, tribunal, exchange, regulatory authority or similar administrative, regulatory or judicial body which reasonably confirms that the administrator of the Screen Rate is insolvent,
 provided that, in each case, at that time, there is no successor administrator to continue to provide the Screen Rate;
 - (ii) the administrator of the Screen Rate publicly announces that it has ceased or will cease, to provide the Screen Rate permanently or indefinitely and, at that time, there is no successor administrator to continue to provide the Screen Rate;

- (iii) the supervisor of the administrator of the Screen Rate publicly announces that the Screen Rate has been or will be permanently or indefinitely discontinued; or
- (iv) the administrator of the Screen Rate or its supervisor announces that the Screen Rate may no longer be used; or
- (c) the administrator of the Screen Rate determines that the Screen Rate should be calculated in accordance with its reduced submissions or other contingency or fallback policies or arrangements and either:
 - (i) the circumstance(s) or event(s) leading to such determination are not (in the opinion of the Lender and the Borrower) temporary; or
 - (ii) the Screen Rate is calculated in accordance with any such policy or arrangement for a period no less than 15 Business Days; or
- (d) in the opinion of the Lender and the Borrower, the Screen Rate is otherwise no longer appropriate for the purposes of calculating interest under this Agreement.

29. CONFIDENTIAL INFORMATION

29.1 Confidentiality

The Lender agrees to keep all Confidential Information confidential and not to disclose it to anyone, save to the extent permitted by Clause 29.2 (*Disclosure of Confidential Information*), and to ensure that all Confidential Information is protected with security measures and a degree of care that would apply to its own confidential information.

29.2 Disclosure of Confidential Information

The Lender may disclose:

- (a) to any of its Affiliates and any of its or their officers, directors, employees, professional advisers, auditors, partners and Representatives such Confidential Information as the Lender shall consider appropriate if any person to whom the Confidential Information is to be given pursuant to this paragraph (a) is informed in writing of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no such requirement to so inform if the recipient is subject to professional obligations to maintain the confidentiality of the information or is otherwise bound by requirements of confidentiality in relation to the Confidential Information;
- (b) to any person, on a confidential basis (as further provided below):
 - (i) to (or through) whom it assigns or transfers (or may potentially assign or transfer) all or any of its rights and/or obligations under one or more Finance Documents and to any of that person's Affiliates, Representatives and professional advisers;
 - (ii) with (or through) whom it enters into (or may potentially enter into), whether directly or indirectly, any sub-participation in relation to, or any other transaction under which payments are to be made or may be made by reference to, one or more Finance Documents and/or one or more Obligors and to any of that person's Affiliates, Representatives and professional advisers;

- (iii) appointed by the Lender or by a person to whom paragraph (i) or (ii) above applies to receive communications, notices, information or documents delivered pursuant to the Finance Documents on its behalf;
- (iv) who invests in or otherwise finances (or may potentially invest in or otherwise finance), directly or indirectly, any transaction referred to in paragraph (i) or (ii) above;
- (v) to whom information is required or requested to be disclosed by any court of competent jurisdiction or any governmental, banking, taxation or other regulatory authority or similar body, the rules of any relevant stock exchange or pursuant to any applicable law or regulation;
- (vi) to whom information is required to be disclosed in connection with, and for the purposes of, any litigation, arbitration, administrative or other investigations, proceedings or disputes;
- (vii) to whom or for whose benefit the Lender charges, assigns or otherwise creates Security (or may do so) pursuant to Clause 21.5 (*Security over Lender's rights*);
- (viii) who is a Party; or
- (ix) with the consent of the Borrower;

in each case, such Confidential Information as the Lender shall consider appropriate if:

- (A) in relation to paragraphs (i), (ii) and (iii) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking except that there shall be no requirement for a Confidentiality Undertaking if the recipient is a professional adviser and is subject to professional obligations to maintain the confidentiality of the Confidential Information;
 - (B) in relation to paragraph (iv) above, the person to whom the Confidential Information is to be given has entered into a Confidentiality Undertaking or is otherwise bound by requirements of confidentiality in relation to the Confidential Information they receive and is informed that some or all of such Confidential Information may be price-sensitive information; or
 - (C) in relation to paragraphs (v), (vi) and (vii) above, the person to whom the Confidential Information is to be given is informed of its confidential nature and that some or all of such Confidential Information may be price-sensitive information except that there shall be no requirement to so inform if, in the reasonable opinion of the Lender, it is not practicable so to do in the circumstances; and
- (c) to any person appointed by the Lender or by a person to whom paragraph (b)(i) or (b)(ii) above applies to provide administration or settlement services in respect of one or more of the Finance Documents including in relation to the trading of participations in respect of the Finance Documents, such Confidential Information as may be required to be disclosed to enable such service provider to provide any of the services referred to in this paragraph (c) if the service provider to whom the Confidential Information is to be given has entered into a confidentiality agreement substantially in the form of the LMA Master Confidentiality Undertaking for Use With Administration/Settlement Service Providers or such other form of confidentiality undertaking agreed between the Borrower and the Lender.

29.3 Entire agreement

This Clause 29 constitutes the entire agreement between the Parties in relation to the obligations of the Lender under the Finance Documents regarding Confidential Information and supersedes any previous agreement, whether express or implied, regarding Confidential Information.

29.4 Inside information

The Lender acknowledges that some or all of the Confidential Information is or may be price-sensitive information and that the use of such information may be regulated or prohibited by applicable legislation including securities law relating to insider dealing and market abuse and the Lender undertakes not to use any Confidential Information for any unlawful purpose.

29.5 Notification of disclosure

The Lender agrees (to the extent not prohibited by law and regulation) to inform the Borrower:

- (a) of the circumstances of any disclosure of Confidential Information made pursuant to paragraph (b)(v) of Clause 29.2 (*Disclosure of Confidential Information*) except where such disclosure is made to any of the persons referred to in that paragraph during the ordinary course of its supervisory or regulatory function; and
- (b) upon becoming aware that Confidential Information has been disclosed in breach of this Clause 29.

29.6 Continuing obligations

The obligations in this Clause 29 are continuing and, in particular, shall survive and remain binding on the Lender for a period of 12 months from the earlier of:

- (a) the date on which all amounts payable by the Borrower under or in connection with this Agreement have been paid in full and the Facility have been cancelled or otherwise cease to be available; and
- (b) the date on which the Lender otherwise ceases to be a Party.

30. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts and this has the same effect as if the signatures on the counterparts were on a single copy of that Finance Document.

31. GOVERNING LAW

This Agreement, including Clause 32.1 (*Arbitration*), and all non-contractual obligations arising from or in connection with it, are governed by English law.

Facility Agreement

32. ENFORCEMENT**32.1 Arbitration**

- (a) Any dispute, controversy, difference or claim arising out of, relating to or having any connection with this Agreement, including any dispute as to its existence, validity, interpretation, performance, breach or termination or the consequences of its nullity and any dispute relating to any non-contractual obligations arising out of or in connection with it (for the purpose of this Clause, a “**Dispute**”), shall be referred to and finally resolved by arbitration administered by the HKIAC under the Hong Kong International Arbitration Centre Administered Arbitration Rules in force when the Notice of Arbitration is received by the HKIAC (for the purpose of this Clause, the “**Rules**”).
- (b) The seat, or legal place of arbitration, shall be in Hong Kong.
- (c) The number of arbitrators shall be three.
- (d) The language used in the arbitral proceedings shall be English.
- (e) The Rules are incorporated by reference into this Clause and capitalised terms used in this Clause which are not otherwise defined in this Agreement have the meaning given to them in the Rules.

32.2 Waiver of immunities

The Borrower irrevocably waives, to the extent permitted by applicable law, with respect to itself and its revenues and assets (irrespective of their use or intended use), all immunity on the grounds of sovereignty or other similar grounds from:

- (a) suit;
- (b) jurisdiction of any court;
- (c) relief by way of injunction or order for specific performance or recovery of property;
- (d) attachment of its assets (whether before or after judgment); and
- (e) execution or enforcement of any judgment to which it or its revenues or assets might otherwise be entitled in any proceedings in the courts of any jurisdiction (and irrevocably agrees, to the extent permitted by applicable law, that it will not claim any immunity in any such proceedings).

IN WITNESS whereof the Parties have caused this Agreement to be duly executed on the date first above written.

Facility Agreement

SCHEDULE 1

CONDITIONS PRECEDENT

PART I

INITIAL CONDITIONS PRECEDENT

1. Obligors

- (a) A copy of the constitutional documents of each Obligor, and of the statutory registers of each Obligor.
- (b) A copy of a resolution of the board of directors of each Obligor:
 - (i) approving the terms of, and the transactions contemplated by, the Finance Documents to which it is a party and resolving that it executes the Finance Documents to which it is a party;
 - (ii) authorising a specified person or persons to execute the Finance Documents to which it is a party on its behalf; and
 - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices (including, if relevant, any Utilisation Request) to be signed and/or despatched by it under or in connection with the Finance Documents to which it is a party; and
 - (iv) in the case of the Guarantor and All Honest, resolving that it is in its best interests to enter into the transactions contemplated by the Finance Documents to which it is a party.
- (c) A copy of a resolution signed by the shareholders of the Borrower approving certain amendments to the Borrower's memorandum and articles of association in connection with the Borrower Share Mortgage.
- (d) A specimen of the signature of each person authorised by the resolution referred to in paragraph (b) above.
- (e) A Director's Certificate of each Obligor (other than Target Company whose Director's Certificate will be provided within five (5) Business Days after the Effective Time of the Merger) issued at a date no earlier than the date of this Agreement.
- (f) A certificate of incumbency of All Honest issued by its registered agent no earlier than one (1) Month before the date of this Agreement certifying, amongst other things, the names of directors, shareholders, secretary and that the company is in good standing.
- (g) A certificate of good standing in respect of each Obligor, dated no earlier than one (1) Month before the date of this Agreement.

2. Finance Documents

- (a) This Agreement executed by all Parties.
- (b) Each Transaction Security Document listed in Schedule 4 (*Transaction Security Documents*) executed by all parties thereto, together with all ancillary documents required to be delivered to the Lender upon its execution.

Facility Agreement

3. Legal opinions

- (a) A legal opinion in relation to English law from Stephenson Harwood addressed to the Lender.
- (b) A legal opinion in relation to the laws of the Cayman Islands from Mourant Ozannes addressed to the Lender.
- (c) A legal opinion in relation to the laws of the British Virgin Islands from Mourant Ozannes addressed to the Lender.

4. Documents relating to the Merger

- (a) A copy of the Merger Agreement (other than the Plan of Merger) duly executed by all parties thereto.
- (b) A copy of the form of the Plan of Merger to be signed by a director of each of Merger Co. and the Target Company and to be filed with the Registrar of Companies of the Cayman Islands at or before the Effective Time (with such amendments to that form as recommended by the Registrar of Companies of the Cayman Islands).
- (c) A copy of the form of constitutional documents and statutory registers (including its register of directors, its register of members and its register of mortgages and charges) to be issued by the registered office provider of the Target Company following the Effective Time.
- (d) Evidence that:
 - (i) the Merger has been approved by: (A) the sole director of Merger Co. and; (B) the board of directors of the Target Company (the “**Target Board**”), acting upon the unanimous recommendation of a committee established by the Target Board, consisting of independent directors of the Target Company; together with a confirmation that no shareholder approval is required pursuant to section 233(7) of the Companies Law);
 - (ii) payment instruction from Target company.

5. Other documents and evidence

- (a) Evidence that any process agent referred to in any Finance Document has accepted its appointment.
- (b) Evidence that the Interest Reserve Account has been opened and the Interest Reserve Funds have been deposited therein.
- (c) The Original Financial Statements.
- (d) Such information in respect of an Obligor as required by the Lender to enable it to be satisfied with the result of all “know your customer” or other checks which it is required to carry out in relation to such Obligor. If such information and evidence have not been specified by the Lender by the date of this Facility Agreement, such information, if required, shall not be as part of the Initial Conditions Precedent and will be provided by the Borrower after the Effective Time of the Merger.
- (e) A copy of any other Authorisation or other document, opinion or assurance which the Lender reasonably considers to be necessary or desirable (if it has notified the Borrower accordingly) in connection with the entry into and performance of the transactions contemplated by any Finance Document or for the validity and enforceability of any Finance Document. If such Authorisation or other document, opinion or assurance have not been specified by the Lender by the date of this Facility Agreement, such Authorisation or other document, opinion or assurance, if required, shall not be as part of Initial Conditions Precedent and will be provided by the Obligor after the Effective Time of the Merger.

PART II
INITIAL CPS TO CERTAIN FUNDS UTILISATIONS

1. Borrower

- (a) A copy of its up-to-date memorandum and articles of association and statutory registers.
- (b) A copy of a resolution of its board of directors:
 - (i) approving the terms of, and the transactions contemplated by, the Finance Documents to which it is a party and resolving that it executes the Finance Documents to which it is a party;
 - (ii) authorising a specified person or persons to execute the Finance Documents to which it is a party on its behalf; and
 - (iii) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices (including, if relevant, any Utilisation Request) to be signed and/or despatched by it under or in connection with the Finance Documents to which it is a party.
- (c) A specimen of the signature of each person authorised by the resolution referred to in paragraph (b) above.

2. Finance Documents

- (a) This Agreement executed by all Parties.
- (b) Each Transaction Security Document listed in Schedule 4 (*Transaction Security Documents*) executed by all parties thereto, together with all ancillary documents required to be delivered to the Lender upon its execution.
- (c) The Escrow Agreement executed by all parties thereto.

3. Legal opinions

- (a) A legal opinion in relation to the laws of the Cayman Islands from Mourant Ozannes addressed to the Lender opining on the capacity of the Borrower to enter into the Merger Agreement and the Finance Documents to which it is a party and their enforceability against the Borrower.

4. Documents relating to the Merger

- (a) A copy of the Merger Agreement (other than the Plan of Merger) duly executed by all parties thereto.

Facility Agreement

5. Other documents and evidence

- (a) Evidence that registration of the Transaction Security Documents listed in items 1 and 2 of Schedule 4 (*Transaction Security Documents*) at the relevant Governmental Agency, if required by law, and in accordance with the relevant Transaction Security Document has been completed.
- (b) Evidence that the Interest Reserve Account has been opened and the Interest Reserve Funds have been deposited therein.
- (c) The Original Financial Statements.

Facility Agreement

SCHEDULE 2

FORM OF UTILISATION REQUEST

To: Industrial and Commercial Bank of China Limited, Tokyo Branch

Date:

Dear Sirs

US\$250,000,000 Facility Agreement dated [•] 2020 (the “Facility Agreement”)

1. We refer to the Facility Agreement. This is a Utilisation Request. Terms defined in the Facility Agreement shall have the same meaning in this Utilisation Request.
2. We wish to borrow a Loan on the following terms:

Proposed Utilisation Date: [] (or, if that is not a Business Day, the next Business Day)
Facility to be utilised: [Facility A / Facility B]
Amount: Facility A: US\$[]
Facility B: US\$[]
3. Please remit the proceeds of the Loan to following account:
Account name:[]
Bank name:[]
Account No:[]
Swift No:[]
4. We confirm that each condition specified in Clause 4.2 (*Further conditions precedent*) is satisfied on the date of this Utilisation Request.
5. This Utilisation Request is irrevocable.

Yours faithfully

Director
for and on behalf of
Sohu.com (Game) Limited

Facility Agreement

SCHEDULE 3

FORM OF DIRECTOR'S CERTIFICATE

To: Industrial and Commercial Bank of China Limited, Tokyo Branch

Date: 2020

Sohu.com (Game) Limited
- US\$250,000,000 Facility Agreement dated [•] 2020 (the "Facility Agreement")

I refer to the Facility Agreement. Terms defined in the Facility Agreement have, unless defined in this Certificate, the same meaning when used in this Certificate.

I am a director of [*name of Obligor*], a company incorporated in [*place of incorporation of Obligor*] (the "**Company**"). I am authorised to give this Certificate and certify as follows:

1. Each original or copy document delivered by or on behalf of the Company to the Lender in connection with or pursuant to the Facility Agreement (including, without limitation, the documents listed below) is true, complete and in full force and effect on the date of this Certificate:
 - (a) the certificate of incorporation of the Company;
 - (b) the memorandum and articles of association of the Company together with all amendments to them up to and including the date of this Certificate;
 - (c) the register of members of the Company;
 - (d) the register of directors of the Company;
 - (e) the register of [mortgages and] charges of the Company;
 - (f) the resolutions of the board of directors of the Company dated [] 2020;
 - (g) the certificate of good standing of the Company dated []; and
 - (h) [the certificate of incumbency of the Company dated []].
2. Neither the entry into by the Company of the Finance Documents to which it is a party, nor the exercise by it of its rights or performance by it of its obligations thereunder, will breach any power of borrowing or providing security, or other power or restriction binding on the Company under its memorandum or articles of association.
3. Each resolution adopted referred to above is in full force and effect without modification.
4. The resolutions referred to above constitute all corporate action necessary on the part of the Company to:
 - (a) approve the terms of and transactions contemplated by the Finance Documents to which the Company is a party; and
 - (b) authorise the signing of, any communications and/or other action under or in connection with, the Finance Documents to which the Company is a party.

Facility Agreement

5. The following is a list of all directors of the Company as at the date of this Certificate and who were all the directors on the date of the resolutions referred to above:
 [Name(s) of Director(s)]
6. The following is a list of the major shareholders of the Company whose beneficial ownership interests are greater than 20% as at the date of this Certificate:
 [Name(s) of Major Shareholder(s)]
7. Each person listed below:
- (a) occupies the position stated against his name (and occupied that position on the date each Finance Document was signed by him);
 - (b) is a/the person duly authorised in the resolutions to sign the Finance Documents (and any other document in connection with the Finance Documents) on behalf of the Company; and
 - (c) has his true signature appearing opposite his name.

Name	Position	Specimen Signature
-------------	-----------------	---------------------------

8. At the date of each Finance Document to which the Company is a party and at the date of this Certificate, the Company was and is solvent and was not and is not subject to any liquidation or insolvency proceedings.

[The part for Sohu.com (Game) Limited only:

9. The conditions under the Merger Documents (including but not limited to Article VIII of the Merger Agreement) have been satisfied or waived (where such waiver would not reasonably be expected to be materially adverse to the interests of the Lender or where such waiver is granted with the consent of the Lender) (other than payment of the Merger Consideration (as defined in the Merger Agreement) and such other conditions which are by their nature only capable of being satisfied at the Effective Time and are contemplated under the Merger Agreement as being due to be satisfied at the Effective Time.
10. No condition to Closing (as defined in the Merger Agreement) has been amended, waived or treated as satisfied in any manner which would reasonably be expected to be materially adverse to the interests of the Lender (except with the consent of the Lender).]

[The part for the Target Company only:

9. No creditor (other than the Lender) is holding a fixed or floating security interest in the issued shares of the Target Company.]

 [Name of Director]
 Director

Facility Agreement

SCHEDULE 4

TRANSACTION SECURITY DOCUMENTS

1. The first priority equitable share mortgage over 100% of the issued shares in the Borrower made or to be made by All Honest in favour of the Lender.
2. The first priority equitable share mortgage over 100% of the issued shares in Merger Co., made or to be made by the Borrower in favour of the Lender.
3. The first priority equitable share mortgage over 20% of the issued shares in the Target Company as the surviving company resulting from the Merger, made or to be made by the Borrower in favour of the Lender, commencing from the Effective Time.

Facility Agreement

SCHEDULE 5

SPECIFIED REPRESENTATIONS

Each of the Borrower and the Guarantor, in respect of itself, makes the representations and warranties set out in this Schedule 5 to the Lender on the Utilisation Date of a Certain Funds Utilisation:

1. Status

- (a) It is a company, duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation.
- (b) It is acting as principal for its own account and not as agent or trustee in any capacity on behalf of any party in relation to the Transaction Documents.

2. Binding obligations

Subject to any general principles of law limiting its obligations which are specifically referred to in any legal opinion delivered in accordance with Clause 4 (*Conditions of Utilisation*):

- (a) the obligations expressed to be assumed by it in each Transaction Document to which it is a party are legal, valid, binding and enforceable obligations; and
- (b) (without limiting the generality of paragraph (a) above), once it is executed and delivered, each Transaction Security Document creates or will create the Security which that Transaction Security Document purports to create and such Security is valid and effective.

3. Non-conflict with other obligations

The entry into and performance by it of, and the transactions contemplated by, the Transaction Documents to which it is a party, and the granting by it of any Transaction Security, do not and will not conflict with:

- (a) any law or regulation applicable to it; or
- (b) its constitutional documents.

4. Power and authority

It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Transaction Documents to which it is a party and the transactions contemplated by those Transaction Documents.

5. Solvency

At the date of each Transaction Document to which it is a party and on the proposed Utilisation Date of a Certain Funds Utilisation, it was and is solvent and was not and is not subject to any liquidation or insolvency proceedings.

6. Compliance with laws

It has complied in all respects with the Federal Reserve margin stock regulations, the USA PATRIOT Act and the Investment Company Act.

Facility Agreement

7. Use of loan proceeds

The proceeds of the Loans have not been (if made already) or will not be (if to be made) used in violation of the regulations and rules of the US Department of the Treasury's Office of Foreign Assets Control or under the Foreign Corrupt Practices Act or any other applicable anti-terrorism, sanctions and anti-money laundering laws and regulations.

Facility Agreement

SIGNATURE PAGE

THE BORROWER

SIGNED and DELIVERED as a DEED by

for and on behalf of
SOHU.COM (GAME) LIMITED

)
)
)
) By: _____
) Name:
) Title: Director

THE GUARANTOR

SIGNED and DELIVERED as a DEED by

for and on behalf of
SOHU.COM LIMITED

)
)
) By: _____
) Name:
) Title: Chief Financial Officer

THE LENDER

SIGNED by

for and on behalf of
**INDUSTRIAL AND COMMERCIAL BANK OF
CHINA LIMITED, TOKYO BRANCH**

)
)
)
)
) By: _____
) Name:
) Title:

Facility Agreement

ALL HONEST INTERNATIONAL LIMITED (as Mortgagor)

and

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH (as Mortgagee)

EQUITABLE SHARE MORTGAGE
relating to shares in Sohu.com (Game) Limited

94 Solaris Avenue, Camana Bay, PO Box 1348, Grand Cayman KY1-1108, Cayman Islands
T +1 345 949 4123 F +1 345 949 4647

BVI | CAYMAN ISLANDS | GUERNSEY | HONG KONG | JERSEY | LONDON

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THIS DEED is made on _____ 2020 between:

- (1) **ALL HONEST INTERNATIONAL LIMITED**, a company incorporated in the British Virgin Islands, with registered number 563326, whose registered office is at Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands (the **Mortgagor**); and
- (2) **INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH**, of Shin-Marunouchi Building 12F, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo, Japan, 100-6512 (the **Mortgagee**).

INTRODUCTION

- (A) The Lender proposes to make finance facilities available to the Company under the Facility Agreement.
- (B) It is a condition to the Facility Agreement that the Mortgagor enter into this Deed.

IT IS AGREED as follows.

1. INTERPRETATION

1.1 Definitions

The following definitions apply in this Deed unless the context requires otherwise.

Additional Securities means any shares of any class in, or warrants or other securities of any kind issued by, the Company in which the Mortgagor acquires any interest (whether legal and/or beneficial) at any time after executing this Deed.

Business Day means:

- (a) (in the case of delivery of a communication under this Deed) a weekday that is not a public holiday in the place of receipt; and
- (b) (in any other case) a weekday that is not a public holiday in the Cayman Islands.

BVI Act means the BVI Business Companies Act 2004.

BVI Registrar means the Registrar of Corporate Affairs appointed under the BVI Act.

Collateral means the Securities and any Related Assets.

Companies Law means the Companies Law (2020 Revision).

Company means Sohu.com (Game) Limited, an exempted company incorporated in the Cayman Islands, with registered number 204645, whose registered office is at Maples Corporate Services Limited, P.O. Box 309, Uglan House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands.

Delegate means any attorney or agent appointed by the Mortgagee or a Receiver under this Deed.

Facility Agreement means the facility agreement dated on or about the date of this Deed between (among others) the Company and the Lender, and includes each amendment or supplement to it (whether or not the amendment or supplement extends, varies or increases the amount of, any existing finance facility or provides for any additional or replacement finance facility).

Initial Shares means the shares in the Company identified in Schedule 1 (Initial Shares) which are registered in the name of the Mortgagor in the Register of Members.

Receiver means any administrative receiver, receiver and manager or receiver who is appointed as receiver by the Mortgagee under this Deed.

Register of Members means the register of members of the Company maintained by (or on behalf of) the Company in accordance with the Companies Law.

Registrar means the Registrar of Companies of the Cayman Islands.

Related Assets means any:

- (a) dividend, interest or other income or distribution (whether in cash or otherwise) paid or payable in relation to any Securities; and
- (b) other right, money, security or other property that accrues or arises at any time and in any way (including by way of sale, redemption, substitution, conversion, exchange, bonus issue, preference or option) in relation to any Securities.

Secured Liabilities means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of the Company to the Lender under each Finance Document.

Securities means the Initial Shares and any Additional Securities.

Security Interest means any mortgage, charge, pledge, lien, assignment by way of security, encumbrance or other security interest securing an obligation of any person or any other agreement or arrangement having a similar effect.

Security Period means the period beginning on the date of this Deed and ending on the date on which the Mortgagee is reasonably satisfied that all of the Secured Liabilities have been irrevocably and unconditionally paid and discharged in full and no further Secured Liabilities are capable of being outstanding.

1.2 Facility Agreement definitions

Definitions in the Facility Agreement apply in this Deed unless the relevant term is defined in this Deed or the context requires otherwise.

1.3 Interpretation

The following rules apply in this Deed unless the context requires otherwise.

- (a) Headings are for convenience only and do not affect interpretation.
- (b) The singular includes the plural and the converse.
- (c) A gender includes all genders.
- (d) Where a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (e) Mentioning anything after **include, includes** or **including** does not limit what else might be included.
- (f) A reference to a **Clause, Schedule** or **paragraph** is to a clause, schedule or paragraph of this Deed.

- (g) A reference to any agreement, deed or other document (or any provision of it), includes it as amended, varied, supplemented, extended, replaced, restated or transferred from time to time.
- (h) A reference to any legislation (or any provision of it) includes a modification or re-enactment of it, a legislative provision substituted for it and any regulation or statutory instrument issued under it.
- (i) A reference to any person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (j) A reference to a party to this Deed or any other document includes any successor or permitted transferee or assignee of that party.
- (k) An Event of Default is **continuing** if it has not been remedied or waived.
- (l) A reference to the **Collateral** includes any part of it.
- (m) A reference to an **asset** includes any real or personal, present or future, tangible or intangible property or asset and any right, interest or benefit in, under, or derived from, the property or asset.
- (n) A reference to the Mortgagor **acquiring** any Collateral is to it obtaining any interest (whether legal and/or beneficial) in that Collateral in any way, including by way of purchase, substitution, conversion, exchange, bonus issue, preference or option.
- (o) A reference to **writing** includes any means of reproducing words in a permanently visible form.

1.4 **Deed**

It is intended that this Deed will take effect as a deed even if a party to it only executes it under hand.

1.5 **Third party rights**

- (a) Unless expressly stated to the contrary in this Deed, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Law, 2014 to enjoy the benefit of, or enforce any term of, this Deed.
- (b) Notwithstanding any other provisions in this Deed, this Deed may also be discharged or varied in accordance with the Facility Agreement.

2. **UNDERTAKING TO PAY**

The Mortgagor must pay or discharge the Secured Liabilities in the manner, and at the times, provided for in the Finance Documents.

3. **CREATION OF SECURITY**

3.1 **Mortgage**

- (a) The Mortgagor mortgages by way of first equitable mortgage all of its rights, title and interest in, to and under, the Collateral.
- (b) If an Event of Default is continuing, the Mortgagee may convert the equitable mortgage created by this Clause into a legal mortgage by completing and dating any instrument of transfer for the Collateral and causing it to be registered in the name of the Mortgagee or its nominee. The Mortgagee may do so without exercising any power of sale.

3.2 Charge

To the extent that any Collateral is not effectively mortgaged under Clause 3.1 (Mortgage), the Mortgagor charges by way of first fixed charge all of its rights, title and interest in, to and under, the Collateral.

3.3 Nature of security

The security created by this Deed:

- (a) is created in favour of the Mortgagee;
- (b) is first ranking and has priority over all other Security Interests over the Collateral;
- (c) is created over all present and future Collateral;
- (d) is a continuing security; and
- (e) secures the due and punctual payment and discharge of all the Secured Liabilities.

4. DOCUMENTS TO BE DELIVERED

4.1 Initial Shares

- (a) Immediately upon executing this Deed, the Mortgagor must deliver to the Mortgagee:
 - (i) each original share certificate for the Initial Shares or confirmation in writing that no share certificate has been issued for any Initial Shares or confirmation in writing of loss of share certificate;
 - (ii) a signed (but undated) share transfer form for the Initial Shares in the form set out in 0 (Form of share transfer form) with the name of the transferee left blank;
 - (iii) a signed (but undated) deed of appointment relating to the Initial Shares in the form set out in Schedule 3 (Form of deed of appointment);
 - (iv) a signed (but undated) letter of resignation from each director of the Company in the form set out in Schedule 4 (Form of letter of resignation);
 - (v) a signed and dated letter of authorisation from each director of the Company in the form set out in Schedule 5 (Form of letter of authorisation);
 - (vi) a signed and dated letter agreement to the Company's registered office provider in the form set out in Schedule 6 (Form of letter agreement) (which signed letter agreement shall be delivered by, or on behalf of, the Company to its registered office provider and the Mortgagor shall within five Business Days after the date of this Deed deliver to the Mortgagee a copy of such letter agreement signed by the registered office provider of the Company acknowledging, and agreeing to the terms of, such letter agreement); and
 - (vii) a signed and dated letter of undertaking from the Company in the form set out in Schedule 7 (Form of letter of undertaking).

- (b) Within five Business Days of executing this Deed, the Mortgagor must:
- (i) deliver to the Mortgagee a certified copy of the Register of Members which shows the following notation in an appropriate place:
***ALL HONEST INTERNATIONAL LIMITED** has created a mortgage and charge over all of the shares registered in its name in favour of **INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH** under an equitable share mortgage dated [●] between **ALL HONEST INTERNATIONAL LIMITED** and **INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH**. This note was entered on the Company's register of members on [●];*
 - (ii) deliver to the Mortgagee a certified copy of the register of charges maintained by the Mortgagor under the BVI Act which shows particulars of the security created by this Deed; and
 - (iii) register, or assist the Mortgagee to register, particulars of the security created by this Deed with the BVI Registrar in accordance with the BVI Act.
- (c) If a certificate of registration of charge issued by the BVI Registrar relating to the security created by the Mortgagor under this Deed is delivered to the Mortgagor or its registered agent, immediately upon receipt, the Mortgagor must deliver (or procure delivery of) the certificate to the Mortgagee.

4.2 Additional Securities

- (a) On each date on which the Mortgagor acquires any Additional Securities, the Mortgagor must immediately deliver to the Mortgagee:
- (i) each original share certificate for the Additional Securities (or confirmation in writing that no share certificate has been issued for any Additional Securities or confirmation in writing of loss of share certificate) or (in the case of any Additional Securities that are not shares) other certificates or evidence of title for the Additional Securities;
 - (ii) a signed (but undated) share transfer form for the Additional Securities in the form set out in 0 (Form of share transfer form) with the name of the transferee left blank;
 - (iii) a signed (but undated) deed of appointment relating to the Additional Securities in the form set out in Schedule 3 (Form of deed of appointment); and
 - (iv) in the case of any Additional Securities that are not shares, any signed (but undated) instrument of transfer with the name of the transferee left blank, register or other document, evidence or annotation that the Mortgagee may reasonably request to create, perfect or protect the security created over the Additional Securities by this Deed.
- (b) Within ten (10) Business Days of each date on which the Mortgagor acquires any Additional Securities, the Mortgagor must deliver to the Mortgagee a certified copy of the Register of Members, annotated in the manner specified in paragraph (b)(i) of Clause 4.1 (Initial Shares), to show particulars of the security created over the Additional Securities by this Deed.

4.3 New directors

- (a) On each date on which a person is appointed as a director of the Company, the Mortgagor must deliver to the Mortgagee:
- (i) a signed (but undated) letter of resignation from the person in the form set out in Schedule 4 (Form of letter of resignation);
 - (ii) a signed and dated letter of authorisation from the person in the form set out in Schedule 5 (Form of letter of authorisation); and

- (b) Within ten (10) Business Days of each date on which a person is appointed as a director of the Company, the Mortgagor must deliver to the Mortgagee a certified copy of the Company's register of directors and officers.

4.4 **Form of documents**

Each document to be delivered, or annotation or registration to be made, under this Clause must be reasonably satisfactory to the Mortgagee in form and substance.

5. **DISTRIBUTION AND VOTING RIGHTS**

5.1 **Distribution rights**

- (a) If no Event of Default is continuing and any dividend, interest or other income or distribution permitted to be paid under the Facility Agreement is paid (whether in cash or otherwise) in relation to any Collateral, it will belong to, and must be paid to, the Mortgagor.
- (b) If an Event of Default is continuing and any dividend, interest or other income or distribution is paid (whether in cash or otherwise) in relation to any Collateral, it will belong to the Mortgagee and:
 - (i) the Mortgagor must (if paid to it) immediately pay the amount to the Mortgagee (or any person nominated by it), and before making payment, will hold the amount on trust for the Mortgagee; and
 - (ii) the Mortgagee may (in its discretion) apply the amount to reduce the Secured Liabilities.

5.2 **Voting rights**

- (a) If no Event of Default is continuing, the Mortgagor may exercise (or cause to be exercised) any voting rights or other rights or powers attaching to the Collateral. The Mortgagor must not do anything under this paragraph which is prejudicial to the interests of the Mortgagee or inconsistent with the terms of this Deed or any other Finance Document.
- (b) If an Event of Default is continuing, any voting rights or other rights or powers attaching to the Collateral may only be exercised by, or at the direction of, the Mortgagee. The Mortgagee may (in its discretion) complete any deed of appointment delivered to it under this Deed and exercise any voting rights and any other rights or powers which may be exercised by the legal or beneficial owner of the Collateral.

6. **REPRESENTATIONS**

6.1 **Time for making representations**

- (a) The Mortgagor makes each representation in this Clause on the date of this Deed.
- (b) The Mortgagor is taken to repeat each representation in this Clause on each date on which any:
 - (i) representation is repeated under the Facility Agreement; and
 - (ii) Additional Securities are acquired by the Mortgagor.
- (c) When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

6.2 Status

It is duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation.

6.3 Power and authority

It has the power to enter into, and perform its obligations under, and has taken all necessary action to authorise its entry into, and its performance of its obligations under, this Deed and the transactions contemplated by this Deed.

6.4 Solvency

It is solvent and able to pay its debts as they fall due and (to the best of its knowledge) no action has been taken by any person to commence or threaten any insolvency, administration, reorganisation or similar proceedings in respect of or against it.

6.5 No conflict

Its entry into, and the performance of its obligations under, this Deed and the transactions contemplated by this Deed do not, and will not, conflict with:

- (a) any law or regulation applicable to it;
- (b) its or the Company's constitutional documents; or
- (c) any document binding on it or any of its assets.

6.6 Authorisations

It has obtained any Authorisation necessary to enable it to enter into, and perform its obligations under, this Deed and the transactions contemplated by this Deed and each Authorisation is in full force and effect.

6.7 No documentary taxes

No stamp, registration, notarial or similar tax or fee is payable on, or in relation to, this Deed and the transactions contemplated by this Deed except that nominal stamp duty of up to CI\$500 will be payable if this Deed is executed in, or an original copy of it is brought into, the Cayman Islands.

6.8 Governing law and enforcement

The choice of Cayman Islands law as the governing law of this Deed, and any judgment obtained in the Cayman Islands in connection with this Deed, will be recognised and enforced in its jurisdiction of incorporation.

6.9 Legal validity

Subject to general equitable principles, insolvency laws and other laws affecting creditors' rights generally, its obligations under this Deed are legal, valid, binding and enforceable.

6.10 Ownership

- (a) It is the sole legal and beneficial owner of the Collateral free of any Security Interest other than the security created by this Deed.
- (b) Except for this Deed, it has not transferred, sold, granted any option over, or otherwise disposed of, or created any interest in, any Collateral.

6.11 Securities

- (a) All Securities comprised in the Collateral are properly issued and fully paid and it does not owe any money or other liability in relation to any Collateral.
- (b) The Initial Shares comprise all of the issued shares of the Company.
- (c) All documents or certificates of title to the Securities delivered to the Mortgagee under this Deed are the only documents or certificates of title for the Securities.
- (d) Other than the Company's memorandum and articles of association, there are no documents or arrangements in force governing the relationship between the shareholders of the Company, the management of the Company or the issue or ownership of shares in the Company.

6.12 No restrictions on transfer

- (a) The Collateral is not subject to any:
 - (i) option, pre-emptive right or similar right or any other third party interest; or
 - (ii) restriction or prohibition on transfer which would restrict or prohibit any transfer to or by the Mortgagee (or any nominee appointed by it) under this Deed.
- (b) The Mortgagee does not need to obtain the consent or approval of any person to:
 - (i) exercise any of its rights under, or to enforce the security created by, this Deed; or
 - (ii) transfer any Collateral to itself or any other person under this Deed.

6.13 No restrictions notice

The Collateral is not subject to any restrictions notice (as defined in the Companies Law). **6.14 Security**

- (a) This Deed creates the security it intends to create.
- (b) The security created by this Deed is first ranking and is not liable to be avoided or otherwise set aside on the insolvency, liquidation or administration of the Mortgagor or otherwise.

6.15 No filing or registration

Other than the filing with the BVI Registrar pursuant to section 163 of the BVI Act, this Deed does not need to be filed, recorded or registered at any governmental, administrative or other authority or court in any jurisdiction to perfect the security created by it or to establish its priority or enforceability.

6.16 Finance Documents

It has received a copy of each Finance Document.

7. MORTGAGOR'S UNDERTAKINGS

The Mortgagor undertakes to the Mortgagee as follows.

7.1 Ownership

Subject only to this Deed, it will remain the sole legal and beneficial owner of the Collateral.

7.2 Calls and other obligations

It will pay all calls and other payments in respect of the Collateral and will remain liable to observe and perform all other obligations in respect of the Collateral.

7.3 Restrictions on dealing

- (a) It will not (without the prior written consent of the Mortgagee) take or permit any action that may result in:
- (i) the Company's memorandum or articles of association being amended in any way which is prejudicial to the interests of the Mortgagee in any material respect or inconsistent in any material respect with the terms of this Deed or any other Finance Document;
 - (ii) the Company paying, making or distributing any Related Asset unless it is permitted to do so under the Facility Agreement;
 - (iii) any rights attaching to any Collateral being altered;
 - (iv) any replacement certificates of title being issued for any Collateral;
 - (v) the appointment of any director of the Company unless the Mortgagee is provided with each document specified in Clause 4.3 (New directors) on the date of appointment;
 - (vi) a change in the Company's registered office address or registered office provider;
 - (vii) the Company's registered office provider ceasing to maintain the Register of Members;
 - (viii) the Company merging or consolidating with any other body corporate, unless otherwise permitted under the Facility Agreement;
 - (ix) the Company being liquidated; or
 - (x) the Company ceasing to be registered under the Companies Law or in good standing with the Registrar.
- (b) It will not (without the prior written consent of the Mortgagee) transfer, sell, grant any option over, surrender, redeem or otherwise dispose of, part with possession of, or (except as permitted by Clause 5 (Distribution and voting rights)) deal with, any Collateral or permit any of these things to happen.
- (c) It will not (without the prior written consent of the Mortgagee) create, or allow to exist, any Security Interest or other third party interest over any Collateral.

7.4 No other acts

It will not do or permit to be done (or omit to do or permit to be done) anything that may in any way:

- (a) materially diminish or materially adversely affect the value of any Collateral; or
- (b) adversely affect the security created by this Deed.

7.5 Documents and information

- (a) Immediately upon receipt, it will deliver to the Mortgagee a copy of any communication or other document relating to any Collateral that would reasonably be considered to be material to the security created by this Deed.
- (b) It will promptly disclose to the Mortgagee any information relating to any Collateral that the Mortgagee may reasonably request.

7.6 Receipts

If the Mortgagee or any Receiver or Delegate sells any Collateral under this Deed, it will, immediately on request, deliver a valid receipt for the proceeds of sale of the Collateral to the purchaser.

8. FURTHER ASSURANCE

8.1 Further assurance

The Mortgagor must (at its own cost and expense) take any action the Mortgagee or a Receiver may reasonably require to:

- (a) create, perfect, register or protect any security intended to be created by this Deed; or
- (b) facilitate the realisation of any Collateral or the exercise any right, power or discretion in respect of the Collateral conferred on the Mortgagee or any Receiver by this Deed or provided by law.

8.2 Actions

The things that the Mortgagor must do under this Clause include:

- (a) executing any power of attorney, mortgage, charge, transfer, assignment or assurance of any property or rights whether to the Mortgagee, its nominee or otherwise; or
- (b) giving any notice, order or direction or making any registration or filing, the Mortgagee considers reasonably necessary or desirable.

9. ENFORCEMENT OF SECURITY

9.1 When security becomes enforceable

The security created by this Deed becomes enforceable immediately if an Event of Default is continuing.

9.2 Exercise of Mortgagee's powers

After the security created by this Deed becomes enforceable, the Mortgagee may (in its discretion) exercise (or refrain from exercising) any power of enforcement under this Deed or provided by law:

- (a) without notice to the Mortgagor (unless otherwise required under the Facility Agreement) or prior authorisation from any court or any person; and
- (b) in respect of all or any part of the Collateral in any way it thinks fit.

9.3 **Mortgagee's powers**

- (a) The Mortgagee's powers of enforcement include the power to:
 - (i) assume control of, and to have it or its nominee registered as holder of legal title to, any Collateral;
 - (ii) sell, exchange, grant options over, or otherwise dispose of, any Collateral by any method, at any time and on any terms, it thinks fit or to postpone doing of any of these things;
 - (iii) complete, date and deliver any document delivered to it under this Deed; and
 - (iv) exercise any other right, power or remedy given to it under this Deed (including to appoint a Receiver) or provided by law.
- (b) The Mortgagee may do (or refrain from doing) any of these things in any manner it thinks fit.

9.4 **Prior Security Interests**

- (a) In addition to the Mortgagee's powers under Clause 9.3 (Mortgagee's powers), the Mortgagee may:
 - (i) redeem any prior Security Interest against any Collateral;
 - (ii) procure the transfer of the Security Interest to it; or
 - (iii) settle and pass the accounts of the holder of the Security Interest, and those accounts will be, in the absence of manifest error, conclusive and binding on the Mortgagor.
- (b) The Mortgagor must pay the Mortgagee, immediately on demand, any reasonable and documented out-of-pocket cost or expense (including any principal or interest) incurred by it in connection with any redemption or transfer.

9.5 **Powers conferred by law**

The powers conferred on mortgagees by law are exercisable at any time after the security created by this Deed becomes enforceable.

9.6 **No liability as mortgagee in possession**

Neither the Mortgagee nor any Receiver will be liable, by reason of entering into possession of any Collateral, to account as mortgagee in possession or for any loss on realisation or for any default or omission for which a mortgagee in possession might be liable, except to the extent resulting from any deliberate misconduct or deliberate default of the Mortgagee or any Receiver.

9.7 **Contingencies**

If the security created by this Deed is enforced at a time when no amount is due in respect of the Secured Liabilities or any Secured Liabilities are contingent or future, the Mortgagee or any Receiver may pay the proceeds of any recoveries made by it into any account to be held by it as security and applied in accordance with the terms of this Deed.

10. APPOINTMENT AND POWERS OF RECEIVER

10.1 Appointment

- (a) The Mortgagee may appoint a Receiver in relation to any Collateral if:
 - (i) the security created by this Deed becomes enforceable; or
 - (ii) the Mortgagor requests it to do so in writing.
- (b) If the Mortgagee appoints more than one Receiver in relation to any Collateral, each Receiver may act individually unless the Receiver's terms of appointment state otherwise.

10.2 Removal

The Mortgagee may remove any Receiver appointed by it and may appoint a new Receiver in place of any Receiver whose appointment has terminated for any reason.

10.3 Remuneration

The Mortgagee may fix the remuneration of any Receiver appointed by it.

10.4 Agent of Mortgagor

A Receiver will be an agent of the Mortgagor. The Mortgagor is solely responsible for any contracts, engagements, acts, omissions, defaults and losses of a Receiver and for any liabilities incurred by a Receiver, except to the extent resulting from any deliberate misconduct or deliberate default of any such Receiver.

10.5 Exercise of Receiver's powers by Mortgagee

To the extent permitted by law, any right, power or discretion conferred on a Receiver by this Deed or provided by law may, after the security created by this Deed becomes enforceable, be exercised by the Mortgagee in relation to any Collateral. The Mortgagee may do so without first appointing a Receiver or even if it has appointed a Receiver.

10.6 Receiver's powers

In addition to any powers provided by law, and except to the extent specifically excluded by a Receiver's terms of appointment, each Receiver has power to do anything in relation to the Collateral that the Mortgagor could do. This includes power to:

- (a) take possession of, get in and collect, any Collateral;
- (b) raise or borrow money and grant security over any Collateral on any terms the Receiver thinks fit;
- (c) sell, exchange, grant options over, or otherwise dispose of, any Collateral by any method, at any time and on any terms, the Receiver thinks fit or to postpone doing of any of these things;
- (d) appoint or remove any manager, officer, attorney or accountant or other professionally qualified person to assist with the performance of the Receiver's functions;
- (e) bring, defend or abandon, any action or proceedings in relation to any Collateral;
- (f) make any arrangement or compromise in relation to any Collateral;
- (g) exercise any voting or other rights in relation to any Collateral;

- (h) give a valid receipt for any moneys and execute any assurance or thing which the Receiver thinks necessary or desirable for realising any Collateral;
- (i) (subject to any limitation in the Receiver's terms of appointment) delegate any of the Receiver's powers to any person on any terms the Receiver thinks fit; and
- (j) do all acts and things the Receiver considers necessary or desirable to protect, improve or realise any Collateral, or incidental or conducive, to the exercise of any of the Receiver's rights, powers or discretions.

11. **PROTECTION OF THIRD PARTIES**

No person (including a purchaser) dealing with the Mortgagee or any Receiver or Delegate need enquire as to:

- (a) whether or not an Event of Default is continuing;
- (b) whether the Secured Liabilities have become due or payable;
- (c) whether any right or power which the Mortgagee, Receiver or Delegate is attempting to exercise has become exercisable or is being properly exercised; or
- (d) how any money paid to the Mortgagee or Receiver will be applied.

12. **APPLICATION OF PROCEEDS**

12.1 **Application of proceeds**

All moneys received or recovered by the Mortgagee or any Receiver under this Deed after the security created by this Deed has become enforceable will be applied in accordance with the following order of priority:

- (a) **first** in paying or providing for all costs and expenses incurred by the Mortgagee or any Receiver under, or in connection with, this Deed (including any Receiver's remuneration);
- (b) **secondly** in paying or providing for the Secured Liabilities; and
- (c) **thirdly** in paying the surplus (if any) to the Mortgagor or other person entitled to it.

12.2 **Prior claims**

This Clause is subject to the payment of any claims having priority over the security created by this Deed.

12.3 **Shortfall**

This Clause does not prejudice the right of the Mortgagee to recover any shortfall from the Mortgagor.

13. **POWER OF ATTORNEY**

13.1 **Power**

The Mortgagor, by way of security, irrevocably appoints the Mortgagee, any Receiver and any Delegate individually to be its attorney (with full power to appoint substitutes and to delegate) to do any act or thing, and execute (under hand or seal) and deliver any deed or document of any kind, which the Mortgagee, Receiver or Delegate (in its discretion) reasonably considers necessary or desirable to:

- (a) create, perfect, register, maintain or give full effect to, the security intended to be created by this Deed;

- (b) more satisfactorily secure any Collateral;
- (c) make any claim, take any action or bring any proceedings, to protect the security created by this Deed;
- (d) exercise any right, power or remedy under this Deed, including to:
 - (i) complete, date and deliver any document delivered under Clause 4 (Documents to be delivered); and
 - (ii) exercise any voting rights which may be exercised by the Mortgagor in relation to any Collateral;
- (e) do anything that the Mortgagor is required to do under this Deed; and/or
- (f) remedy any breach of this Deed by the Mortgagor.

13.2 Ratification

The Mortgagor ratifies and confirms anything that an attorney may do in the proper exercise or intended exercise of the powers conferred by this Clause.

14. GENERAL PROVISIONS

14.1 Payments by Mortgagor

- (a) All payments by the Mortgagor under this Deed must be made without set-off, counterclaim or deduction of any kind.
- (b) If the Mortgagor is required by the law of any jurisdiction to deduct any amount (whether on account of tax or otherwise) from any payment under this Deed, it must pay any additional amount that is necessary to ensure that the Mortgagee or any Receiver receives a net amount equal to the full amount of the original payment.

14.2 New account

- (a) If the Mortgagee receives any actual or constructive notice of a subsequent Security Interest affecting any Collateral, it may open a separate account in its records in the name of the Mortgagor.
- (b) If the Mortgagee does not open a new account, it will be treated as if it had done so at the time it received actual or constructive notice of the subsequent Security Interest.
- (c) From the time the new account is opened or taken to be open, all payments to the Mortgagee will be credited or treated as having been credited to the new account and will not operate to reduce the Secured Liabilities.

14.3 Delegation by Mortgagee

- (a) The Mortgagee or (subject to any limitation in the Receiver's terms of appointment) any Receiver may delegate by power of attorney or in any other manner any right, power or discretion exercisable by it under this Deed.
- (b) Any delegation may be made on any terms (including the power to sub-delegate), and to any person, the Mortgagee or Receiver thinks fit.

- (c) Neither the Mortgagee nor any Receiver will be liable or responsible for any loss or liability arising from any act, default, omission or misconduct by any delegate or sub-delegate, unless such loss or liability arises or results from any deliberate misconduct or deliberate default of any such delegate or sub-delegate.

14.4 Discretion and consents

Except where expressly stated otherwise, the Mortgagee or any Receiver or Delegate may:

- (a) give or withhold or give conditionally any approval or consent;
- (b) be satisfied or not satisfied as to any matter or thing;
- (c) form any opinion; and
- (d) exercise any right, power or discretion,

in the person's sole discretion having regard to the interests of the Mortgagee alone.

14.5 Rights cumulative

- (a) The rights of the Mortgagee and any Receiver under this Deed:
 - (i) may be exercised as often as necessary;
 - (ii) are cumulative and not exclusive of its rights provided by law; and
 - (iii) may only be waived in writing and specifically.
- (b) Any delay in exercising, or the non-exercise of, any right is not a waiver of that right.

14.6 No obligation to perform, etc

Neither the Mortgagee nor any Receiver need in relation to any Collateral:

- (a) perform any obligation of the Mortgagor;
- (b) make any payment;
- (c) enquire as to the nature or sufficiency of any payment received by it or the Mortgagor; or
- (d) present or file any claim, or take any other action, to collect or enforce the payment of any amount to which it is entitled under this Deed.

14.7 Payment of Mortgagor's obligations

- (a) If the Mortgagor has failed to do so, the Mortgagee or any Receiver may pay any liability of the Mortgagor in relation to any Collateral. Any payment made by the Mortgagee or any Receiver will form part of the Secured Liabilities.
- (b) The Mortgagor must reimburse the Mortgagee or Receiver immediately on demand for any payment made by it under this Clause.

14.8 **Protection of Mortgagee, Receiver etc**

To the extent permitted by law and unless otherwise expressly provided in this Deed, neither the Mortgagee nor any Receiver or Delegate will be liable for any:

- (a) conduct, delay, negligence or breach of duty in the exercise or non-exercise of any right, power or discretion under this Deed or provided by law; or
 - (b) loss (including consequential loss) which results,
- except where it arises from the person's deliberate misconduct or deliberate default.

14.9 **Change in Mortgagee**

This Deed will remain valid and enforceable despite any change in the name, composition or constitution of the Mortgagee or any merger, amalgamation or consolidation by the Mortgagee with any other body corporate.

14.10 **Currency conversion**

- (a) The Mortgagee or any Receiver may convert any moneys received, recovered or realised by it under this Deed from their existing currency into any other currency it thinks fit.
- (b) Any conversion will be made at a market rate and any commissions or charges payable in respect of the conversion will form part of the Secured Liabilities.

14.11 **Certificate conclusive**

Any certificate or determination by the Mortgagee as to the amount of any Secured Liability is, in the absence of manifest error, conclusive.

14.12 **Severability**

If any provision of this Deed is or becomes illegal, invalid or unenforceable in any jurisdiction, this will not affect the legality, validity or enforceability in:

- (a) that jurisdiction of any other provision of this Deed; or
- (b) any other jurisdiction of that or any other provision of this Deed.

14.13 **Time of the essence**

Time is of the essence for the purposes of this Deed, both as regards the dates and periods mentioned in any Finance Document and any dates and periods which the Mortgagor and the Mortgagee agree in writing to substitute for them.

14.14 **Variations in writing**

No variation to this Deed will be valid unless it is in writing and signed on behalf of each party to this Deed.

14.15 **Failure to execute**

If, for any reason, a party to this Deed fails to execute it on or before the date on which it is dated, it will be valid and binding on those parties who have executed it. That party may execute and deliver this Deed on any later date and will become bound by it with effect from that date.

15. **PROTECTION OF SECURITY**

15.1 **Continuing security**

The security created by this Deed is a continuing security for, and will extend to the ultimate balance of, the Secured Liabilities regardless of any intermediate payment or discharge in whole or part.

15.2 Application of this Deed

The Mortgagor intends that the security created by this Deed, and its obligations under this Deed, will extend to any transfer, variation, increase, extension, replacement or addition of, or to, any Finance Document and/or any finance facility or amount made available under any Finance Document for any purpose, even if it is fundamentally different or more onerous.

15.3 Avoidable payments

If the Mortgagee considers any amount paid by the Mortgagor in respect of the Secured Liabilities is capable of being avoided or set aside on the insolvency, liquidation or administration of the Mortgagor or otherwise, that amount is not considered to have been paid for the purposes of this Deed.

15.4 Reinstatement

- (a) If any release (whether in respect of the obligations of any Obligor or any security for those obligations or otherwise) or arrangement is made in whole or part on the faith of any payment, security or other disposition which is reduced, avoided or liable to be reduced or avoided by any insolvency, breach of duty or otherwise, the liability of the Mortgagor under, and the security created by, this Deed will continue or be reinstated as if the release or arrangement had not occurred.
- (b) The Mortgagee may concede or compromise any claim that any payment, security or other disposition is liable to be avoided or restored.
- (c) This Clause continues to apply after this Deed has been discharged.

15.5 Appropriations

Until the Security Period has ended, the Mortgagee (or any trustee or agent on its behalf) or Receiver may, without affecting the liability of the Mortgagor under this Deed:

- (a) refrain from applying or enforcing any moneys, security or rights held or received by it in respect of the Secured Liabilities or apply or enforce them in any manner or order it thinks fit (whether against the Secured Liabilities or otherwise); and
- (b) hold in a suspense account any moneys received from the Mortgagor or on account of the Secured Liabilities.

15.6 Waiver of defences

The obligations of the Mortgagor under this Deed will not be affected by any act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any obligation or liability of the Mortgagor under this Deed (whether or not known to it), including:

- (a) any time, waiver, concession or indulgence granted to any person;
- (b) the release of any person under any composition or arrangement;
- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over, any assets of any person;
- (d) any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (e) any incapacity or lack of power, authority or legal personality of, or dissolution or change in the members or status of, any person;

- (f) any amendment (however fundamental or onerous) or replacement of any Finance Document or any other document or security (including any change in the purpose of, any extension of, or any increase in, any finance facility provided under or pursuant to any Finance Document);
- (g) any unenforceability, illegality, invalidity or non-provability of any obligation of any person under any Finance Document or any other document or security; or
- (h) any insolvency, liquidation or similar proceedings.

15.7 No competition

- (a) Until the Security Period has ended, the Mortgagor may not (unless the Mortgagee directs it to do so in writing) after any claim has been made against it, or by virtue of any payment or performance by it, under this Deed:
 - (i) be subrogated to any rights, security or moneys held, received or receivable by the Mortgagee (or any trustee or agent on its behalf) or Receiver;
 - (ii) be entitled to any right of contribution or indemnity in respect of any payment made or moneys received on account of the Secured Liabilities;
 - (iii) claim, rank, prove or vote as a creditor of any person or any person's estate in competition with the Mortgagee (or any trustee or agent on its behalf) or Receiver;
 - (iv) receive, claim or have the benefit of, any payment, distribution or security from, or on account of, any Obligor; or
 - (v) exercise any right of set-off against any Obligor.
- (b) The Mortgagor must immediately pay or transfer to the Mortgagee, and before making that payment or transfer, must hold on trust for the Mortgagee:
 - (i) any payment or distribution or benefit of security received by it; and
 - (ii) an amount equal to any right of set-off exercised by it, contrary to this Clause.

15.8 Immediate recourse

To the extent permitted by law, neither the Mortgagee nor any Receiver is obliged, before exercising any right, power or remedy under this Deed or provided by law to:

- (a) make any demand of any person, except to the extent required by the Facility Agreement;
- (b) take any action or obtain judgment in any court against any person;
- (c) make or file any claim or proof in a bankruptcy, liquidation or dissolution of any person; or
- (d) enforce or seek to enforce any security taken in respect of, or under, any Finance Document or any other document or arrangement relating to the Secured Liabilities.

15.9 Exclusion of legislation

To the extent permitted by law, all legislation which (directly or indirectly):

- (a) lessens, varies or affects any obligation of the Mortgagor under this Deed; or
- (b) delays, prevents or prejudicially affects the exercise by the Mortgagee or any Receiver of any right, power or remedy under this Deed, is excluded from this Deed.

15.10 Additional security

The security created by this Deed:

- (a) is independent from, and in addition to; and
- (b) will not merge in, be prejudicially affected by, or prejudicially affect, any other Security Interest for any of the Secured Liabilities now or subsequently held by the Mortgagee.

16. SET-OFF

16.1 Set-off

The Mortgagee may at any time while an Event of Default is continuing (and despite any settlement of account or any other matter) set-off any matured obligation due from the Mortgagor under any Finance Document (to the extent beneficially owned by the Mortgagee) against any matured obligation owed by the Mortgagee to the Mortgagor, regardless of the place of payment, booking branch or currency of either obligation.

16.2 Currencies

If the obligations are in different currencies, the Mortgagee may convert either obligation at a prevailing market rate of exchange for the purpose of the set-off.

17. ASSIGNMENT

17.1 Mortgagor

The Mortgagor may not assign any of its rights or transfer any of its rights and obligations under this Deed without the prior written consent of the Mortgagee.

17.2 Mortgagee

- (a) The Mortgagee may assign its rights, or transfer (in whole or part) its rights and obligations, under this Deed to any person to whom it assigns its rights, or transfers its rights and obligations, under the Facility Agreement (in whole or part) in accordance with the terms of the Facility Agreement.
- (b) The Mortgagee may disclose any information regarding the Mortgagor, the Secured Liabilities or the Collateral to any potential assignee or transferee permitted in accordance with the terms of the Facility Agreement.

18. COSTS AND EXPENSES AND INDEMNITY

18.1 Costs and expenses

The Mortgagor must pay on demand (on a full indemnity basis) all documented out-of-pocket costs and expenses of any kind incurred by the Mortgagee or any Receiver or Delegate in connection with:

- (a) the creation, perfection or registration of the security intended to be created by this Deed;

- (b) the actual or attempted protection, preservation or enforcement of the security created by this Deed;
- (c) the exercise, or attempted exercise, of any right, power or remedy under this Deed;
- (d) the conversion of an amount denominated in one currency into another;
- (e) the breach by the Mortgagor of any of its obligations under this Deed; or
- (f) any proceedings to recover the Secured Liabilities.

18.2 Indemnity

- (a) The Mortgagor must indemnify (on a full indemnity basis) the Mortgagee, any Receiver, any Delegate and any employee of any of them (each, an **Indemnified Person**) against any documented out-of-pocket cost, expense, loss, liability or claim, whether arising in contract, tort or otherwise, incurred by, or made against, any Indemnified Person in connection with anything:
 - (i) referred to in Clause 18.1 (Costs and expenses); or
 - (ii) done or not done by any Indemnified Person in relation to any Collateral or any right, power or remedy under this Deed.
- (b) This indemnity does not apply to any cost, expense, loss, liability or claim arising as a result of any Indemnified Person's deliberate misconduct or deliberate default.

19. RELEASE

At the end of the Security Period, the Mortgagee will (at the request and cost and expense of the Mortgagor):

- (a) execute all such documents and take all such actions as may be reasonably necessary to release the security created by this Deed; and
- (b) return to the Mortgagor any document delivered to the Mortgagee under Clause 4 (Documents to be delivered).

20. COMMUNICATIONS

20.1 In writing

Any communication in connection with this Deed must be in writing and, unless otherwise stated, may be given in person, by registered post or fax.

20.2 Contact details

- (a) The contact details of the Mortgagor for this purpose are:

Address: Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road
Haidian District, Beijing 100190
People's Republic of China

TEL number: (8610) 56412892

Attention: Ms. Joanna Lv

or any substitute address, fax number or officer that the Mortgagor may by not less than five Business Days' notice specify.

(b) The contact details of the Mortgagee for this purpose are:

Address: Shin-Marunouchi Building 12F, 1-5-1 Marunouchi, Chiyoda-ku,
Tokyo, Japan, 100-6512

Fax number: +81 03-5219 8525

Attention: Wang Meng/Han Jiangpeng

or any substitute address, fax number or officer that the Mortgagee may specify by not less than five Business Days' notice.

20.3 Effectiveness

(a) Except as provided below, any communication in connection with this Deed will be taken to be given:

(i) (if it is delivered in person or left at an address) at the time it is delivered or left;

(ii) (if it is sent by registered post) seven Business Days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and

(iii) (if it is sent by fax) when the transmission has been successfully completed.

(b) A communication given under paragraph (a) above but received on a non-Business Day or after 5pm in the place of receipt will only be taken to be given on the next Business Day in that place.

20.4 Language

Any communication or document given in connection with this Deed must be in English or (if not in English) accompanied by a certified English translation. A certified English translation of any document will prevail and may be relied upon by the Mortgagee.

21. COUNTERPARTS

This Deed may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of this Deed.

22. GOVERNING LAW, JURISDICTION AND PROCESS AGENT

22.1 Governing law

The laws of the Cayman Islands govern this Deed and its interpretation.

22.2 Jurisdiction

(a) The courts of the Cayman Islands have jurisdiction to settle any dispute or claim arising under, or in connection with, this Deed and the Mortgagor irrevocably submits to the jurisdiction of those courts.

(b) Subject to any applicable law:

(i) nothing contained in this Clause prevents the Mortgagee from bringing proceedings against the Mortgagor in any other court of competent jurisdiction; and

- (ii) if the Mortgagee brings proceedings against the Mortgagor in more than one jurisdiction, this does not prevent the Mortgagee from bringing proceedings (whether or not concurrent) against the Mortgagor in any other jurisdiction.
- (c) The Mortgagor irrevocably and unconditionally waives any:
 - (i) objection which it may have at any time to any proceedings being brought against it in any court referred to in this Clause; and
 - (ii) claim that those proceedings have been commenced in an inconvenient forum.
- (d) The Mortgagor unconditionally agrees that a judgment in any proceedings brought in any court referred to in this Clause will be conclusive and binding on the Mortgagor and may be enforced in the courts of any other jurisdiction.

22.3 Process Agent

In addition to any other means of service allowed by law, the Mortgagor:

- (a) irrevocably appoints the Company (whose contact details for this purpose are as follows) as its agent for service of process in any proceedings before the courts of the Cayman Islands;
 - Address: Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road
Haidian District, Beijing 100190
People's Republic of China
 - TEL number: (8610) 56412892
 - Attention: Ms. Joanna Lv
- (b) agrees that, if a process agent ceases to act in that capacity or no longer has an address in the Cayman Islands, the Mortgagor will:
 - (i) appoint a substitute process agent reasonably acceptable to the Mortgagee within five Business Days; and
 - (ii) deliver to the Mortgagee a copy of the new process agent's acceptance of that appointment, and failing this, the Mortgagee may appoint another agent for this purpose; and
- (c) agrees that the failure by a process agent to notify it of any proceedings will not invalidate those proceedings.

This Deed is executed and delivered, and takes effect, as a deed on the date written above.

Schedule 1. Initial Shares

Company name and number	Sohu.com (Game) Limited (company number 204645)
Description of shares	Ordinary shares of US\$1.00 par value each
Amount paid on shares	Fully paid
Number of shares	1
Share certificate number(s)	2

Schedule 2. Form of share transfer form

SHARE TRANSFER FORM

Company
(Name, company number and address)

Sohu.com (Game) Limited
(company number 204645)
Maples Corporate Services Limited,
P.O. Box 309,
Ugland House, South Church Street, George Town,
Grand Cayman KY1-1104, Cayman Islands

Share(s)	Description	Number
	Ordinary fully paid shares of US\$1.00 par value each	

Transferor
(Name and address)

ALL HONEST INTERNATIONAL LIMITED
Maples Corporate Services (BVI) Limited,
Kingston Chambers,
P.O. Box 173,
Road Town, Tortola, British Virgin Islands

Transferee
(Name and address)

The Transferor, who is recorded in the Company's register of members as the holder of the Share(s), transfers the Share(s) to the Transferee

_____ Date

For and on behalf of
Transferor

The Transferor requests that all necessary entries be made in the Company's register of members to record the transfer of the Share(s) to the Transferee

Share Mortgage (Borrower)

Schedule 3. Form of deed of appointment

Sohu.com (Game) Limited

(the Company)

DEED OF APPOINTMENT

We, ALL HONEST INTERNATIONAL LIMITED, of Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands are a shareholder of the Company.

This Deed relates to all of the shares in the capital of the Company (the **Shares**) that are registered in our name in the Company’s register of members.

Pursuant to an equitable share mortgage dated [●] (the **Share Mortgage**) between Industrial and Commercial Bank of China Limited, Tokyo Branch as mortgagee (the **Appointee**) and us, we have created an equitable mortgage and charge over (among other things) the Shares in favour of the Appointee.

Definitions and principles of construction in the Share Mortgage apply in this Deed unless the context requires otherwise.

We irrevocably appoint the Appointee as our:

1. proxy to attend any meeting of shareholders of the Company (and any adjournment) and to exercise (or refrain from exercising) all voting rights attaching to the Shares in relation to any resolution considered by the meeting (or adjourned meeting) in any manner the Appointee thinks fit; and
2. attorney (with full power to appoint substitutes and to delegate) to exercise all of our rights and powers as a shareholder of the Company, including to:
 - (a) appoint any proxy to attend and vote at any meeting of shareholders of the Company;
 - (b) sign or consent to any resolutions in writing of the shareholders of the Company; and
 - (c) requisition any meeting of the shareholders of the Company.

We ratify and confirm anything that the Appointee may do under, or in connection with, this Deed.

This Deed is given to secure the Appointee’s proprietary interest in the Shares under the Share Mortgage. This Deed will remain in force until the Appointee notifies you in writing that the Secured Liabilities have been irrevocably and unconditionally paid or discharged the Secured Liabilities in full.

The laws of the Cayman Islands govern this Deed and its interpretation.

This Deed is executed and delivered, and takes effect, as a deed on the date written below.

DATED

EXECUTED as a deed on behalf of)
ALL HONEST INTERNATIONAL LIMITED)
)

Share Mortgage (Borrower)

Schedule 4. Form of letter of resignation

The Directors
Sohu.com (Game) Limited
Maples Corporate Services Limited,
P.O. Box 309,
Ugland House, South Church Street, George Town,
Grand Cayman KY1-1104, Cayman Islands

Dear Sirs

Sohu.com (Game) Limited (the Company)—resignation as a director

I resign as a director of the Company with immediate effect and without compensation for loss of office.

I confirm that I have no claim or right of action of any kind against the Company or any of its parents, subsidiaries or affiliates arising out of, or in connection with, my holding office with the Company or otherwise. To the extent that any such claim or right of action may exist, I irrevocably and unconditionally waive it and release each such person from any liability in respect of it.

The laws of the Cayman Islands govern this letter and its interpretation.

Yours faithfully

[Name]

Date

Share Mortgage (Borrower)

Schedule 5. Form of letter of authorisation

Industrial and Commercial Bank of China Limited, Tokyo Branch
Shin-Marunouchi Building 12F,
1-5-1 Marunouchi, Chiyoda-ku,
Tokyo, Japan, 100-6512

[Date]

Dear Sirs

Sohu.com (Game) Limited (the Company)—resignation authorisation

I refer to the equitable share mortgage dated on or about the date of this letter (the **Share Mortgage**) between ALL HONEST INTERNATIONAL LIMITED and Industrial and Commercial Bank of China Limited, Tokyo Branch as mortgagee (the **Mortgagee**) relating to shares in the Company.

Definitions and principles of construction in the Share Mortgage apply in this letter unless the context requires otherwise.

Enclosed is my signed but undated letter of resignation under which I resign as a director of the Company without compensation for loss of office.

The Mortgagee is irrevocably authorised to date and deliver my letter of resignation to the Company if an Event of Default is continuing.

The laws of the Cayman Islands govern this letter and its interpretation.

Yours faithfully

[Name]

Share Mortgage (Borrower)

Schedule 6. Form of letter agreement

Maples Corporate Services Limited
PO Box 309, Uglund House
Grand Cayman
KY1-1104
Cayman Islands

Date: _____

Dear Sirs

Sohu.com (Game) Limited (the “Company”): Agreement re Register of Members of the Company

We hereby notify you that pursuant to an equitable share mortgage (the “**Mortgage**”) dated [●] 2020 between ALL HONEST INTERNATIONAL LIMITED, as mortgagor, (the “**Mortgagor**”) and Industrial and Commercial Bank of China Limited, Tokyo Branch as mortgagee (the “**Mortgagee**”), the Mortgagor has granted a security interest in favour of the Mortgagee over all the shares standing in its name on the register of members of the Company (the “**Register**”) and all other shares in the Company from time to time legally or beneficially owned by the Mortgagor in the Company (the “**Shares**”).

We refer to the Terms and Conditions under which you provide registered office services to the Company (the “**Terms**”) and set out below the agreement reached between the Company, the Mortgagor, you and the Mortgagee in relation to the Register maintained by you pursuant to the Terms that, notwithstanding any other provisions of the Terms:

1. You are to make an annotation of the existence of the Mortgage and the security interests created thereby in the Register and, only upon your receipt of the Discharge Notice (as defined below), you shall amend such annotation to record that the Mortgage and such security interests have been released and discharged.
2. At any time after the Mortgagee notifies you in writing that an Event of Default has occurred (as defined in the Mortgage) you are authorised and entitled to rely upon the instructions of the Mortgagee to register the Mortgagee or its nominee (as the Mortgagee may direct) in the Register as the registered holder of the Shares pursuant to the Mortgage (provided that the Mortgagee delivers to you a duly completed and executed transfer form together with the relevant share certificates (if any) in respect of the Shares being transferred) and to otherwise comply with any directions or instructions from the Mortgagee in relation thereto. Such authorisation and entitlement to rely upon the instructions of the Mortgagee shall only terminate upon your receipt of a notification in writing from the Mortgagee confirming that the Mortgage has been discharged (such notification being the “**Discharge Notice**”).
3. In performing your obligations under the terms of this letter you shall be entitled to rely upon instructions given by, or purporting to be given by, a director or other officer or authorised signatory of the Mortgagee.
4. The Mortgagee’s instructions shall prevail in all circumstances in respect of the matters referred to in 1 and 2 above and you are entitled to comply with such instructions of the Mortgagee.

Share Mortgage (Borrower)

5. The Company, the Mortgagor and the Mortgagee shall jointly and severally indemnify (on a full indemnity basis) and hold harmless you, the firm of Maples and Calder and any entities, whether partnerships, companies or otherwise, owned or controlled by, or under common control with or affiliated with, Maples and Calder as may be established from time to time (for themselves and on trust and as agents for the benefit of the other persons mentioned below), their successors and assigns and their respective directors, officers, employees, agents and partners present and future and each of them, as the case may be, against all liabilities, obligations losses, damages, penalties, actions, proceedings, claims, judgements, demands, costs, expenses or disbursements of any kind (including legal fees and expenses) whatsoever which they or any of them may incur or be subject to in consequence of acting pursuant to any instructions received from the Mortgagee in respect of the matters referred to in 1 and 2 above. This indemnity provision shall survive termination of the agreement set out in this letter.
6. The agreement set out in this letter shall terminate upon the earlier of the date of (i) the Discharge Notice, (ii) termination of the Terms and (iii) you ceasing to maintain the Register.

The Company and you hereby agree that the Terms, and all rights and obligations of the parties thereunder, shall remain in full force and effect. The terms of this letter shall not, except as expressly provided herein, be deemed to be consent to any waiver or modification of any other terms or provisions of the Terms.

The terms set out in this letter are governed by, and shall be construed in accordance with, the laws of the Cayman Islands.

Please confirm by countersigning below that you agree to the above.

Yours faithfully

Authorised Signatory
for and on behalf of the Company
Sohu.com (Game) Limited

Authorised Signatory
for and on behalf of the Mortgagee
**Industrial and Commercial Bank of
China Limited, Tokyo Branch**

Authorised Signatory
for and on behalf of the Mortgagor
ALL HONEST INTERNATIONAL LIMITED

Share Mortgage (Borrower)

Acknowledged and agreed.

Name:
Authorised Signatory for and on behalf of
Maples Corporate Services Limited

Share Mortgage (Borrower)

Schedule 7. Form of letter of undertaking

To: Industrial and Commercial Bank of China Limited, Tokyo Branch (the **Mortgagee**)

From: Sohu.com (Game) Limited (the **Company**)

From: ALL HONEST INTERNATIONAL LIMITED (the **Mortgagor**)

Date: _____

Dear Sirs

We refer to the equitable share mortgage dated [●] 2020 (as may be amended and/or supplemented from time to time, the **Share Mortgage**) between the Mortgagor and the Mortgagee.

Definitions and principles of construction in the Share Mortgage apply in this letter unless the context requires otherwise.

Pursuant to the Share Mortgage, the Mortgagor has created a mortgage and charge over (among other things) all of the shares in the Company (representing 100% of the current issued shares of the Company) and any additional shares issued by the Company to the Mortgagor and/or any other shares mortgaged or charged by the Mortgagor pursuant to the Share Mortgage in the future that are registered in our name from time to time in the Register of Members (together, the **Shares**) in favour of the Mortgagee.

This letter of undertaking is given pursuant to the Share Mortgage.

For valuable consideration receipt of which is hereby acknowledged, the Company irrevocably undertakes to the Mortgagee as follows.

1. Immediately upon receipt, it will act (or ensure that its registered office provider acts) in accordance with any dated, completed and signed document that is substantially in the form of Schedule 2 (Form of share transfer form), Schedule 3 (Form of deed of appointment) or Schedule 4 (Form of letter of resignation) of the Share Mortgage.
2. Immediately upon becoming aware, it will notify the Mortgagee if:
 - a. the Mortgagor attempts to do, or has done, anything in breach of Clause 7.3 (Restrictions on dealing) of the Share Mortgage; or
 - b. the directors of the Company attempt to do, or have done, anything referred to in paragraph (a) of Clause 7.3 (Restrictions on dealing) of the Share Mortgage.
3. It irrevocably waives any lien or right of forfeiture that may arise at any time during the Security Period under its memorandum or articles of association or otherwise in relation to the Collateral.
4. It will ensure that, on each date on which a person is appointed as a director of the Company, the Mortgagee is provided with each document specified in Clause 4.3 (New directors) of the Share Mortgage.
5. It irrevocably consents to any transfer of any Securities made under, or in connection with, the Share Mortgage.
6. During the Security Period, it will only register in the Register of Members a transfer of Securities at the request, or with the prior written consent, of the Mortgagee.

Share Mortgage (Borrower)

7. It will ensure that the Register of Members is annotated in accordance with paragraph (b)(i) of Clause 4.1 (Initial Shares) and paragraph (b) of Clause 4.2 (Additional Securities) of the Share Mortgage.
8. It will take all actions under this undertaking promptly, and in any event, in a timeframe that will allow the Mortgagor to comply with its obligations under the Share Mortgage.
9. It will not issue a restrictions notice (as defined in the Companies Law) in relation to the Collateral without the Mortgagee's prior written consent.

The Company confirms that it accepts its appointment under the Share Mortgage as the Mortgagor's agent for service of process in any proceedings before the courts of the Cayman Islands.

This letter may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of this letter.

The laws of the Cayman Islands govern this letter and its interpretation.

This letter is executed as a deed and delivered, and takes effect, as a deed on the date written above.

Authorised Signatory
for and on behalf of the Company
Sohu.com (Game) Limited

Authorised Signatory
for and on behalf of the Mortgagor
ALL HONEST INTERNATIONAL LIMITED

Share Mortgage (Borrower)

Mortgagor

EXECUTED as a deed on behalf of)
ALL HONEST INTERNATIONAL LIMITED)
)

Mortgagee

EXECUTED as a deed on behalf of)
Industrial and Commercial Bank of China)
Limited, Tokyo Branch)

Share Mortgage (Borrower)

SOHU.COM (GAME) LIMITED (as Mortgagor)

and

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH (as Mortgagee)

EQUITABLE SHARE MORTGAGE
relating to shares in Changyou.com Limited

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THIS DEED is made on _____ 2020 between:

- (1) **SOHU.COM (GAME) LIMITED**, an exempted company incorporated in the Cayman Islands, with registered number 204645, whose registered office is at Maples Corporate Services Limited, P.O. Box 309, Ugland House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands (the **Mortgagor**); and
- (2) **INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH**, of Shin-Marunouchi Building 12F, 1-5-1 Marunouchi, Chiyoda-ku, Tokyo, Japan, 100-6512 (the **Mortgagee**).

INTRODUCTION

- (A) The Lender proposes to make finance facilities available to the Mortgagor under the Facility Agreement.
- (B) Pursuant to the terms of the Merger Agreement, Changyou Merger Co. Limited (an exempted company incorporated with limited liability under the laws of the Cayman Islands (registration number 358665)), will merge with and into with the Company continuing as the surviving company resulting from the merger on and from the Effective Time.
- (C) It is a condition to the Facility Agreement that the Mortgagor enter into this Deed.

IT IS AGREED as follows.

1. INTERPRETATION

1.1 Definitions

The following definitions apply in this Deed unless the context requires otherwise.

Additional Securities means (following the Effective Time) any shares of any class in, or warrants or other securities of any kind issued by, the Company but only to the extent such shares, warrants or other securities are issued or distributed to the Mortgagor in the form of, or as, a dividend or other distribution of such shares, warrants or other securities on or with respect to the Initial Shares (and in which the Mortgagor acquires any interest (whether legal and/or beneficial) at any time after executing this Deed).

Business Day means:

- (a) (in the case of delivery of a communication under this Deed) a weekday that is not a public holiday in the place of receipt; and
- (b) (in any other case) a weekday that is not a public holiday in the Cayman Islands.

Collateral means the Securities and any Related Assets held by the Mortgagor.

Companies Law means the Companies Law (2020 Revision).

Company means Changyou.com Limited, an exempted company incorporated in the Cayman Islands, with registered number 192730, whose registered office is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

Delegate means any attorney or agent appointed by the Mortgagee or a Receiver under this Deed.

Effective Time has the meaning given to that term in the Facility Agreement.

Facility Agreement means the facility agreement dated on or about the date of this Deed between (among others) the Mortgagor and the Lender, and includes each amendment or supplement to it (whether or not the amendment or supplement extends, varies or increases the amount of, any existing finance facility or provides for any additional or replacement finance facility).

Initial Shares means the shares in the Company identified in Schedule 1 (Initial Shares) which will, on the Effective Time, be registered in the name of the Mortgagor in the Register of Members.

Receiver means any administrative receiver, receiver and manager or receiver who is appointed as receiver by the Mortgagee under this Deed.

Register of Members means the register of members of the Company maintained by (or on behalf of) the Company in accordance with the Companies Law.

Registrar means the Registrar of Companies of the Cayman Islands.

Related Assets means any:

- (a) dividend, interest or other income or distribution (whether in cash or otherwise) paid or payable in relation to any Securities; and
- (b) other right, money, security or other property that accrues or arises at any time and in any way (including by way of sale, redemption, substitution, conversion, exchange, bonus issue, preference or option) in relation to any Securities.

Secured Liabilities means all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally or in any other capacity whatsoever) of the Company to the Lender under each Finance Document.

Securities means the Initial Shares and any Additional Securities.

Security Interest means any mortgage, charge, pledge, lien, assignment by way of security, encumbrance or other security interest securing an obligation of any person or any other agreement or arrangement having a similar effect.

Security Period means the period beginning on the date of this Deed and ending on the date on which the Mortgagee is reasonably satisfied that all of the Secured Liabilities have been irrevocably and unconditionally paid and discharged in full and no further Secured Liabilities are capable of being outstanding.

1.2 Facility Agreement definitions

Definitions in the Facility Agreement apply in this Deed unless the relevant term is defined in this Deed or the context requires otherwise.

1.3 Interpretation

The following rules apply in this Deed unless the context requires otherwise.

- (a) Headings are for convenience only and do not affect interpretation.
- (b) The singular includes the plural and the converse.
- (c) A gender includes all genders.
- (d) Where a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (e) Mentioning anything after **include, includes** or **including** does not limit what else might be included.

- (f) A reference to a **Clause, Schedule** or **paragraph** is to a clause, schedule or paragraph of this Deed.
- (g) A reference to any agreement, deed or other document (or any provision of it), includes it as amended, varied, supplemented, extended, replaced, restated or transferred from time to time.
- (h) A reference to any legislation (or any provision of it) includes a modification or re-enactment of it, a legislative provision substituted for it and any regulation or statutory instrument issued under it.
- (i) A reference to any person, corporation, trust, partnership, unincorporated body or other entity includes any of them.
- (j) A reference to a party to this Deed or any other document includes any successor or permitted transferee or assignee of that party.
- (k) An Event of Default is **continuing** if it has not been remedied or waived.
- (l) A reference to the **Collateral** includes any part of it.
- (m) A reference to an **asset** includes any real or personal, present or future, tangible or intangible property or asset and any right, interest or benefit in, under, or derived from, the property or asset.
- (n) A reference to the Mortgagor **acquiring** any Collateral is to it obtaining any interest (whether legal and/or beneficial) in that Collateral in any way, including by way of purchase, substitution, conversion, exchange, bonus issue, preference or option.
- (o) A reference to **writing** includes any means of reproducing words in a permanently visible form.

1.4 **Deed**

It is intended that this Deed will take effect as a deed even if a party to it only executes it under hand.

1.5 **Third party rights**

- (a) Unless expressly stated to the contrary in this Deed, a person who is not a party to this Deed has no right under the Contracts (Rights of Third Parties) Law, 2014 to enjoy the benefit of, or enforce any term of, this Deed.
- (b) Notwithstanding any other provisions in this Deed, this Deed may also be discharged or varied in accordance with the Facility Agreement.

2. **UNDERTAKING TO PAY**

The Mortgagor must pay or discharge the Secured Liabilities in the manner, and at the times, provided for in the Finance Documents.

3. **CREATION OF SECURITY**

3.1 **Mortgage**

- (a) The Mortgagor mortgages by way of first equitable mortgage, with effect from the Effective Time, all of its rights, title and interest in, to and under, the Collateral.
- (b) If an Event of Default is continuing, the Mortgagee may convert the equitable mortgage created by this Clause into a legal mortgage by completing and dating any instrument of transfer for the Collateral and causing it to be registered in the name of the Mortgagee or its nominee. The Mortgagee may do so without exercising any power of sale.

3.2 Charge

With effect from the Effective Time, to the extent that any Collateral is not effectively mortgaged under Clause 3.1 (Mortgage), the Mortgagor charges by way of first fixed charge all of its rights, title and interest in, to and under, the Collateral.

3.3 Nature of security

The security created by this Deed:

- (a) is created in favour of the Mortgagee;
- (b) is first ranking and has priority over all other Security Interests over the Collateral;
- (c) is created over all present and future Collateral;
- (d) is a continuing security; and
- (e) secures the due and punctual payment and discharge of all the Secured Liabilities.

4. DOCUMENTS TO BE DELIVERED

4.1 Initial Shares

- (a) Within five Business Days of the Effective Time, the Mortgagor must deliver to the Mortgagee:
 - (i) each original share certificate for the Initial Shares or confirmation in writing that no share certificate has been issued for any Initial Shares or confirmation in writing of loss of share certificate;
 - (ii) a signed (but undated) share transfer form for the Initial Shares in the form set out in Schedule 1 (Form of share transfer form) with the name of the transferee left blank;
 - (iii) a signed (but undated) deed of appointment relating to the Initial Shares in the form set out in Schedule 3 (Form of deed of appointment);
 - (iv) a certified copy of the Company's register of directors;
 - (v) a signed (but undated) letter of resignation from each director of the Company in the form set out in Schedule 4 (Form of letter of resignation);
 - (vi) a signed and dated letter of authorisation from each director of the Company in the form set out in Schedule 5 (Form of letter of authorisation);
 - (vii) a signed and dated letter agreement to the Company's registered office provider in the form set out in Schedule 6 (Form of letter agreement) (which signed letter agreement shall be delivered by, or on behalf of, the Company to its registered office provider); and
 - (viii) a signed and dated letter of undertaking from the Company in the form set out in Schedule 7 (Form of letter of undertaking).

- (b) Within five Business Days of the Effective Time, the Mortgagor must deliver to the Mortgagee a certified copy of the Register of Members which shows the following notation in an appropriate place:

SOHU.COM (GAME) LIMITED has created a mortgage and charge over 14,350,000 Class B ordinary shares registered in its name in favour of *INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH* under an equitable share mortgage dated [●] between *SOHU.COM (GAME) LIMITED* and *INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED, TOKYO BRANCH*. This note was entered on the Company's register of members on [●];

- (c) Within five Business Days of the Effective Time, the Mortgagor must deliver to the Mortgagee a certified copy of the register of mortgages and charges maintained by the Mortgagor under the Companies Law which shows particulars of the security created by this Deed.

4.2 Additional Securities

- (a) On each date on which the Mortgagor acquires any Additional Securities, the Mortgagor must immediately deliver to the Mortgagee:
- (i) each original share certificate for the Additional Securities (or confirmation in writing that no share certificate has been issued for any Additional Securities or confirmation in writing of loss of share certificate) or (in the case of any Additional Securities that are not shares) other certificates or evidence of title for the Additional Securities;
 - (ii) a signed (but undated) share transfer form for the Additional Securities in the form set out in Schedule 1 (Form of share transfer form) with the name of the transferee left blank;
 - (iii) a signed (but undated) deed of appointment relating to the Additional Securities in the form set out in Schedule 3 (Form of deed of appointment); and
 - (iv) in the case of any Additional Securities that are not shares, any signed (but undated) instrument of transfer with the name of the transferee left blank, register or other document, evidence or annotation that the Mortgagee may reasonably request to create, perfect or protect the security created over the Additional Securities by this Deed.
- (b) Within five Business Days of each date on which the Mortgagor acquires any Additional Securities, the Mortgagor must deliver to the Mortgagee a certified copy of the Register of Members, annotated in the manner specified in paragraph (b) of Clause 4.1 (Initial Shares), to show particulars of the security created over the Additional Securities by this Deed.

4.3 New directors

- (a) Within five Business Days of each date on which a person is appointed as a director of the Company, the Mortgagor must deliver to the Mortgagee:
- (i) a signed (but undated) letter of resignation from the person in the form set out in Schedule 4 (Form of letter of resignation);
 - (ii) a signed and dated letter of authorisation from the person in the form set out in Schedule 5 (Form of letter of authorisation); and
- (b) Within five Business Days of each date on which a person is appointed as a director of the Company, the Mortgagor must deliver to the Mortgagee a certified copy of the Company's register of directors and officers.

4.4 **Form of documents**

Each document to be delivered, or annotation or registration to be made, under this Clause must be reasonably satisfactory to the Mortgagee in form and substance.

5. **DISTRIBUTION AND VOTING RIGHTS**

5.1 **Distribution rights**

- (a) If no Event of Default is continuing and any dividend, interest or other income or distribution permitted to be paid under the Facility Agreement is paid (whether in cash or otherwise) in relation to any Collateral, it will belong to, and must be paid to, the Mortgagor.
- (b) If an Event of Default is continuing and any dividend, interest or other income or distribution is paid (whether in cash or otherwise) in relation to any Collateral, it will belong to the Mortgagee and:
 - (i) the Mortgagor must (if paid to it) immediately pay the amount to the Mortgagee (or any person nominated by it), and before making payment, will hold the amount on trust for the Mortgagee; and
 - (ii) the Mortgagee may (in its discretion) apply the amount to reduce the Secured Liabilities.

5.2 **Voting rights**

- (a) If no Event of Default is continuing, the Mortgagor may exercise (or cause to be exercised) any voting rights or other rights or powers attaching to the Collateral. The Mortgagor must not do anything under this paragraph which is prejudicial to the interests of the Mortgagee or inconsistent with the terms of this Deed or any other Finance Document.
- (b) If an Event of Default is continuing, any voting rights or other rights or powers attaching to the Collateral may only be exercised by, or at the direction of, the Mortgagee. The Mortgagee may (in its discretion) complete any deed of appointment delivered to it under this Deed and exercise any voting rights and any other rights or powers which may be exercised by the legal or beneficial owner of the Collateral.

6. **REPRESENTATIONS**

6.1 **Time for making representations**

- (a) The Mortgagor makes each representation in this Clause on the date of this Deed.
- (b) The Mortgagor is taken to repeat each representation in this Clause on:
 - (i) the Effective Time;
 - (ii) on each date on which any representation is repeated under the Facility Agreement; and
 - (iii) on each date on which any Additional Securities are acquired by the Mortgagor.
- (c) When a representation is repeated, it is applied to the circumstances existing at the time of repetition.

6.2 Status

It is duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation.

6.3 Power and authority

It has the power to enter into, and perform its obligations under, and has taken all necessary action to authorise its entry into, and its performance of its obligations under, this Deed and the transactions contemplated by this Deed.

6.4 Solvency

It is solvent and able to pay its debts as they fall due and (to the best of its knowledge) no action has been taken by any person to commence or threaten any insolvency, administration, reorganisation or similar proceedings in respect of or against it.

6.5 No conflict

Its entry into, and the performance of its obligations under, this Deed and the transactions contemplated by this Deed do not, and will not, conflict with:

- (a) any law or regulation applicable to it;
- (b) its or the then effective Company's constitutional documents as at the Effective Time; or
- (c) any document binding on it or any of its assets.

6.6 Authorisations

It has obtained any Authorisation necessary to enable it to enter into, and perform its obligations under, this Deed and the transactions contemplated by this Deed and each Authorisation is in full force and effect.

6.7 No documentary taxes

No stamp, registration, notarial or similar tax or fee is payable on, or in relation to, this Deed and the transactions contemplated by this Deed except that nominal stamp duty of up to CI\$500 will be payable if this Deed is executed in, or an original copy of it is brought into, the Cayman Islands.

6.8 Governing law and enforcement

The choice of Cayman Islands law as the governing law of this Deed, and any judgment obtained in the Cayman Islands in connection with this Deed, will be recognised and enforced in its jurisdiction of incorporation.

6.9 Legal validity

Subject to general equitable principles, insolvency laws and other laws affecting creditors' rights generally, its obligations under this Deed are legal, valid, binding and enforceable.

6.10 Ownership

- (a) From the Effective Time, it will be the sole legal and beneficial owner of the Collateral free of any Security Interest other than the security created by this Deed.
- (b) Except for this Deed, it has not transferred, sold, granted any option over, or otherwise disposed of, or created any interest in, any Collateral.

6.11 Securities

- (a) All Securities comprised in the Collateral will, from the Effective Time, be properly issued and fully paid and it does not owe any money or other liability in relation to any Collateral.
- (b) The Initial Shares comprise 20% of the issued and outstanding shares of the Company as at the Effective Time.
- (c) All documents or certificates of title to the Securities delivered to the Mortgagee under this Deed are the only documents or certificates of title for the Securities.
- (d) Other than the Company's memorandum and articles of association, from the Effective Time, there are no documents or arrangements in force governing the relationship between the shareholders of the Company, the management of the Company or the issue or ownership of shares in the Company.

6.12 No restrictions on transfer

- (a) The Collateral is not subject to any:
 - (i) option, pre-emptive right or similar right or any other third party interest; or
 - (ii) restriction or prohibition on transfer which would restrict or prohibit any transfer to or by the Mortgagee (or any nominee appointed by it) under this Deed.
- (b) The Mortgagee does not need to obtain the consent or approval of any person to:
 - (i) exercise any of its rights under, or to enforce the security created by, this Deed; or
 - (ii) transfer any Collateral to itself or any other person under this Deed.

6.13 No restrictions notice

The Collateral is not subject to any restrictions notice (as defined in the Companies Law).

6.14 Security

- (a) This Deed creates the security it intends to create.
- (b) The security created by this Deed is first ranking and is not liable to be avoided or otherwise set aside on the insolvency, liquidation or administration of the Mortgagor or otherwise.

6.15 No filing or registration

This Deed does not need to be filed, recorded or registered at any governmental, administrative or other authority or court in any jurisdiction to perfect the security created by it or to establish its priority or enforceability.

6.16 Finance Documents

It has received a copy of each Finance Document.

7. MORTGAGOR'S UNDERTAKINGS

The Mortgagor undertakes to the Mortgagee as follows.

7.1 Ownership

Subject only to this Deed, it will, from the Effective Time, be and remain the sole legal and beneficial owner of the Collateral.

7.2 Calls and other obligations

It will pay all calls and other payments in respect of the Collateral and will remain liable to observe and perform all other obligations in respect of the Collateral.

7.3 Restrictions on dealing

- (a) It will not (without the prior written consent of the Mortgagee) take or permit any action that may result in:
- (i) the Company's memorandum or articles of association being amended in any way which is prejudicial to the interests of the Mortgagee in any material respect or inconsistent in any material respect with the terms of this Deed or any other Finance Document;
 - (ii) the Company paying, making or distributing any Related Asset unless it is permitted to do so under the Facility Agreement;
 - (iii) any rights attaching to any Collateral being altered;
 - (iv) any replacement certificates of title being issued for any Collateral;
 - (v) the appointment of any director of the Company unless the Mortgagee is provided with each document specified in Clause 4.3 (New directors) on the date of appointment;
 - (vi) a change in the Company's registered office address or registered office provider;
 - (vii) the Company's registered office provider ceasing to maintain the Register of Members;
 - (viii) the Company merging or consolidating with any other body corporate, unless otherwise permitted under the Facility Agreement;
 - (ix) the Company being liquidated; or
 - (x) the Company ceasing to be registered under the Companies Law or in good standing with the Registrar.
- (b) It will not (without the prior written consent of the Mortgagee) transfer, sell, grant any option over, surrender, redeem or otherwise dispose of, part with possession of, or (except as permitted by Clause 5 (Distribution and voting rights)) deal with, any Collateral or permit any of these things to happen.
- (c) It will not (without the prior written consent of the Mortgagee) create, or allow to exist, any Security Interest or other third party interest over any Collateral.

7.4 No other acts

It will not do or permit to be done (or omit to do or permit to be done) anything that may in any way:

- (a) materially diminish or materially adversely affect the value of any Collateral; or
- (b) adversely affect the security created by this Deed.

7.5 Documents and information

- (a) Immediately upon receipt, it will deliver to the Mortgagee a copy of any communication or other document relating to any Collateral that would reasonably be considered to be material to the security created by this Deed.
- (b) It will promptly disclose to the Mortgagee any information relating to any Collateral that the Mortgagee may reasonably request.

7.6 Receipts

If the Mortgagee or any Receiver or Delegate sells any Collateral under this Deed, it will, immediately on request, deliver a valid receipt for the proceeds of sale of the Collateral to the purchaser.

8. FURTHER ASSURANCE

8.1 Further assurance

The Mortgagor must (at its own cost and expense) take any action the Mortgagee or a Receiver may reasonably require to:

- (a) create, perfect, register or protect any security intended to be created by this Deed; or
- (b) facilitate the realisation of any Collateral or the exercise any right, power or discretion in respect of the Collateral conferred on the Mortgagee or any Receiver by this Deed or provided by law.

8.2 Actions

The things that the Mortgagor must do under this Clause include:

- (a) executing any power of attorney, mortgage, charge, transfer, assignment or assurance of any property or rights whether to the Mortgagee, its nominee or otherwise; or
- (b) giving any notice, order or direction or making any registration or filing, the Mortgagee considers reasonably necessary or desirable.

9. ENFORCEMENT OF SECURITY

9.1 When security becomes enforceable

The security created by this Deed becomes enforceable immediately if an Event of Default is continuing.

9.2 Exercise of Mortgagee's powers

After the security created by this Deed becomes enforceable, the Mortgagee may (in its discretion) exercise (or refrain from exercising) any power of enforcement under this Deed or provided by law:

- (a) without notice to the Mortgagor (unless otherwise required under the Facility Agreement) or prior authorisation from any court or any person; and
- (b) in respect of all or any part of the Collateral in any way it thinks fit.

9.3 **Mortgagee's powers**

- (a) The Mortgagee's powers of enforcement include the power to:
 - (i) assume control of, and to have it or its nominee registered as holder of legal title to, any Collateral;
 - (ii) sell, exchange, grant options over, or otherwise dispose of, any Collateral by any method, at any time and on any terms, it thinks fit or to postpone doing of any of these things;
 - (iii) complete, date and deliver any document delivered to it under this Deed; and
 - (iv) exercise any other right, power or remedy given to it under this Deed (including to appoint a Receiver) or provided by law.
- (b) The Mortgagee may do (or refrain from doing) any of these things in any manner it thinks fit.

9.4 **Prior Security Interests**

- (a) In addition to the Mortgagee's powers under Clause 9.3 (Mortgagee's powers), the Mortgagee may:
 - (i) redeem any prior Security Interest against any Collateral;
 - (ii) procure the transfer of the Security Interest to it; or
 - (iii) settle and pass the accounts of the holder of the Security Interest, and those accounts will be, in the absence of manifest error, conclusive and binding on the Mortgagor.
- (b) The Mortgagor must pay the Mortgagee, immediately on demand, any reasonable and documented out-of-pocket cost or expense (including any principal or interest) incurred by it in connection with any redemption or transfer.

9.5 **Powers conferred by law**

The powers conferred on mortgagees by law are exercisable at any time after the security created by this Deed becomes enforceable.

9.6 **No liability as mortgagee in possession**

Neither the Mortgagee nor any Receiver will be liable, by reason of entering into possession of any Collateral, to account as mortgagee in possession or for any loss on realisation or for any default or omission for which a mortgagee in possession might be liable, except to the extent resulting from any deliberate misconduct or deliberate default of the Mortgagee or any Receiver.

9.7 **Contingencies**

If the security created by this Deed is enforced at a time when no amount is due in respect of the Secured Liabilities or any Secured Liabilities are contingent or future, the Mortgagee or any Receiver may pay the proceeds of any recoveries made by it into any account to be held by it as security and applied in accordance with the terms of this Deed.

10. APPOINTMENT AND POWERS OF RECEIVER

10.1 Appointment

- (a) The Mortgagee may appoint a Receiver in relation to any Collateral if:
 - (i) the security created by this Deed becomes enforceable; or
 - (ii) the Mortgagor requests it to do so in writing.
- (b) If the Mortgagee appoints more than one Receiver in relation to any Collateral, each Receiver may act individually unless the Receiver's terms of appointment state otherwise.

10.2 Removal

The Mortgagee may remove any Receiver appointed by it and may appoint a new Receiver in place of any Receiver whose appointment has terminated for any reason.

10.3 Remuneration

The Mortgagee may fix the remuneration of any Receiver appointed by it.

10.4 Agent of Mortgagor

A Receiver will be an agent of the Mortgagor. The Mortgagor is solely responsible for any contracts, engagements, acts, omissions, defaults and losses of a Receiver and for any liabilities incurred by a Receiver, except to the extent resulting from any deliberate misconduct or deliberate default of any such Receiver.

10.5 Exercise of Receiver's powers by Mortgagee

To the extent permitted by law, any right, power or discretion conferred on a Receiver by this Deed or provided by law may, after the security created by this Deed becomes enforceable, be exercised by the Mortgagee in relation to any Collateral. The Mortgagee may do so without first appointing a Receiver or even if it has appointed a Receiver.

10.6 Receiver's powers

In addition to any powers provided by law, and except to the extent specifically excluded by a Receiver's terms of appointment, each Receiver has power to do anything in relation to the Collateral that the Mortgagor could do. This includes power to:

- (a) take possession of, get in and collect, any Collateral;
- (b) raise or borrow money and grant security over any Collateral on any terms the Receiver thinks fit;
- (c) sell, exchange, grant options over, or otherwise dispose of, any Collateral by any method, at any time and on any terms, the Receiver thinks fit or to postpone doing any of these things;
- (d) appoint or remove any manager, officer, attorney or accountant or other professionally qualified person to assist with the performance of the Receiver's functions;
- (e) bring, defend or abandon, any action or proceedings in relation to any Collateral;
- (f) make any arrangement or compromise in relation to any Collateral;
- (g) exercise any voting or other rights in relation to any Collateral;

- (h) give a valid receipt for any moneys and execute any assurance or thing which the Receiver thinks necessary or desirable for realising any Collateral;
- (i) (subject to any limitation in the Receiver's terms of appointment) delegate any of the Receiver's powers to any person on any terms the Receiver thinks fit; and
- (j) do all acts and things the Receiver considers necessary or desirable to protect, improve or realise any Collateral, or incidental or conducive, to the exercise of any of the Receiver's rights, powers or discretions.

11. **PROTECTION OF THIRD PARTIES**

No person (including a purchaser) dealing with the Mortgagee or any Receiver or Delegate need enquire as to:

- (a) whether or not an Event of Default is continuing;
- (b) whether the Secured Liabilities have become due or payable;
- (c) whether any right or power which the Mortgagee, Receiver or Delegate is attempting to exercise has become exercisable or is being properly exercised; or
- (d) how any money paid to the Mortgagee or Receiver will be applied.

12. **APPLICATION OF PROCEEDS**

12.1 **Application of proceeds**

All moneys received or recovered by the Mortgagee or any Receiver under this Deed after the security created by this Deed has become enforceable will be applied in accordance with the following order of priority:

- (a) **first** in paying or providing for all costs and expenses incurred by the Mortgagee or any Receiver under, or in connection with, this Deed (including any Receiver's remuneration);
- (b) **secondly** in paying or providing for the Secured Liabilities; and
- (c) **thirdly** in paying the surplus (if any) to the Mortgagor or other person entitled to it.

12.2 **Prior claims**

This Clause is subject to the payment of any claims having priority over the security created by this Deed.

12.3 **Shortfall**

This Clause does not prejudice the right of the Mortgagee to recover any shortfall from the Mortgagor.

13. **POWER OF ATTORNEY**

13.1 **Power**

The Mortgagor, by way of security, irrevocably appoints the Mortgagee, any Receiver and any Delegate individually to be its attorney (with full power to appoint substitutes and to delegate) to do any act or thing, and execute (under hand or seal) and deliver any deed or document of any kind, which the Mortgagee, Receiver or Delegate (in its discretion) reasonably considers necessary or desirable to:

- (a) create, perfect, register, maintain or give full effect to, the security intended to be created by this Deed;

- (b) more satisfactorily secure any Collateral;
- (c) make any claim, take any action or bring any proceedings, to protect the security created by this Deed;
- (d) exercise any right, power or remedy under this Deed, including to:
 - (i) complete, date and deliver any document delivered under Clause 4 (Documents to be delivered); and
 - (ii) exercise any voting rights which may be exercised by the Mortgagor in relation to any Collateral;
- (e) do anything that the Mortgagor is required to do under this Deed; and/or
- (f) remedy any breach of this Deed by the Mortgagor.

13.2 Ratification

The Mortgagor ratifies and confirms anything that an attorney may do in the proper exercise or intended exercise of the powers conferred by this Clause.

14. GENERAL PROVISIONS

14.1 Payments by Mortgagor

- (a) All payments by the Mortgagor under this Deed must be made without set-off, counterclaim or deduction of any kind.
- (b) If the Mortgagor is required by the law of any jurisdiction to deduct any amount (whether on account of tax or otherwise) from any payment under this Deed, it must pay any additional amount that is necessary to ensure that the Mortgagee or any Receiver receives a net amount equal to the full amount of the original payment.

14.2 New account

- (a) If the Mortgagee receives any actual or constructive notice of a subsequent Security Interest affecting any Collateral, it may open a separate account in its records in the name of the Mortgagor.
- (b) If the Mortgagee does not open a new account, it will be treated as if it had done so at the time it received actual or constructive notice of the subsequent Security Interest.
- (c) From the time the new account is opened or taken to be open, all payments to the Mortgagee will be credited or treated as having been credited to the new account and will not operate to reduce the Secured Liabilities.

14.3 Delegation by Mortgagee

- (a) The Mortgagee or (subject to any limitation in the Receiver's terms of appointment) any Receiver may delegate by power of attorney or in any other manner any right, power or discretion exercisable by it under this Deed.
- (b) Any delegation may be made on any terms (including the power to sub-delegate), and to any person, the Mortgagee or Receiver thinks fit.

- (c) Neither the Mortgagee nor any Receiver will be liable or responsible for any loss or liability arising from any act, default, omission or misconduct by any delegate or sub-delegate, unless such loss or liability arises or results from any deliberate misconduct or deliberate default of any such delegate or sub-delegate.

14.4 Discretion and consents

Except where expressly stated otherwise, the Mortgagee or any Receiver or Delegate may:

- (a) give or withhold or give conditionally any approval or consent;
- (b) be satisfied or not satisfied as to any matter or thing;
- (c) form any opinion; and
- (d) exercise any right, power or discretion,

in the person's sole discretion having regard to the interests of the Mortgagee alone.

14.5 Rights cumulative

- (a) The rights of the Mortgagee and any Receiver under this Deed:
 - (i) may be exercised as often as necessary;
 - (ii) are cumulative and not exclusive of its rights provided by law; and
 - (iii) may only be waived in writing and specifically.
- (b) Any delay in exercising, or the non-exercise of, any right is not a waiver of that right.

14.6 No obligation to perform, etc

Neither the Mortgagee nor any Receiver need in relation to any Collateral:

- (a) perform any obligation of the Mortgagor;
- (b) make any payment;
- (c) enquire as to the nature or sufficiency of any payment received by it or the Mortgagor; or
- (d) present or file any claim, or take any other action, to collect or enforce the payment of any amount to which it is entitled under this Deed.

14.7 Payment of Mortgagor's obligations

- (a) If the Mortgagor has failed to do so, the Mortgagee or any Receiver may pay any liability of the Mortgagor in relation to any Collateral. Any payment made by the Mortgagee or any Receiver will form part of the Secured Liabilities.
- (b) The Mortgagor must reimburse the Mortgagee or Receiver immediately on demand for any payment made by it under this Clause.

14.8 Protection of Mortgagee, Receiver etc

To the extent permitted by law and unless otherwise expressly provided in this Deed, neither the Mortgagee nor any Receiver or Delegate will be liable for any:

- (a) conduct, delay, negligence or breach of duty in the exercise or non-exercise of any right, power or discretion under this Deed or provided by law; or

(b) loss (including consequential loss) which results, except where it arises from the person's deliberate misconduct or deliberate default.

14.9 Change in Mortgagee

This Deed will remain valid and enforceable despite any change in the name, composition or constitution of the Mortgagee or any merger, amalgamation or consolidation by the Mortgagee with any other body corporate.

14.10 Currency conversion

- (a) The Mortgagee or any Receiver may convert any moneys received, recovered or realised by it under this Deed from their existing currency into any other currency it thinks fit.
- (b) Any conversion will be made at a market rate and any commissions or charges payable in respect of the conversion will form part of the Secured Liabilities.

14.11 Certificate conclusive

Any certificate or determination by the Mortgagee as to the amount of any Secured Liability is, in the absence of manifest error, conclusive.

14.12 Severability

If any provision of this Deed is or becomes illegal, invalid or unenforceable in any jurisdiction, this will not affect the legality, validity or enforceability in:

- (a) that jurisdiction of any other provision of this Deed; or
- (b) any other jurisdiction of that or any other provision of this Deed. **14.13 Time of the essence**

Time is of the essence for the purposes of this Deed, both as regards the dates and periods mentioned in any Finance Document and any dates and periods which the Mortgagor and the Mortgagee agree in writing to substitute for them.

14.14 Variations in writing

No variation to this Deed will be valid unless it is in writing and signed on behalf of each party to this Deed.

14.15 Failure to execute

If, for any reason, a party to this Deed fails to execute it on or before the date on which it is dated, it will be valid and binding on those parties who have executed it. That party may execute and deliver this Deed on any later date and will become bound by it with effect from that date.

15. PROTECTION OF SECURITY

15.1 Continuing security

The security created by this Deed is a continuing security for, and will extend to the ultimate balance of, the Secured Liabilities regardless of any intermediate payment or discharge in whole or part.

15.2 Application of this Deed

The Mortgagor intends that the security created by this Deed, and its obligations under this Deed, will extend to any transfer, variation, increase, extension, replacement or addition of, or to, any Finance Document and/or any finance facility or amount made available under any Finance Document for any purpose, even if it is fundamentally different or more onerous.

15.3 Avoidable payments

If the Mortgagee considers any amount paid by the Mortgagor in respect of the Secured Liabilities is capable of being avoided or set aside on the insolvency, liquidation or administration of the Mortgagor or otherwise, that amount is not considered to have been paid for the purposes of this Deed.

15.4 Reinstatement

- (a) If any release (whether in respect of the obligations of any Obligor or any security for those obligations or otherwise) or arrangement is made in whole or part on the faith of any payment, security or other disposition which is reduced, avoided or liable to be reduced or avoided by any insolvency, breach of duty or otherwise, the liability of the Mortgagor under, and the security created by, this Deed will continue or be reinstated as if the release or arrangement had not occurred.
- (b) The Mortgagee may concede or compromise any claim that any payment, security or other disposition is liable to be avoided or restored.
- (c) This Clause continues to apply after this Deed has been discharged.

15.5 Appropriations

Until the Security Period has ended, the Mortgagee (or any trustee or agent on its behalf) or Receiver may, without affecting the liability of the Mortgagor under this Deed:

- (a) refrain from applying or enforcing any moneys, security or rights held or received by it in respect of the Secured Liabilities or apply or enforce them in any manner or order it thinks fit (whether against the Secured Liabilities or otherwise); and
- (b) hold in a suspense account any moneys received from the Mortgagor or on account of the Secured Liabilities.

15.6 Waiver of defences

The obligations of the Mortgagor under this Deed will not be affected by any act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any obligation or liability of the Mortgagor under this Deed (whether or not known to it), including:

- (a) any time, waiver, concession or indulgence granted to any person;
- (b) the release of any person under any composition or arrangement;
- (c) the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over, any assets of any person;
- (d) any non-presentation or non-observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- (e) any incapacity or lack of power, authority or legal personality of, or dissolution or change in the members or status of, any person;

- (f) any amendment (however fundamental or onerous) or replacement of any Finance Document or any other document or security (including any change in the purpose of, any extension of, or any increase in, any finance facility provided under or pursuant to any Finance Document);
- (g) any unenforceability, illegality, invalidity or non-provability of any obligation of any person under any Finance Document or any other document or security; or
- (h) any insolvency, liquidation or similar proceedings.

15.7 No competition

- (a) Until the Security Period has ended, the Mortgagor may not (unless the Mortgagee directs it to do so in writing) after any claim has been made against it, or by virtue of any payment or performance by it, under this Deed:
 - (i) be subrogated to any rights, security or moneys held, received or receivable by the Mortgagee (or any trustee or agent on its behalf) or Receiver;
 - (ii) be entitled to any right of contribution or indemnity in respect of any payment made or moneys received on account of the Secured Liabilities;
 - (iii) claim, rank, prove or vote as a creditor of any person or any person's estate in competition with the Mortgagee (or any trustee or agent on its behalf) or Receiver;
 - (iv) receive, claim or have the benefit of, any payment, distribution or security from, or on account of, any Obligor; or
 - (v) exercise any right of set-off against any Obligor.
- (b) The Mortgagor must immediately pay or transfer to the Mortgagee, and before making that payment or transfer, must hold on trust for the Mortgagee:
 - (i) any payment or distribution or benefit of security received by it; and
 - (ii) an amount equal to any right of set-off exercised by it, contrary to this Clause.

15.8 Immediate recourse

To the extent permitted by law, neither the Mortgagee nor any Receiver is obliged, before exercising any right, power or remedy under this Deed or provided by law to:

- (a) make any demand of any person, except to the extent required by the Facility Agreement;
- (b) take any action or obtain judgment in any court against any person;
- (c) make or file any claim or proof in a bankruptcy, liquidation or dissolution of any person; or
- (d) enforce or seek to enforce any security taken in respect of, or under, any Finance Document or any other document or arrangement relating to the Secured Liabilities.

15.9 Exclusion of legislation

To the extent permitted by law, all legislation which (directly or indirectly):

- (a) lessens, varies or affects any obligation of the Mortgagor under this Deed; or
- (b) delays, prevents or prejudicially affects the exercise by the Mortgagee or any Receiver of any right, power or remedy under this Deed, is excluded from this Deed.

15.10 Additional security

The security created by this Deed:

- (a) is independent from, and in addition to; and
- (b) will not merge in, be prejudicially affected by, or prejudicially affect, any other Security Interest for any of the Secured Liabilities now or subsequently held by the Mortgagee.

16. SET-OFF

16.1 Set-off

The Mortgagee may at any time while an Event of Default is continuing (and despite any settlement of account or any other matter) set-off any matured obligation due from the Mortgagor under any Finance Document (to the extent beneficially owned by the Mortgagee) against any matured obligation owed by the Mortgagee to the Mortgagor, regardless of the place of payment, booking branch or currency of either obligation.

16.2 Currencies

If the obligations are in different currencies, the Mortgagee may convert either obligation at a prevailing market rate of exchange for the purpose of the set-off.

17. ASSIGNMENT

17.1 Mortgagor

The Mortgagor may not assign any of its rights or transfer any of its rights and obligations under this Deed without the prior written consent of the Mortgagee.

17.2 Mortgagee

- (a) The Mortgagee may assign its rights, or transfer (in whole or part) its rights and obligations, under this Deed to any person to whom it assigns its rights, or transfers its rights and obligations, under the Facility Agreement (in whole or part) in accordance with the terms of the Facility Agreement.
- (b) The Mortgagee may disclose any information regarding the Mortgagor, the Secured Liabilities or the Collateral to any potential assignee or transferee permitted in accordance with the terms of the Facility Agreement.

18. COSTS AND EXPENSES AND INDEMNITY

18.1 Costs and expenses

The Mortgagor must pay on demand (on a full indemnity basis) all documented out- of-pocket costs and expenses of any kind incurred by the Mortgagee or any Receiver or Delegate in connection with:

- (a) the creation, perfection or registration of the security intended to be created by this Deed;

- (b) the actual or attempted protection, preservation or enforcement of the security created by this Deed;
- (c) the exercise, or attempted exercise, of any right, power or remedy under this Deed;
- (d) the conversion of an amount denominated in one currency into another;
- (e) the breach by the Mortgagor of any of its obligations under this Deed; or
- (f) any proceedings to recover the Secured Liabilities.

18.2 Indemnity

- (a) The Mortgagor must indemnify (on a full indemnity basis) the Mortgagee, any Receiver, any Delegate and any employee of any of them (each, an **Indemnified Person**) against any documented out-of-pocket cost, expense, loss, liability or claim, whether arising in contract, tort or otherwise, incurred by, or made against, any Indemnified Person in connection with anything:
 - (i) referred to in Clause 18.1 (Costs and expenses); or
 - (ii) done or not done by any Indemnified Person in relation to any Collateral or any right, power or remedy under this Deed.
- (b) This indemnity does not apply to any cost, expense, loss, liability or claim arising as a result of any Indemnified Person's deliberate misconduct or deliberate default.

19. RELEASE

At the end of the Security Period, the Mortgagee will (at the request and cost and expense of the Mortgagor):

- (a) execute all such documents and take all such actions as may be reasonably necessary to release the security created by this Deed; and
- (b) return to the Mortgagor any document delivered to the Mortgagee under Clause 4 (Documents to be delivered).

20. COMMUNICATIONS

20.1 In writing

Any communication in connection with this Deed must be in writing and, unless otherwise stated, may be given in person, by registered post or fax.

20.2 Contact details

- (a) The contact details of the Mortgagor for this purpose are:

Address: Level 18, Sohu.com Media Plaza
Block 3, No. 2 Kexueyuan South Road
Haidian District, Beijing 100190
People's Republic of China

TEL number: (8610) 62726611

Fax number: (8610) 56412892

Attention: Ms. Joanna Lv

or any substitute address, fax number or officer that the Mortgagor may by not less than five Business Days' notice specify.

(b) The contact details of the Mortgagee for this purpose are:

Address: Shin-Marunouchi Building 12F, 1-5-1 Marunouchi, Chiyoda-ku,
Tokyo, Japan, 100-6512
Fax number: +81 03-5219 8525
Attention: Wang Meng/Han Jiangpeng

or any substitute address, fax number or officer that the Mortgagee may specify by not less than five Business Days' notice.

20.3 Effectiveness

(a) Except as provided below, any communication in connection with this Deed will be taken to be given:

- (i) (if it is delivered in person or left at an address) at the time it is delivered or left;
- (ii) (if it is sent by registered post) seven Business Days after being deposited in the post, postage prepaid, in a correctly addressed envelope; and
- (iii) (if it is sent by fax) when the transmission has been successfully completed.

(b) A communication given under paragraph (a) above but received on a non-Business Day or after 5pm in the place of receipt will only be taken to be given on the next Business Day in that place.

20.4 Language

Any communication or document given in connection with this Deed must be in English or (if not in English) accompanied by a certified English translation. A certified English translation of any document will prevail and may be relied upon by the Mortgagee.

21. COUNTERPARTS

This Deed may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of this Deed.

22. GOVERNING LAW AND JURISDICTION

22.1 Governing law

The laws of the Cayman Islands govern this Deed and its interpretation.

22.2 Jurisdiction

(a) The courts of the Cayman Islands have jurisdiction to settle any dispute or claim arising under, or in connection with, this Deed and the Mortgagor irrevocably submits to the jurisdiction of those courts.

-
- (b) Subject to any applicable law:
 - (i) nothing contained in this Clause prevents the Mortgagee from bringing proceedings against the Mortgagor in any other court of competent jurisdiction; and
 - (ii) if the Mortgagee brings proceedings against the Mortgagor in more than one jurisdiction, this does not prevent the Mortgagee from bringing proceedings (whether or not concurrent) against the Mortgagor in any other jurisdiction.
 - (c) The Mortgagor irrevocably and unconditionally waives any:
 - (i) objection which it may have at any time to any proceedings being brought against it in any court referred to in this Clause; and
 - (ii) claim that those proceedings have been commenced in an inconvenient forum.
 - (d) The Mortgagor unconditionally agrees that a judgment in any proceedings brought in any court referred to in this Clause will be conclusive and binding on the Mortgagor and may be enforced in the courts of any other jurisdiction.

This Deed is executed and delivered, and takes effect, as a deed on the date written above.

Schedule 1. Initial Shares

Company name and number	Changyou.com Limited (company number 192730)
Description of shares	Class B Ordinary Shares of US\$0.01 par value each
Amount paid on shares	Fully paid
Number of shares	14,350,000 Class B Ordinary Shares, which represent 20% of the issued and outstanding shares of the Company, as of the Effective Time
Share certificate number(s)	1

**Schedule 2. Form of share transfer form
SHARE TRANSFER FORM**

Company
(Name, company number and address)

Changyou.com Limited
(company number 192730)
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Share(s)

Description **Number**

Class B Ordinary Shares of US\$0.01 par value
each

Transferor
(Name and address)

Sohu.com (Game) Limited
(company number 204645)
Maples Corporate Services Limited,
P.O. Box 309,
Ugland House, South Church Street, George Town,
Grand Cayman KY1-1104, Cayman Islands

Transferee
(Name and address)

The Transferor, who is recorded in the Company's register of members as the holder of the Share(s),
transfers the Share(s) to the Transferee

Date

For and on behalf of
Transferor

The Transferor requests that all necessary entries be made in the Company's register of members to record the transfer of the Share(s) to the Transferee

Share Mortgage (Target)

Schedule 3. Form of deed of appointment

Changyou.com Limited

(the Company)

DEED OF APPOINTMENT

We, Sohu.com (Game) Limited, of Maples Corporate Services Limited, P.O. Box 309, Uglan House, South Church Street, George Town, Grand Cayman KY1-1104, Cayman Islands are a shareholder of the Company.

This Deed relates to 14,350,000 Class B Ordinary Shares, which represent 20% of the issued and outstanding shares of the Company, as of the Effective Time (as defined in the Share Mortgage) (the **Shares**) that are registered in our name in the Company's register of members.

Pursuant to an equitable share mortgage dated [●] (the **Share Mortgage**) between Industrial and Commercial Bank of China Limited, Tokyo Branch as mortgagee (the **Appointee**) and us, we have created an equitable mortgage and charge over (among other things) the Shares in favour of the Appointee.

Definitions and principles of construction in the Share Mortgage apply in this Deed unless the context requires otherwise.

We irrevocably appoint the Appointee as our:

1. proxy to attend any meeting of shareholders of the Company (and any adjournment) and to exercise (or refrain from exercising) all voting rights attaching to the Shares in relation to any resolution considered by the meeting (or adjourned meeting) in any manner the Appointee thinks fit; and
2. attorney (with full power to appoint substitutes and to delegate) to exercise all of our rights and powers as a shareholder of the Company, including to:
 - (a) appoint any proxy to attend and vote at any meeting of shareholders of the Company;
 - (b) sign or consent to any resolutions in writing of the shareholders of the Company; and
 - (c) requisition any meeting of the shareholders of the Company.

We ratify and confirm anything that the Appointee may do under, or in connection with, this Deed.

This Deed is given to secure the Appointee's proprietary interest in the Shares under the Share Mortgage. This Deed will remain in force until the Appointee notifies you in writing that the Secured Liabilities have been irrevocably and unconditionally paid or discharged the Secured Liabilities in full.

The laws of the Cayman Islands govern this Deed and its interpretation.

This Deed is executed and delivered, and takes effect, as a deed on the date written below.

DATED

EXECUTED as a deed on behalf of)
SOHU.COM (GAME) LIMITED)
)

Share Mortgage (Target)

Schedule 4. Form of letter of resignation

The Directors
Changyou.com Limited
Cricket Square
Hutchins Drive
PO Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Changyou.com Limited (the Company)—resignation as a director

I resign as a director of the Company with immediate effect and without compensation for loss of office.

I confirm that I have no claim or right of action of any kind against the Company or any of its parents, subsidiaries or affiliates arising out of, or in connection with, my holding office with the Company or otherwise. To the extent that any such claim or right of action may exist, I irrevocably and unconditionally waive it and release each such person from any liability in respect of it.

The laws of the Cayman Islands govern this letter and its interpretation.

Yours faithfully

[Name]

Date

Share Mortgage (Target)

Schedule 5. Form of letter of authorisation

Industrial and Commercial Bank of China Limited, Tokyo Branch
Shin-Marunouchi Building 12F,
1-5-1 Marunouchi, Chiyoda-ku,

Tokyo, Japan, 100-6512

[Date]

Dear Sirs

Changyou.com Limited (the Company) - resignation authorisation

I refer to the equitable share mortgage dated on or about the date of this letter (the **Share Mortgage**) between Sohu.com (Game) Limited and Industrial and Commercial Bank of China Limited, Tokyo Branch as mortgagee (the **Mortgagee**) relating to shares in the Company.

Definitions and principles of construction in the Share Mortgage apply in this letter unless the context requires otherwise.

Enclosed is my signed but undated letter of resignation under which I resign as a director of the Company without compensation for loss of office.

The Mortgagee is irrevocably authorised to date and deliver my letter of resignation to the Company if an Event of Default is continuing.

The laws of the Cayman Islands govern this letter and its interpretation.

Yours faithfully

[Name]

Share Mortgage (Target)

Schedule 6. Form of letter agreement

Conyers Trust Company (Cayman) Limited,
Cricket Square Hutchins Drive PO Box 2681 Grand Cayman KY1-1111 Cayman Islands

Date: _____

Dear Sirs

Changyou.com Limited (the Company): Agreement re Register of Members of the Company

We hereby notify you that pursuant to an equitable share mortgage (the **Mortgage**) dated [●] 2020 between Sohu.com (Game) Limited, as mortgagor (the **Mortgagor**), and Industrial and Commercial Bank of China Limited, Tokyo Branch, as mortgagee (the **Mortgagee**), the Mortgagor has granted a security interest in favour of the Mortgagee over (among other things) 14,350,000 Class B Ordinary Shares, which represent 20% of the issued and outstanding shares of the Company, as of the Effective Time (as defined in the Mortgage), standing in its name on the register of members of the Company (the **Register**) and all the Additional Securities (as defined in the Mortgage) from time to time legally or beneficially owned by the Mortgagor in the Company (the **Shares**).

1. You are to make an annotation of the existence of the Mortgage and the security interests created thereby in the Register and, only upon your receipt of the Discharge Notice (as defined below), you shall amend such annotation to record that the Mortgage and such security interests have been released and discharged.
2. At any time after the Mortgagee notifies you in writing that an Event of Default (as defined in the Mortgage) has occurred, you are authorised and entitled to rely upon the instructions of the Mortgagee to register the Mortgagee or its nominee (as the Mortgagee may direct) in the Register as the registered holder of the Shares pursuant to the Mortgage (provided that the Mortgagee delivers to you a duly completed and executed transfer form together with the relevant share certificates (if any) in respect of the Shares being transferred), and to otherwise comply with any directions or instructions from the Mortgagee in relation thereto. Such authorisation and entitlement to rely upon the instructions of the Mortgagee shall only terminate upon your receipt of a notification in writing from the Mortgagee confirming that the Mortgage has been discharged (such notification being the **Discharge Notice**).
3. In performing your obligations under the terms of this letter you shall be entitled to rely upon instructions given by, or purporting to be given by, a director or other officer or authorised signatory of the Mortgagee.
4. The Mortgagee's instructions shall prevail in all circumstances in respect of the matters referred to in paragraphs 1 and 2 above and you are entitled to comply with such instructions of the Mortgagee.
5. The Company, the Mortgagor and the Mortgagee shall jointly and severally indemnify (on a full indemnity basis) and hold harmless you, the firm of Conyers Dill & Pearman and any entities, whether partnerships, companies or otherwise, owned or controlled by, or under common control with or affiliated with, Conyers Dill & Pearman as may be established from time to time (for themselves and on trust and as agents for the benefit of the other persons mentioned below), their successors and assigns and their respective directors, officers, employees, agents and partners present and future and each of them, as the case may be, against all liabilities, obligations losses, damages, penalties, actions, proceedings, claims, judgements, demands, costs, expenses or disbursements of any kind (including legal fees and expenses) whatsoever which you may reasonably incur or be subject to in consequence of acting pursuant to any instructions received from the Mortgagee in respect of the matters referred to in 1 and 2 above. This indemnity provision shall survive termination of the agreement set out in this letter

Share Mortgage (Target)

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6. The agreement set out in this letter shall terminate upon the earlier of the date of (i) the Discharge Notice and (ii) you ceasing to maintain the Register.
 7. The terms set out in this letter are governed by, and shall be construed in accordance with, the laws of the Cayman Islands.

Share Mortgage (Target)

Yours faithfully

Authorised Signatory
for and on behalf of the Company
Changyou.com Limited

Authorised Signatory
for and on behalf of the Mortgagor
Sohu.com (Game) Limited

Authorised Signatory
for and on behalf of the Mortgagee
Industrial and Commercial Bank of China Limited, Tokyo Branch

Share Mortgage (Target)

Schedule 7. Form of letter of undertaking

To: Industrial and Commercial Bank of China Limited, Tokyo Branch (the **Mortgagee**)

From: Changyou.com Limited (the **Company**)

From: Sohu.com (Game) Limited (the **Mortgagor**)

Date: _____

Dear Sirs

We refer to the equitable share mortgage dated [●] 2020 (as may be amended and/or supplemented from time to time, the **Share Mortgage**) between the Mortgagor and the Mortgagee.

Definitions and principles of construction in the Share Mortgage apply in this letter unless the context requires otherwise.

Pursuant to the Share Mortgage, the Mortgagor has created a mortgage and charge over (among other things) 14,350,000 Class B Ordinary Shares, which represent 20% of the issued and outstanding shares of the Company, as of the Effective Time (as defined in the Share Mortgage) and any additional shares issued by the Company to the Mortgagor and/or any other shares mortgaged or charged by the Mortgagor pursuant to the Share Mortgage in the future that are registered in our name from time to time in the Register of Members (together, the **Shares**) in favour of the Mortgagee.

This letter of undertaking is given pursuant to the Share Mortgage.

For valuable consideration receipt of which is hereby acknowledged, the Company irrevocably undertakes to the Mortgagee as follows.

1. Immediately upon receipt, it will act (or ensure that its registered office provider acts) in accordance with any dated, completed and signed document that is substantially in the form of Schedule 2 (Form of share transfer form), Schedule 3 (Form of deed of appointment) or Schedule 4 (Form of letter of resignation) of the Share Mortgage.
2. Immediately upon becoming aware, it will notify the Mortgagee if:
 - a. the Mortgagor attempts to do, or has done, anything in breach of Clause 7.3 (Restrictions on dealing) of the Share Mortgage; or
 - b. the directors of the Company attempt to do, or have done, anything referred to in paragraph (a) of Clause 7.3 (Restrictions on dealing) of the Share Mortgage.
3. It irrevocably waives any lien or right of forfeiture that may arise at any time during the Security Period under its memorandum or articles of association or otherwise in relation to the Collateral.
4. It will ensure that, on each date on which a person is appointed as a director of the Company, the Mortgagee is provided with each document specified in Clause 4.3 (New directors) of the Share Mortgage.
5. It will ensure that the Company's shareholders do not pass any resolution to amend its memorandum or articles of association in any way that is prejudicial to the interests of the Mortgagee or inconsistent with the terms of the Share Mortgage.

Share Mortgage (Target)

6. It irrevocably consents to any transfer of any Securities made under, or in connection with, the Share Mortgage.
7. During the Security Period, it will only register in the Register of Members a transfer of Securities at the request, or with the prior written consent, of the Mortgagee.
8. It will ensure that the Register of Members is annotated in accordance with paragraph (b) of Clause 4.1 (Initial Shares) and paragraph (b) of Clause 4.2 (Additional Securities) of the Share Mortgage.
9. It will take all actions under this undertaking promptly, and in any event, in a timeframe that will allow the Mortgagor to comply with its obligations under the Share Mortgage.
10. It will not issue a restrictions notice (as defined in the Companies Law) in relation to the Collateral without the Mortgagee's prior written consent.

This letter may be executed in any number of counterparts. This has the same effect as if the signatures on the counterparts were on a single copy of this letter.

The laws of the Cayman Islands govern this letter and its interpretation.

This letter is executed as a deed and delivered, and takes effect, as a deed on the date written above.

Authorised Signatory
for and on behalf of the Company
Changyou.com Limited

Authorised Signatory
for and on behalf of the Mortgagor
Sohu.com (Game) Limited

Share Mortgage (Target)

Mortgagor

EXECUTED as a deed on behalf of)
Sohu.com (Game) Limited)
)

Mortgagee

EXECUTED as a deed on behalf of)
Industrial and Commercial Bank of China)
Limited, Tokyo Branch)

Share Mortgage (Target)

Principal Subsidiaries and VIEs of the Registrant

Name of Entity	Jurisdiction of Incorporation	Ownership
Subsidiaries:		
For Sohu's Business:		
Sohu.com (Hong Kong) Limited ("Sohu HK")	Hong Kong	100%
Beijing Sohu New Era Information Technology Co., Ltd. ("Sohu Era")	People's Republic of China	100%
Sohu.com (Search) Limited ("Sohu Search")	Cayman Islands	100%
Beijing Sohu New Media Information Technology Co., Ltd. ("Sohu Media")	People's Republic of China	100%
Sohu.com (Game) Limited ("Sohu Game")	Cayman Islands	100%
Beijing Sohu New Momentum Information Technology Co., Ltd. ("Sohu New Momentum")	People's Republic of China	100%
Fox Video Limited ("Sohu Video")	Cayman Islands	100%
Fox Information Technology (Tianjin) Limited ("Video Tianjin")	People's Republic of China	100%
Sohu Focus Limited ("Sohu Focus")	Cayman Islands	100%
For Sogou's Business:		
Sogou Inc. ("Sogou")	Cayman Islands	34%
Sogou (BVI) Limited ("Sogou BVI")	British Virgin Islands	34%
Beijing Sogou Technology Development Co., Ltd. ("Sogou Technology")	People's Republic of China	34%
Sogou Hong Kong Limited ("Sogou HK")	Hong Kong	34%
Vast Creation Advertising Media Services Limited ("Vast Creation")	Hong Kong	34%
Beijing Sogou Network Technology Co., Ltd ("Sogou Network")	People's Republic of China	34%
Sogou (Shantou) Internet Microcredit Co., Ltd. ("Sogou Microcredit")	People's Republic of China	34%
Sogou (Hangzhou) Intelligent Technology Co., Ltd. ("Sogou Hangzhou")	People's Republic of China	34%
Shantou Ying Zhong Bai Fu Financing Guarantee Co., Ltd. ("Sogou Financing Guarantee")	People's Republic of China	34%
For Changyou's Business:		
Changyou.com Limited ("Changyou")	Cayman Islands	67%
Changyou.com (HK) Limited ("Changyou HK")	Hong Kong	67%
Beijing AmazGame Age Internet Technology Co., Ltd. ("AmazGame")	People's Republic of China	67%
Beijing Changyou Gamespace Software Technology Co., Ltd. ("Gamespace")	People's Republic of China	67%
Beijing Changyou Chuangxiang Software Technology Co., Ltd. ("Changyou Chuangxiang")	People's Republic of China	67%
VIEs:		
For Sohu's Business:		
Beijing Century High-Tech Investment Co., Ltd. ("High Century")	People's Republic of China	100%
Beijing Heng Da Yi Tong Information Technology Co., Ltd. ("Heng Da Yi Tong")	People's Republic of China	100%
Beijing Sohu Internet Information Service Co., Ltd. ("Sohu Internet")	People's Republic of China	100%
Beijing Sohu Donglin Advertising Co., Ltd. ("Donglin")	People's Republic of China	100%
Tianjin Jinhu Culture Development Co., Ltd ("Tianjin Jinhu")	People's Republic of China	100%
Beijing Focus Interactive Information Service Co., Ltd. ("Focus Interactive")	People's Republic of China	100%
For Sogou's Business:		
Beijing Sogou Information Service Co., Ltd. ("Sogou Information")	People's Republic of China	34%
Chengdu Easypay Technology Co., Ltd. ("Chengdu Easypay")	People's Republic of China	34%
For Changyou's Business:		
Beijing Gamease Age Digital Technology Co., Ltd. ("Gamease")	People's Republic of China	67%
Shanghai ICE Information Technology Co., Ltd. ("Shanghai ICE")	People's Republic of China	67%
Beijing Guanyou Gamespace Digital Technology Co., Ltd. ("Guanyou Gamespace")	People's Republic of China	67%

I, Charles Zhang, certify that:

1. I have reviewed this annual report on Form 20-F of Sohu.com Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2020

/s/ Charles Zhang

Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors

I, Joanna Lv, certify that:

1. I have reviewed this annual report on Form 20-F of Sohu.com Limited;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2020

/s/ Joanna Lv

Joanna Lv, Chief Financial Officer

Certification Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934

In connection with the Annual Report of Sohu.com Limited (the "Company") on Form 20-F for the fiscal year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Charles Zhang, Chief Executive Officer and Chairman of the Board of Directors of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2019 and results of operations of the Company for the fiscal year ended December 31, 2019.

/s/ Charles Zhang

Charles Zhang, Chief Executive Officer and
Chairman of the Board of Directors

April 21, 2020

Certification Pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934

In connection with the Annual Report of Sohu.com Limited (the "Company") on Form 20-F for the fiscal year ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joanna Lv, Chief Financial Officer of the Company, certify, pursuant to U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition of the Company as of December 31, 2019 and results of operations of the Company for the fiscal year ended December 31, 2019.

/s/ Joanna Lv

Joanna Lv, Chief Financial Officer

April 21, 2020

Consent of Independent Registered Public Accounting Firm

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-174955) of Sohu.com Limited of our report dated April 21, 2020 relating to the financial statements and the effectiveness of internal control over financial reporting, which appears in this Form 20-F.

/s/ PricewaterhouseCoopers Zhong Tian LLP

PricewaterhouseCoopers Zhong Tian LLP
Beijing, the People's Republic of China
April 21, 2020

Consent of Haiwen & Partners, PRC Counsel

April 21, 2020

Sohu.com Limited
18/F, SOHU.com Media Plaza
Block 3, No. 2 Kexueyuan South Road
Haidian District
Beijing 100190
People's Republic of China

Subject: Consent of Haiwen & Partners

We hereby consent to the filing of this consent letter as an exhibit to the annual report on Form 20-F of Sohu.com Limited (the "Company") for the Company's fiscal year ended December 31, 2019 being filed with the U.S. Securities and Exchange Commission (the "SEC") on or about April 21, 2020 (the "Form 20-F").

We also hereby consent to the use of our firm name and summaries of our firm's opinions under the headings "Information on the Company—Government Regulation and Legal Uncertainties" in the Form 20-F.

Yours faithfully,

/s/ Haiwen & Partners

Haiwen & Partners