

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 20-F**

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(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, 2013.

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

or

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

Commission file number: 000-51469

Baidu, Inc.

(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)

Baidu Campus

No. 10 Shangdi 10th Street

Haidian District, Beijing 100085

The People's Republic of China

(Address of principal executive offices)

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Baidu Campus

No. 10 Shangdi 10th Street,

Haidian District, Beijing 100085

The People's Republic of China

(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

Name of Each Exchange on Which Registered

American depositary shares (ten American depositary shares representing one Class A ordinary share,
par value US\$0.00005 per share)

The NASDAQ Stock Market LLC
(The NASDAQ Global Select Market)

Class A ordinary shares, par value US\$0.00005 per share*

The NASDAQ Stock Market LLC
(The NASDAQ Global Select Market)

* Not for trading, but only in connection with the listing on The NASDAQ Global Select Market of American depositary shares.

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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

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.

27,492,452 Class A ordinary shares and 7,537,921 Class B ordinary shares, par value US\$0.00005 per share, as of December 31, 2013.

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 company,” “our,” or “Baidu” refers to Baidu, Inc., its subsidiaries, and, in the context of describing our operations and consolidated financial information, our consolidated affiliated entities in China, including but not limited to Beijing Baidu Netcom Science Technology Co., Ltd., or Baidu Netcom;
- “user traffic” or “traffic” refers generally to page views and the reach of a website, with “page views” measuring the number of web pages viewed by internet users over a specified period of time except that multiple page views of the same page viewed by the same user on the same day are counted only once, and “reach” measuring the number of internet users and typically expressed as the percentage of all internet users who visit a given website;
- “China” or “PRC” refers to the People’s Republic of China, and solely for the purpose of this annual report, excluding Taiwan, Hong Kong and Macau;
- “shares” or “ordinary shares” refers to our ordinary shares, which include both Class A ordinary shares and Class B ordinary shares;
- “ADSs” refers to our American depository shares, and we effected a change of the ADS to Class A ordinary share ratio from 1 ADS representing 1 Class A ordinary share to 10 ADSs representing 1 Class A ordinary share on May 12, 2010, which has the same effect as a 10-for-1 ADS split;
- “U.S. GAAP” refers to generally accepted accounting principles in the United States;
- “RMB” or “Renminbi” refers to the legal currency of China;
- “\$,” “dollars,” “US\$” or “U.S. dollars” refers to the legal currency of the United States; and
- all discrepancies in any table between the amounts identified as total amounts and the sum of the amounts listed therein are due to rounding.

FORWARD-LOOKING INFORMATION

This annual report on Form 20-F contains statements of a forward-looking nature. 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 words or phrases such as “may,” “will,” “expect,” “anticipate,” “aim,” “estimate,” “intend,” “plan,” “believe,” “is/are likely to,” “future” or other similar expressions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. These forward-looking statements include, but are not limited to:

- our growth strategies;
- our future business development, results of operations and financial condition;
- our ability to attract and retain users and customers and generate revenue and profit from our customers;
- our ability to retain key personnel and attract new talents;
- competition in the internet search, online marketing and other businesses in which we engage;
- the outcome of ongoing or any future litigation, including those relating to intellectual property rights; and
- PRC governmental regulations and policies relating to the internet and internet search providers and to the implementation of a corporate structure involving variable interest entities in China.

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We would like to caution you not to place undue reliance on forward-looking statements and you should read these statements in conjunction with the risk factors disclosed in “Item 3D. Key Information—Risk Factors.” Those risks are not exhaustive. We operate in a rapidly 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 from those contained in any forward-looking statement. We do not undertake any obligation to update or revise the forward-looking statements except as required under applicable law.

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

A. Selected Financial Data

The following table presents the selected consolidated financial information for our company. The selected consolidated statements of comprehensive income data for the three years ended December 31, 2011, 2012 and 2013 and the consolidated balance sheets data as of December 31, 2012 and 2013 have been derived from our audited consolidated financial statements, which are included in this annual report beginning on page F-1. The selected consolidated statements of comprehensive income data for the years ended December 31, 2009 and 2010 and the selected consolidated balance sheets data as of December 31, 2009, 2010 and 2011 have been derived from our audited consolidated financial statements for the years ended December 31, 2009, 2010 and 2011, which are not included in this annual report. Our historical results do not necessarily indicate results expected for any future periods. 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 audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP.

	For the Years Ended December 31,					2013 US\$
	2009 RMB	2010 RMB	2011 RMB	2012 RMB	2013 RMB	
(In thousands except per share and per ADS data)						
Consolidated Statements of Comprehensive Income Data						
Revenues:						
Online marketing services	4,445,310	7,912,869	14,489,767	22,245,643	31,802,219	5,253,352
Other services	2,466	2,205	11,019	60,383	141,705	23,408
Total revenues	4,447,776	7,915,074	14,500,786	22,306,026	31,943,924	5,276,760
Operating costs and expenses:						
Cost of revenues	(1,616,236)	(2,149,288)	(3,896,883)	(6,448,545)	(11,471,839)	(1,895,013)
Selling, general and administrative	(803,988)	(1,088,980)	(1,692,810)	(2,501,336)	(5,173,533)	(854,607)
Research and development	(422,615)	(718,038)	(1,334,434)	(2,304,825)	(4,106,832)	(678,400)
Total operating costs and expenses	(2,842,839)	(3,956,306)	(6,924,127)	(11,254,706)	(20,752,204)	(3,428,020)
Operating profit	1,604,937	3,958,768	7,576,659	11,051,320	11,191,720	1,848,740
Interest income	44,818	103,096	418,201	866,465	1,308,542	216,156
Interest expense	(12,157)	(35,975)	(82,551)	(107,857)	(447,084)	(73,853)
Loss from equity method investments	(229)	(8,965)	(179,408)	(294,229)	(5,806)	(959)
Other income, net, including exchange gains or losses	45,752	44,239	76,278	449,738	137,644	22,737
Income before income taxes	1,683,121	4,061,163	7,809,179	11,965,437	12,185,016	2,012,821
Taxation	(198,017)	(535,995)	(1,188,861)	(1,574,159)	(1,828,930)	(302,118)
Net income	1,485,104	3,525,168	6,620,318	10,391,278	10,356,086	1,710,703
Less: Net loss attributable to noncontrolling interests	—	—	(18,319)	(64,750)	(162,880)	(26,906)
Net income attributable to Baidu, Inc.	1,485,104	3,525,168	6,638,637	10,456,028	10,518,966	1,737,609

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	For the Years Ended December 31,					
	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US\$
(In thousands except per share and per ADS data)						
Net income attributable to Baidu, Inc. per Class A ordinary share, per Class B ordinary share ⁽¹⁾						
Basic	42.96	101.28	190.27	298.62	299.75	49.52
Diluted	42.70	100.96	189.88	298.29	299.32	49.44
Net income attributable to Baidu, Inc. per ADS						
Basic	4.30	10.13	19.03	29.86	29.98	4.95
Diluted	4.27	10.10	18.99	29.83	29.93	4.94

(1) As holders of Class A and Class B ordinary shares have the same dividend right and the same participation right in our undistributed earnings, the basic and diluted net income per Class A ordinary share and Class B ordinary share are the same for all the periods presented during which there were two classes of ordinary shares. The weighted average number of ordinary shares represents the sum of the weighted average number of Class A and Class B ordinary shares. Please see "Earnings per Share" under Note 17 to our audited consolidated financial statements included in this annual report for additional information regarding the computation of the per share amounts and the weighted average numbers of Class A and Class B ordinary shares.

	As of December 31,					
	2009	2010	2011	2012	2013	
	RMB	RMB	RMB	RMB	RMB	US\$
(In thousands)						
Consolidated Balance Sheets Data:						
Cash and cash equivalents	4,180,376	7,781,976	4,127,482	11,880,632	9,691,797	1,600,971
Restricted cash	19,513	38,278	483,387	395,029	259,533	42,872
Short-term investments	381,149	376,492	10,051,578	20,604,223	28,734,761	4,746,644
Total assets	6,156,975	11,048,439	23,340,541	45,668,890	70,985,788	11,726,016
Total liabilities	1,403,874	2,642,847	7,015,028	18,453,765	30,320,538	5,008,596
Total Baidu, Inc. shareholders' equity	4,753,101	8,405,592	15,291,716	26,055,229	38,424,915	6,347,343
Total equity	4,753,101	8,405,592	15,389,535	26,181,842	40,665,250	6,717,420

Exchange Rate Information

Our business is primarily conducted in China and almost all of our revenues are denominated in RMB. However, periodic reports made to shareholders will include current period amounts translated into U.S. dollars using the then current exchange rates, for the convenience of the readers. The conversion of RMB into U.S. dollars in this annual report is based on the noon buying rate in New York City for cable transfers in RMB as certified for customs purposes by the Federal Reserve Board. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this annual report were made at a rate of RMB6.0537 to US\$1.00, the noon buying rate in effect as of December 31, 2013. We make no representation that any RMB or U.S. dollar amounts could have been, or could be, converted into U.S. dollars or RMB, as the case may be, at any particular rate, or at all. The PRC government imposes control over its foreign currency reserves in part through direct regulation of the conversion of RMB into foreign exchange and through restrictions on foreign trade. On March 21, 2014, the noon buying rate was RMB6.2248 to US\$1.00.

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The following table sets forth information concerning exchange rates between the RMB and the U.S. dollar for the periods indicated.

Period	Noon Buying Rate			
	Period-End	Average ⁽¹⁾	Low	High
(RMB per U.S. Dollar)				
2009	6.8259	6.8295	6.8470	6.8176
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2301	6.2990	6.3879	6.2221
2013	6.0537	6.1412	6.2438	6.0537
September	6.1200	6.1198	6.1213	6.1178
October	6.0943	6.1032	6.1209	6.0815
November	6.0922	6.0929	6.0993	6.0903
December	6.0537	6.0738	6.0927	6.0537
2014				
January	6.0590	6.0509	6.0600	6.0402
February	6.1448	6.0816	6.1448	6.0591
March (through March 21, 2014)	6.2248	6.1590	6.2273	6.1183

Source: Federal Reserve Statistical Release

- (1) Annual averages are calculated using the average of month-end rates of the relevant year. Monthly averages are calculated using the average of the daily rates during the relevant period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Risks Related to Our Business

If we fail to retain existing customers or attract new customers for our online marketing services, our business, results of operations and growth prospects could be seriously harmed.

We generate substantially all of our revenues from online marketing services, a substantial majority of which are derived from our pay-for-performance, or P4P, services. Our online marketing customers will not continue to do business with us if their investment does not generate sales leads and ultimately consumers, or if we do not deliver their web pages in an appropriate and effective manner. Our P4P customers may discontinue their business with us at any time and for any reason as they are not subject to fixed-term contracts. We have in the past removed, and may in the future again remove, questionable paid search listings of some customers to ensure the quality and reliability of our search results. Such removal, whether temporary or permanent, may cause the affected customers to discontinue their business with us. In addition, third parties may develop and use certain technologies to block the display of our customers' advertisements and other marketing products on our *Baidu.com* website, which may in turn cause us to lose customers and adversely affect our results of operations. Furthermore, we adjust prices for our online marketing services from time to time. We may lose customers who decide not to pay our increased prices. Failure to retain our existing customers or attract new customers for our online marketing services could seriously harm our business, results of operations and growth prospects.

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In recent years, we have generated an increasing amount of online marketing revenues from online advertising. We believe our large user base and traffic provide advertisers with a broad reach and optimal monetization results. However, we cannot assure you that we will be able to continue to attract new advertisers or retain our existing advertisers. If our advertisers determine that their expenditures on our websites do not generate expected returns, they may allocate a portion or all of their advertising budgets to other advertising channels such as television and outdoor media and reduce or discontinue business with us. Since most of our advertisers are not bound by long-term contracts, they may amend or terminate advertising arrangements with us easily without incurring liabilities. Failure to retain existing advertisers or attract new ones to advertise on our websites may materially and adversely affect our business, financial condition, results of operations and prospects.

If online marketing does not further grow in China, our ability to increase revenue and profitability could be materially and adversely affected.

The use of the internet as a marketing channel is at a developing stage in China. Internet penetration rate in China is relatively low as compared to that in most developed countries. Many of our current and potential customers have limited experience with the internet as a marketing channel, and historically have not devoted a significant portion of their marketing budgets to online marketing and promotion. As a result, they may not consider the internet to be an effective channel to promote their products and services as compared to traditional print and broadcast media. Our ability to increase revenue and profitability from online marketing may be adversely impacted by a number of factors, many of which are beyond our control, including:

- difficulties associated with developing a larger user base with demographic characteristics attractive to online marketing customers;
- increased competition and potential downward pressure on online marketing prices;
- higher customer acquisition costs due in part to the limited experience of small to medium-sized enterprises, or SMEs, with the internet as a marketing channel;
- failure to develop an independent and reliable means of verifying online traffic;
- ineffectiveness of our online marketing delivery, tracking and reporting systems; and
- decreased use of internet or online marketing in China.

Our business depends on a strong brand, and if we are not able to maintain and enhance our brand, our business and results of operations may be harmed.

We believe that our brand “Baidu” has contributed significantly to the success of our business. We also believe that maintaining and enhancing the “Baidu” brand is critical to increasing the number of our users, customers and Baidu Union members. We have conducted various marketing and brand promotion activities, but we cannot assure you that these activities will achieve the brand promotion effect expected by us. If we fail to maintain and further promote the “Baidu” brand, or if we incur excessive expenses in this effort, our business and results of operations may be materially and adversely affected. In addition, any negative publicity about our company, our products and services, our employees, our business practices, or our search results or the websites to which our search results link, regardless of its veracity, could harm our brand image and in turn adversely affect our business and results of operations.

We face significant competition and may suffer from loss of users and customers as a result.

We face significant competition in almost every aspect of our business, particularly from other companies that seek to provide internet search services to users and provide online marketing services to customers. In the Chinese internet search market, our main competitors include U.S.-based internet search providers providing Chinese language internet search services, such as Google, and China-based internet companies, such as Sogou,

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Alibaba and Qihoo 360. We compete with these entities for both users and customers on the basis of user traffic, quality (relevance), safety and user experience of the search results, availability and ease of use of products and services, the number of customers, distribution channels and the number of associated third-party websites. Some of our competitors have significant financial resources, long operating histories and are experienced in attracting and retaining users and managing customers. They may use their experience and resources to compete with us in a variety of ways, including by competing more heavily for users, customers, distributors, strategic partners and networks of third-party websites, investing more heavily in research and development and making acquisitions. If any of our competitors provides comparable or better Chinese language search experience, our user traffic could decline significantly. Any such decline in traffic could weaken our brand and result in loss of users and customers, which would have a material and adverse effect on our results of operations.

We also face competition from other types of advertising media, such as newspapers, magazines, yellow pages, billboards, other forms of outdoor media, television, radio and mobile applications. Large companies in China generally allocate, and may continue to allocate, most of their marketing budgets to traditional advertising media and only a small portion of their budgets to online marketing and other forms of advertising media. If these companies do not devote a larger portion of their marketing budgets to online marketing services provided by us, or if our existing customers reduce the amount they spend on online marketing, our results of operations and growth prospects could be adversely affected.

If our expansions into new internet businesses are not successful, our future results of operations and growth prospects may be materially and adversely affected.

As part of our growth strategy, we enter into new internet businesses from time to time by leveraging our large internet search user base to generate additional revenue streams and through our development of new business lines or strategic investments in or acquisitions of other businesses. Expansions into new businesses may present operating and marketing challenges that are different from those that we currently encounter. For each new business we enter into, we face competition from existing leading players in that business. If we cannot successfully address the new challenges and compete effectively against the existing leading players in the new businesses, we may not be able to develop a sufficiently large customer and user base, recover costs incurred for investing in, developing and marketing new businesses, and eventually achieve profitability from these businesses, and our future results of operations and growth prospects may be materially and adversely affected.

If we fail to continue to innovate and provide products and services to attract and retain users, we may not be able to generate sufficient user traffic levels to remain competitive.

Our success depends on providing products and services to attract users and enable users to have a high-quality internet experience. In order to attract and retain users and compete against our competitors, we must continue to invest significant resources in research and development to enhance our internet search technology, improve our existing products and services and introduce additional high-quality products and services. If we are unable to anticipate user preferences or industry changes, or if we are unable to modify our products and services on a timely basis, we may lose users. Our results of operations may also suffer if our innovations do not respond to the needs of our users, are not appropriately timed with market opportunities or are not effectively brought to market. As search technology continues to develop and mobile devices and applications are increasingly used to access the internet, our competitors may be able to offer products and services that are, or that are perceived to be, substantially similar to or better than those provided by us. This may force us to expend significant resources in research and development and strategic investments and acquisitions in order to remain competitive.

If we fail to keep up with rapid changes in technologies and user behavior, our future success may be adversely affected.

Our future success will depend on our ability to respond to rapidly changing technologies, adapt our products and services to evolving industry standards and improve the performance and reliability of our products

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and services. Our failure to adapt to such changes could harm our business. In addition, changes in user behavior resulting from technological developments may also adversely affect us. For example, the number of people accessing the internet through mobile devices, including mobile phones, tablets and other hand-held devices, has increased in recent years, and we expect this trend to continue while 3G and more advanced mobile communications technologies are broadly implemented. If we fail to develop products and technologies that are compatible with all mobile devices and operating systems, or if the products and services we develop are not widely accepted and used by users of various mobile devices and operating systems, we may not be able to penetrate the mobile internet market. In addition, the widespread adoption of new internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or integrate our products, services or infrastructure. If we fail to keep up with rapid technological changes to remain competitive, our future success may be adversely affected.

Interruption or failure of our own information technology and communications systems or those of third-party service providers we rely upon could impair our ability to provide products and services, which could damage our reputation and harm our results of operations.

Our ability to provide products and services depends on the continuing operation of our information technology and communications systems. Any damage to or failure of our systems could interrupt our services. Service interruptions could reduce our revenues and profits and damage our brand if our systems are perceived to be unreliable. Our systems are vulnerable to damage or interruption as a result of terrorist attacks, wars, earthquakes, floods, fires, power loss, telecommunications failures, undetected errors or “bugs” in our software, computer viruses, interruptions in access to our websites through the use of “denial of service” or similar attacks, hacking or other attempts to harm our systems, and similar events. Some of our systems are not fully redundant, and our disaster recovery planning does not account for all possible scenarios. In September 2013, the service of our Baidu Post Bar was inaccessible to many users for over four hours due to a failure of the internet infrastructure in Beijing.

Our servers, which are hosted at third-party or our own internet data centers, are vulnerable to break-ins, sabotage and vandalism. The occurrence of natural disaster or closure of an internet data center by a third-party provider without adequate notice could result in lengthy service interruptions. In addition, our domain names are resolved into internet protocol (IP) addresses by systems of third-party domain name registrars and registries. Any interruptions or failures of those service providers’ systems, which are beyond our control, could significantly disrupt our own services. If we experience frequent or persistent system failures on our websites, whether due to interruptions and failures of our own information technology and communications systems or those of third-party service providers we rely upon, our reputation and brand could be severely harmed. The steps we take to increase the reliability and redundancy of our systems are expensive, may reduce our operating margin and may not be successful in reducing the frequency or duration of service interruptions.

We may not be able to manage our expanding operations effectively.

We have significantly expanded our operations in recent years. We expect this expansion trend to continue as we grow our user and customer base and explore new opportunities. To manage the further expansion of our business and growth of our operations and personnel, we need to continually improve our operational and financial systems, procedures and controls, and expand, train, manage and maintain good relations with, our growing employee base. We have experienced labor disputes in the past. Although these disputes were resolved promptly, we cannot assure you that there will not be any new labor dispute in the future. In addition, we must maintain and expand our relationships with other websites, internet companies and other third parties. Our current and future personnel, systems, procedures and controls may not be adequate to support our expanding operations.

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We may face intellectual property infringement claims and other related claims that could be time-consuming and costly to defend and may result in an adverse impact over our operations.

Internet, technology and media companies are frequently involved in litigation based on allegations of infringement of intellectual property rights, unfair competition, invasion of privacy, defamation and other violations of other parties' rights. The validity, enforceability and scope of protection of intellectual property in internet-related industries, particularly in China, are uncertain and still evolving. As we face increasing competition and as litigation becomes more common in China in resolving commercial disputes, we face a higher risk of being the subject of intellectual property infringement claims. We may be subject to administrative actions brought by the PRC State Copyright Bureau, and in the most severe scenario criminal prosecution, for alleged copyright infringement, and as a result may be subject to fines and other penalties and be required to discontinue infringing activities. Furthermore, as we expand our operations outside of China, we may be subject to claims brought against us in jurisdictions outside of China.

Our search products and services, such as Baidu Video Search, link to materials in which third parties may claim ownership of trademarks, copyrights or other rights. Our audio and video player, Baidu Media Player, enables users to play multimedia files, which may be protected by copyright or other intellectual property rights. In addition, as we adopt new technologies and roll out new products and services, we face the risk of being subject to intellectual property infringement claims that may arise from our use of new technologies and provision of new products and services. Our products and services including those based on cloud computing technology, such as Baidu WenKu and Baidu Post Bar, allow our users to upload written materials and pictures to our servers, or share, link to or otherwise provide access to audio, video and other contents from other websites, and we also operate distribution platforms whereby developers can upload, share and sell their applications or games to users. Although we have made commercially reasonable efforts to request all of our users or developers to comply with applicable intellectual property laws, we cannot ensure that all of our users or developers have the rights to upload or share these contents or applications. In addition, we have been and may continue to be subject to copyright or trademark infringement and other related claims from time to time, in China and internationally.

We have been making continuous efforts to keep ourselves informed of and to comply with all applicable laws and regulations affecting our business. However, PRC laws and regulations are evolving, and uncertainties still exist with respect to the legal standards as well as the judicial interpretation of the standards for determining liabilities of internet search and other internet service providers for providing links to contents on third-party websites that infringe upon others' copyrights or hosting such contents, or providing information storage space, file sharing technology or other internet services that are used by internet users to disseminate such contents. The Supreme People's Court of China promulgated a judicial interpretation on infringement of the right of dissemination through internet in December 2012. This judicial interpretation, like certain court rulings and certain other judicial interpretations, provide that the courts will place the burden on internet service providers to remove not only links or contents that have been specifically mentioned in the notices of infringement from right holders, but also links or contents they "should have known" to contain infringing content. The interpretation further provides that where an internet service provider has directly obtained economic benefits from any contents made available by an internet user, it has a higher duty of care with respect to internet users' infringement of third-party copyrights. A guidance on the trial of audio/video sharing copyright disputes promulgated by the Higher People's Court of Beijing in December 2012 provides that where an internet service provider has directly obtained economic benefits from any audio/video contents made available by an internet user who has no authorization for sharing such contents, the internet service provider shall be presumed to be at fault. These interpretations could subject us and other internet service providers to significant administrative burdens and litigation risks.

We conduct our business operations primarily in China. There might be claims that we are subject to U.S. copyright laws, including the legal standards for determining indirect liability for copyright infringement, although we believe such claims are without merits. We cannot assure you that we will not be subject to copyright infringement lawsuits or other proceedings in the U.S. or elsewhere in the future.

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Intellectual property litigation is expensive and time-consuming and could divert resources and management attention from the operations of our business. We are currently named as a defendant in some copyright infringement suits in connection with our Baidu WenKu, Baidu Post Bar, Baidu Media Player, Baidu Video Search, iQiyi and certain other products or services. See “Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings.” There is no guarantee that the competent courts will accept our defenses and rule in our favor. If there is a successful claim of infringement, we may be required to discontinue the infringing activities, pay substantial fines and damages and/or enter into royalty or license agreements that may not be available on commercially acceptable terms, if at all. Our failure to obtain a license of the rights on a timely basis could harm our business. Any intellectual property litigation by third parties and/or negative publicity alleging our intellectual property infringement could have an adverse effect on our business, reputation, financial condition or results of operations. To address the risks relating to intellectual property infringement, we may have to substantially modify, limit or terminate some of our search services. Any such change could materially affect user experience and in turn have an adverse impact on our business.

We have been and may again be subject to claims based on the content found on our websites or the results in our paid search listings.

In addition to the content developed by ourselves and posted on our websites, our users are free to post information on Baidu Post Bar, Baidu Knows, Baidu Encyclopedia, Baidu WenKu and other sections of our websites, and our P4P customers may create text-based descriptions, image descriptions and other phrases to be used as text, image or keywords in our search listings. We have been and may continue to be subject to claims for defamation, negligence or other legal theories based on the content found on our websites, which, with or without merit, may result in diversion of management attention and financial resources and negative publicity on our brand and reputation. See “Item 8.A. Financial Information—Consolidated Statements and Other Financial Information—Legal Proceedings.” Furthermore, if the content posted on our websites contains information that government authorities find objectionable, our websites may be shut down and we may be subject to other penalties. See “—Risks Related to Doing Business in China—Regulation and censorship of information disseminated over the internet in China may adversely affect our business, and subject us to liability for information displayed on or linked to our websites, and negative publicity in international media.”

Under PRC advertising laws and regulations, we are obligated to monitor the advertising content posted on our websites to ensure that such content is fair and accurate and in compliance with applicable law. In addition, where a special government review is required for specific categories of advertisements before posting, we are obligated to confirm that such review has been performed and approval has been obtained. See “Item 4.B. Information on the Company—Business Overview—Regulation—Regulations on Advertisements.” Our P4P services are not subject to PRC advertising laws and regulations, because PRC laws and regulations and administrative authorities currently do not classify P4P services as a form of online advertising. However, if P4P services are classified as a form of online advertising in the future, we would be obligated to examine the content of our P4P customers’ listings on our websites as required by PRC advertising laws and regulations, which could be very burdensome, and we may have to stop posting certain categories of listings on our websites or otherwise cease our P4P services for certain categories of customers. If advertisements shown on our websites are in violation of relevant PRC advertising laws and regulations, or if the supporting documentation and government approvals provided to us by our advertising clients in connection with the advertising content are not complete or accurate, we may be subject to legal liabilities and our reputation could be harmed.

We have been and in the future may again be subject to claims or negative publicity based on the results in our paid search listings. Claims have been filed against us after we allowed certain customers to register keywords containing trademarks, trade names or brand names owned by others and displayed links to such customers’ websites in our paid search listings. While we maintain a database of certain well-known trademarks and update continually our system algorithms and functions aiming at preventing customers from submitting a keyword containing the well-known trademarks that we know are owned by others, it is not possible for us to completely prevent our customers from bidding on keywords that contain trademarks, trade names or brand

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names owned by others. There has been negative publicity about fraudulent information in our paid search listings. Although we have been continually enhancing our technology, control and oversight to prevent fraudulent websites, web pages and information from our paid search listings, there is no guarantee that the measures we have taken are effective at all times. Claims and negative publicity based on the results in our paid search listings, regardless of their merit, may divert management attention, severely disrupt our operations, adversely affect our results of operations and harm our reputation.

We may be subject to patent infringement claims with respect to our P4P platform.

Our technologies and business methods, including those relating to our P4P platform, may be subject to third-party claims or rights that limit or prevent their use. In June 2005, we applied for a patent in China for our P4P platform, but our application was rejected on the ground that it is not patentable. Certain U.S.-based companies, including Overture Services Inc., have been granted patents in the United States relating to P4P platforms and similar business methods and related technologies. While we believe that we are not subject to U.S. patent laws since we conduct our business operations outside of the United States, we cannot assure you that U.S. patent laws would not be applicable to our business operations, or that holders of patents relating to a P4P platform would not seek to enforce such patents against us in the United States or China.

Many parties are actively developing and seeking protection for internet-related technologies, including patent protection. They may hold patents issued or pending that relate to certain aspects of our technologies, products, business methods or services. Any patent infringement claims, regardless of their merits, could be time-consuming and costly to us. If we were sued for patent infringement claims with respect to our P4P platform and were found to infringe upon the patents and were not able to adopt non-infringing technologies, we may be severely limited in our ability to operate our P4P platform, which would have a material and adverse effect on our results of operations and prospects.

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

Our business may be adversely affected by third-party malicious or unintentional software applications that make changes to our users' computers and interfere with our products and services. These software applications may change our users' internet experience by hijacking queries to our websites, altering or replacing our search results, or otherwise interfering with our ability to connect with our users. The interference often occurs without disclosure to or consent from users, resulting in a negative experience, which users may associate with our websites. These software applications may be difficult to remove or disable, may reinstall themselves and may circumvent other applications' efforts to block or remove them. In addition, our business may be adversely affected by the practices of third-party website owners, content providers and developers which interfere with our ability to crawl and index their web pages and contents including applications. The ability to provide a superior user experience is critical to our success. If we are unable to successfully combat malicious third-party software applications that interfere with our products and services, our reputation may be harmed. If a significant number of website owners, content providers and developers prevent us from indexing and including their high-quality web pages and contents including applications in our search results, the quality of our search results may be impaired.

We may not be able to prevent others from unauthorized use of our intellectual property, which could harm our business and competitive position.

We rely on a combination of copyright, trademark and trade secret laws, as well as nondisclosure agreements and other methods to protect our intellectual property rights. The protection of intellectual property rights in China may not be as effective as those in the United States or other countries. The steps we have taken may be inadequate to prevent the misappropriation of our technology. Reverse engineering, unauthorized

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copying or other misappropriation of our technologies could enable third parties to benefit from our technologies without paying us. Moreover, unauthorized use of our technology could enable our competitors to offer products and services that are comparable to or better than ours, which could harm our business and competitive position. We have in the past resorted to litigation to enforce our intellectual property rights, and may have to do so from time to time in the future. There is no guarantee that the competent courts will accept our claims and rule in our favor. Such litigation may result in substantial costs and diversion of resources and management attention.

Our success depends on the continuing and collaborative efforts of our management team and other key personnel, and our business may be harmed if we lose their services.

Our future success depends heavily upon the continuing services of our management team, in particular our chairman and chief executive officer, Robin Yanhong Li. If one or more of our executives or other key personnel are unable or unwilling to continue in their present positions, we may not be able to replace them easily or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Competition for management and key personnel is intense, the pool of qualified candidates is limited, and we may not be able to retain the services of our executives or key personnel, or attract and retain experienced executives or key personnel in the future.

If any of our executives or other key personnel joins a competitor or forms a competing company, we may lose customers, distributors, know-how and key personnel. Each of our executive officers and key employees has entered into an employment agreement with us, containing confidentiality and non-competition provisions. If any disputes arise between any of our executives or key personnel and us, we cannot assure you the extent to which any of these agreements may be enforced.

We rely on highly skilled personnel. If we are unable to retain or motivate them or hire additional qualified personnel, we may not be able to grow effectively.

Our performance and future success depend on the talents and efforts of highly skilled individuals. We will need to continue to identify, hire, develop, motivate and retain highly skilled personnel for all areas of our organization and business operations. Competition in the internet industry for qualified employees is intense. Our continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees. As competition in the internet industry intensifies, it may be more difficult for us to hire, motivate and retain highly skilled personnel. If we do not succeed in attracting additional highly skilled personnel or retaining or motivating our existing personnel, we may be unable to grow effectively.

Our strategy of investments and acquiring complementary businesses and assets may fail.

As part of our business strategy, we have pursued, and intend to continue to pursue, selective strategic investments and acquisitions of businesses and assets that complement our existing business. In the past three years, we acquired certain businesses and intangible assets, through several strategic investments and acquisitions, such as our investment in Qunar Cayman Islands Limited, or Qunar, and Qiyi.com, Inc., and our acquisition of the online video business of PPStream Inc. and acquisition of 91 Wireless Websoft Limited, or 91 Wireless. We intend to make other strategic investments and acquisitions in the future if suitable opportunities arise. Investments and acquisitions involve uncertainties and risks, including:

- potential ongoing financial obligations and unforeseen or hidden liabilities, including liability for infringement of third-party copyrights or other intellectual property;
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;
- costs and difficulties of integrating acquired businesses and managing a larger business;
- potentially significant goodwill impairment charges;

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- high acquisition and financing costs;
- possible loss of key employees of a target business;
- potential claims or litigation regarding our board's exercise of its duty of care and other duties required under applicable law in connection with any of our significant acquisitions or investments approved by the board; and
- diversion of resources and management attention.

Any failure to address these risks successfully may have a material and adverse effect on our financial condition and results of operations. Investments and acquisitions may require a significant amount of capital investment, which would decrease the amount of cash available for working capital or capital expenditures. In addition, if we use our equity securities to pay for investments and acquisitions, we may dilute the value of our ADSs and the underlying ordinary shares. If we borrow funds to finance investments and acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Moreover, acquisitions may also generate significant amortization expenses related to intangible assets. We may also incur impairment charges to earnings for investments and acquired businesses and assets which are determined to be impaired, and recognize the proportional share of the net losses of the investees to the extent of the amount of the investments for the equity method investments.

We are subject to risks and uncertainties faced by companies in a rapidly evolving industry.

We operate in the rapidly evolving internet industry, which makes it difficult to predict our future results of operations. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by companies in evolving industries. Some of these risks and uncertainties relate to our ability to:

- maintain our leading position in the Chinese language internet search market;
- offer new, innovative products and services and enhance our existing products and services with innovative and advanced technology to attract and retain a larger user base;
- attract users' continuing use of internet search services;
- retain existing customers and attract additional customers and increase spending per customer;
- upgrade our technology to support increased traffic and expanded product and service offerings;
- further enhance our brand;
- respond to competitive market conditions;
- respond to evolving user preferences or industry changes;
- respond to changes in the regulatory environment and manage legal risks, including those associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- execute our strategic investments and acquisitions and post-acquisition integrations effectively;
- attract, retain and motivate qualified personnel and maintain good relations with a young and growing work force; and
- build profitable operations in new markets and other overseas internet search markets we have entered into.

If we are unsuccessful in addressing any of these risks and uncertainties, our business may be materially and adversely affected.

Our historical growth rate may not be indicative of our future growth rate.

We have experienced substantial growth in recent years. Our total revenues and net income attributable to Baidu, Inc. grew at a compound annual growth rate of 63.7% and 63.1%, respectively, from 2009 to 2013. Our growth was driven in part by the growth in China's internet and online marketing industries, which may not be indicative of future growth or be sustainable. Our past growth rate may not be indicative of our future growth rate.

Our indebtedness could adversely affect our financial condition and our ability to obtain additional capital on reasonable terms when necessary.

As of December 31, 2013, we had an aggregate of US\$2.9 billion of outstanding indebtedness that will mature between 2014 and 2022 and we may incur additional indebtedness in the future. Our current and future debt requires us to dedicate a portion of our cash flow to service interest and principal payments and may limit our ability to engage in other transactions. Our ability to pay interest and repay the principal for our indebtedness is dependent upon our ability to manage our business operations, generate sufficient cash flows to service such debt and the other factors discussed in this section. There can be no assurance that we will be able to manage any of these risks successfully.

We may require additional capital to support our business growth or to respond to business opportunities, challenges or unforeseen circumstances. Our ability to obtain additional capital, if and when required, will depend on our business plans, investor demand, our operating performance, the condition of the capital markets, and other factors, and our indebtedness may limit our ability to borrow additional funds. We may have difficulty incurring new debt on terms that we would consider to be commercially reasonable, if at all. In addition, we may also need to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing may not be as favorable as the terms of our existing debt.

Our results of operations may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our results of operations may fluctuate as a result of a number of factors, many of which are beyond our control. For these reasons, comparing our results of operations on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual revenues and costs and expenses as a percentage of our revenues may be significantly different from our historical or projected figures. Our results of operations in future quarters may fall below expectations. Any of these events could cause the price of our ADSs to fall. Any of the risk factors listed in this "Risk Factors" section, and in particular the following factors, could cause our results of operations to fluctuate from quarter to quarter:

- general economic conditions in China and economic conditions specific to the internet, internet search and online marketing industries;
- our ability to continue to attract users to our websites despite the emergence of mobile applications;
- our ability to attract additional customers and increase spending per customer;
- the announcement or introduction of new or enhanced products and services by us or our competitors;
- the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our businesses, operations and infrastructure;
- the results of our acquisitions of, or investments in, other businesses or assets;

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- PRC regulations or government actions pertaining to activities on the internet, including various forms of entertainment, online payment and activities otherwise affecting our online marketing customers, and those relating to the new products and services we may introduce from time to time;
- unforeseen events, such as negative publicity arising from widespread media coverage and other sources and labor disputes; and
- geopolitical events, natural disasters or epidemics.

Because of the rapid growth of our business, our historical results of operations may not be useful to you in predicting our future results of operations. Our user traffic tends to be seasonal. For example, we generally experience less user traffic during public holidays and other special event periods in China. In addition, advertising and other marketing spending in China has historically been cyclical, reflecting overall economic conditions as well as budgeting and buying patterns. Our rapid growth has lessened the impact of the cyclical and seasonality of our business. As we continue to grow, we expect that the cyclical and seasonality in our business may cause our results of operations to fluctuate.

A severe and prolonged global economic recession and the slowdown in the Chinese economy may adversely affect our business, results of operations and financial condition.

The global financial markets experienced significant disruptions since 2008 and the United States, Europe and other economies went into recession. The recovery from the lows of 2008 and 2009 was uneven and is facing new challenges, including the escalation of the European sovereign debt crisis since 2011 and the slowdown of the Chinese economy in 2012. It is unclear whether the Chinese economy will resume its high growth rate. There is considerable uncertainty over the long-term effects of the expansionary monetary and fiscal policies that have been adopted by the central banks and financial authorities of some of the world's leading economies, including the United States and China. There have also been concerns over unrest in the Middle East and Africa, which have resulted in volatility in oil and other markets. There have also been concerns about the territorial disputes involving China in Asia and the economic effects. Economic conditions in China are sensitive to global economic conditions, as well as changes in domestic economic and political policies and the expected or perceived overall economic growth rate in China. Any prolonged slowdown in the global or Chinese economy may have a negative impact on our business, results of operations and financial condition, and continued turbulence in the international markets may adversely affect our ability to access the capital markets to meet liquidity needs. Our customers may reduce or delay spending with us, while we may have difficulty expanding our customer base fast enough, or at all, to offset the impact of decreased spending by our existing customers. In addition, to the extent we offer credit to any customer and the customer experiences financial difficulties due to the economic slowdown, we could have difficulty collecting payment from the customer.

Because we rely to a large extent on distributors in providing our P4P services, failure to retain key distributors or attract additional distributors could materially and adversely affect our business. Moreover, there is no assurance that our direct sales model in some key geographic markets will continue to be successful.

Online marketing is at a development stage in China and is not as widely accepted by or available to businesses in China as in the United States. As a result, we rely, to a large extent, on a nationwide distribution network of third-party distributors for our sales to, and collection of payment from, our P4P customers. If our distributors do not provide quality services to our P4P customers or otherwise breach their contracts with our P4P customers, we may lose customers and our results of operations may be materially and adversely affected. Since most of our distributors are not bound by long-term contracts, we cannot assure you that we will continue to maintain favorable relationships with them. If we fail to retain our key distributors or attract additional distributors on terms that are commercially reasonable, our business and results of operations could be materially and adversely affected.

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We have transitioned to using our direct sales force to serve P4P customers in some key geographic markets, such as Beijing, Shanghai and major cities in Guangdong Province. There is no assurance that our direct sales model in those markets will continue to be successful. If we fail to maintain an adequate direct sales force, retain existing customers and continue to attract new customers in those markets, our business, results of operations and prospects could be materially and adversely affected.

We rely on our Baidu Union members for a significant portion of our revenues. If we fail to retain existing Baidu Union members or attract additional members, our revenue growth and profitability may be adversely affected.

We pay Baidu Union members a portion of our revenues based on click-throughs by users of Baidu Union members' properties. We consider our Baidu Union critical to the future growth of our revenues. Some of our Baidu Union members, however, may compete with us in one or more areas of our business. Therefore, they may decide in the future to terminate their relationships with us. If our Baidu Union members decide to use a competitor's or their own internet search services, our user traffic may decline, which may adversely affect our revenues. If we fail to attract additional Baidu Union members, our revenue growth may be adversely affected. In addition, if we have to share a larger portion of our revenues to retain existing Baidu Union members or attract additional members, our profitability may be adversely affected.

Our overseas operations may not be successful.

We have started to launch products and services in local languages to internet users in several countries. It is uncertain when the operation will become profitable, if at all. In particular, we rely on local telecommunication operators and service providers to provide us with network services and data center hosting services, and our systems for these international products and services are not redundant across different regions and data centers. Any interruption to the internet infrastructure or any data center may render our products and services in the region unavailable.

We face certain risks inherent in doing business internationally, including:

- difficulties in developing, staffing and simultaneously managing a foreign operation as a result of distance, language and cultural differences;
- longer customer payment cycles;
- currency exchange rate fluctuations;
- political or social unrest or economic instability;
- unexpected changes in laws or regulations;
- severe natural disasters; and
- potentially adverse tax consequences.

One or more of these factors could harm our overseas operations and consequently, could harm our overall results of operations.

If we are unable to adapt or expand our existing technology infrastructure to accommodate greater traffic or additional customer requirements, our business may be harmed.

Our *Baidu.com* website regularly serves a large number of users and customers and delivers a large number of daily page views. Our technology infrastructure is highly complex and may not provide satisfactory service in the future, especially as the number of users and customers increases. We may be required to upgrade our technology infrastructure to keep up with the increasing traffic on our *Baidu.com* website, such as increasing the

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capacity of our servers and the sophistication of our software. If we fail to adapt our technology infrastructure to accommodate greater traffic or customer requirements, our users and customers may become dissatisfied with our services and switch to our competitors' websites, which could harm our business.

If we fail to detect fraudulent click-throughs, we could lose the confidence of our customers and our revenues could decline.

We are exposed to the risk of click-through fraud on our 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 we fail to detect fraudulent clicks or otherwise are unable to prevent this fraudulent activity, the affected customers may experience a reduced return on investments, or ROI, in our online marketing services and lose confidence in the integrity of our systems, and we may have to issue refunds to our customers. If this happens, we may be unable to retain existing customers or attract new customers for our online marketing services, and our online marketing revenues could decline. In addition, affected customers may also file legal actions against us claiming that we have over-charged or failed to refund them. Any such claims or similar claims, regardless of their merits, could be time-consuming and costly for us to defend against and could also adversely affect our brand and our customers' confidence in the integrity of our systems.

More people are using devices other than personal computers to access the internet. If users do not widely adopt versions of our web search technology, products and services developed for these devices, our business could be adversely affected.

The number of people who access the internet through devices other than personal computers, including mobile phones, smartphones, handheld computers such as iPad and other tablets, and television set-top devices, is increasing dramatically. The varying display sizes, functionality, and memory associated with some alternative devices make the use of our products and services on such devices more difficult and the versions of our products and services developed for these devices may not be compelling to users, manufacturers, or distributors of devices. Each manufacturer or distributor may establish unique technical standards for its devices, and our products and services may not work or be accessible on these devices. Some manufacturers may also elect not to include our products on their devices. In addition, search queries are increasingly being undertaken through "apps" tailored to particular devices or social media platforms, which could affect our share of the search market over time. As new devices and new platforms are continually being released, it is difficult to predict the problems we may encounter in developing versions of our products and services for use on these alternative devices and we may need to devote significant resources to the creation, support, and maintenance of our products and services tailored for such devices. If we are unable to attract and retain a substantial number of alternative device manufacturers, distributors, and users to our products and services, or if we are slow to develop products and technologies that are more compatible with alternative devices, we may fail to capture a significant share of an increasingly important portion of the market for online services, which could adversely affect our business.

The successful operation of our business depends upon the performance and reliability of the internet infrastructure and fixed telecommunications networks in China.

Our business depends on the performance and reliability of the internet infrastructure in China. Almost all access to the internet is maintained through state-owned telecommunication operators under the administrative control and regulatory supervision of the Ministry of Industry and Information Technology, or the MIIT. In addition, the national networks in China are connected to the internet through international gateways controlled by the PRC government. These international gateways are the only channels through which a domestic user can connect to the internet. It is unpredictable whether a more sophisticated internet infrastructure will be developed in China. We may not have access to alternative networks in the event of disruptions, failures or other problems with China's internet infrastructure. In addition, the internet infrastructure in China may not support the demands associated with continued growth in internet usage.

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We rely heavily on China Telecommunications Corporation, or China Telecom, China United Network Communications Group Company Limited, or China Unicom, and China Mobile Communications Corporation, or China Mobile, to provide us with network services and data center hosting services. We have entered into contracts with various local branches or subsidiaries of China Telecom, China Unicom and China Mobile to obtain data communications capacity. We have limited access to alternative services in the event of disruptions, failures or other problems with the fixed telecommunications networks of these companies, or if these companies otherwise fail to provide the services. In September 2013, the service of our Baidu Post Bar was inaccessible to many users for over four hours due to a failure of the internet infrastructure in Beijing. Any unscheduled service interruption could damage our reputation and result in a decrease in our revenues. Furthermore, we have no control over the costs of the services provided by these telecommunication companies. If the prices that we pay for telecommunications and internet services rise significantly, our gross margins could be adversely affected. In addition, if internet access fees or other charges to internet users increase, our user traffic may decrease, which in turn may harm our revenues.

Failure of information security could subject us to penalties, damage our reputation and brand, and harm our business and results of operations.

The internet industry is facing significant challenges regarding information security and privacy, including the storage, transmission and sharing of confidential information. We transmit and store over our systems confidential and private information of our users, customers, distributors and Baidu Union members, such as personal information, including names, user IDs and passwords, and payment or transaction related information. We are required by PRC law to ensure the confidentiality, integrity, availability and authenticity of the information of our users, customers, distributors and Baidu Union members, which is also essential to maintain their confidence in our online products and services.

We have adopted strict information security policies and deployed advanced measures to implement the policies, including, among others, advanced encryption technologies. However, advances in technology, increased level of sophistication and diversity of our products and services, increased level of expertise of hackers, new discoveries in the field of cryptography or others could still result in a compromise or breach of the measures that we use. Because of our leading market position in the internet industry in China, we believe we are a particularly attractive target for security breaches and hacking attacks. We have experienced in the past, and may experience in the future, such attacks. In August 2011, China's Supreme People's Court and Supreme People's Procuratorate issued judicial interpretations regarding hacking and other internet crimes. In December 2012, the Standing Committee of the PRC National People's Congress promulgated the Decision on Strengthening Network Information Protection, or the Network Information Protection Decision, to enhance the legal protection of information security and privacy on the internet. The Network Information Protection Decision also requires internet operators to take measures to ensure confidentiality of information of users. In July 2013, the MIIT promulgated the Provisions on Protection of Personal Information of Telecommunication and Internet Users to regulate the collection and use of users' personal information in the provision of telecommunication service and internet information service in China. However, the effect of these new laws on curbing hacking and other illegal online activities still remains to be seen. Significant capital, managerial and human resources are required to comply with legal requirements, enhance information security and to address any issues caused by security failures. If we are unable to protect our systems, hence the information stored in our systems, from unauthorized access, use, disclosure, disruption, modification or destruction, such problems or security breaches could cause loss or give rise to our liabilities to the owners of confidential information, such as our users, customers, distributors and Baidu Union members, subject us to penalties imposed by administrative authorities, and disrupt our operations. Any negative publicity on our website's safety or privacy protection mechanism and policy could also have a material and adverse effect on reputation and brand and harm our business and results of operations.

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If we fail to maintain an effective system of internal control over financial reporting, we may lose investor confidence in the reliability of our financial statements.

We are subject to reporting obligations under the U.S. securities laws. The SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring every public company to include a management report on the company's internal control over financial reporting in its annual report, which contains management's assessment of the effectiveness of our internal control over financial reporting. In addition, an independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. We have been subject to these requirements since the fiscal year ended December 31, 2006.

Our management has concluded that our internal control over financial reporting was effective as of December 31, 2013. See "Item 15. Controls and Procedures." Our independent registered public accounting firm has issued an attestation report, which has concluded that our internal control over financial reporting was effective in all material aspects as of December 31, 2013. However, if we fail to maintain effective internal control over financial reporting in the future, our management and our independent registered public accounting firm may not be able to conclude that we have effective internal control over financial reporting at a reasonable assurance level. This could in turn result in loss of investor confidence in the reliability of our financial statements and negatively impact the trading price of our ADSs. Furthermore, we have incurred and anticipate that we will continue to incur considerable costs, management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

We have limited business insurance coverage.

The insurance industry in China is still at a relatively early stage of development. Insurance companies in China offer limited business insurance products. We do not have any business liability or disruption insurance coverage for our operations in China. Any business disruption may result in our incurring substantial costs and the diversion of our resources.

We face risks related to health epidemics, severe weather conditions and other outbreaks.

Our business could be adversely affected by the effects of avian influenza, severe acute respiratory syndrome (SARS), the influenza A virus, severe weather conditions or other epidemic or outbreak. Health or other government regulations adopted in response to an epidemic, severe weather conditions such as snow storm, flood or hazardous air pollution, or other outbreaks may require temporary closure of our offices or internet cafes where many users access our websites. Such closures may disrupt our business operations and adversely affect our results of operations.

Risks Related to Our Corporate Structure

PRC laws and regulations governing our businesses and the validity of certain of our contractual arrangements are uncertain. If we are found to be in violation, we could be subject to sanctions. In addition, changes in PRC laws and regulations or changes in interpretations thereof may materially and adversely affect our business.

The PRC government restricts or imposes conditions on foreign investment in internet, online advertising, online audio and video services and mobile application distribution businesses. We and our PRC subsidiaries are considered foreign persons or foreign-invested enterprises under PRC foreign investment related laws. As a result, we and our PRC subsidiaries are subject to PRC legal restrictions on or conditions for foreign ownership of internet, online advertising, online audio and video services and mobile application distribution businesses. Due to these restrictions and conditions, we operate our websites and conduct online advertising, online audio and video services and mobile application distribution businesses in China through our consolidated affiliated entities. As all the nominee shareholders of our consolidated affiliated entities are either PRC citizens or PRC

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domestic enterprises, these entities are therefore considered as PRC domestic enterprises under PRC law. The “nominee shareholders” refer to those shareholders who have pledged their equity interest in our consolidated affiliated entities to us and entered into exclusive equity purchase and transfer option agreements with us as part of the contractual arrangements. Our contractual arrangements with our consolidated affiliated entities and the nominee shareholders allow us to have the power to direct the activities of these entities that most significantly impact their economic performance. These contractual arrangements demonstrate our ability and intention to continue to exercise the ability to absorb substantially all of the profits and the expected losses of the affiliated entities. In 2011, 2012 and 2013, we derived approximately 29%, 29% and 28% of our total revenues, respectively, from our consolidated affiliated entities through contractual arrangements.

There are substantial uncertainties regarding the interpretation and application of PRC laws and regulations, including, but not limited to, the laws and regulations governing our business, or the enforcement and performance of our contractual arrangements with our consolidated affiliated entities, including but not limited to Baidu Netcom and the nominee shareholders. These laws and regulations may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

Although we believe we comply with current PRC laws and regulations, we cannot assure you that the PRC government would agree that our contractual arrangements comply with PRC licensing, registration or other regulatory requirements, with existing policies or with requirements or policies that may be adopted in the future. The PRC government has broad discretion in determining penalties for violations of laws and regulations. If the PRC government determines that we do not comply with applicable law, it could revoke our business and operating licenses, require us to discontinue or restrict our operations, restrict our right to collect revenues, block our websites, require us to restructure our operations, impose additional conditions or requirements with which we may not be able to comply, impose restrictions on our business operations or on our customers, or take other regulatory or enforcement actions against us that could be harmful to our business. Any of these or similar occurrences could significantly disrupt our business operations or restrict us from conducting a substantial portion of our business operations, which could materially and adversely affect our business, financial condition and results of operations. If any of these occurrences results in our inability to direct the activities of any of our consolidated affiliated entities that most significantly impact its economic performance, and/or our failure to receive the economic benefits from any of our consolidated affiliated entities, we may not be able to consolidate the entity in our consolidated financial statements in accordance with U.S. GAAP.

If the PRC government were to classify P4P services as a form of online advertising or as part of internet content services, our effective tax rate may increase and we might be subject to sanctions and required to pay delinquent taxes.

PRC laws and regulations and administrative authorities currently do not classify P4P services as a form of online advertising or as part of internet content services that require an ICP license, or ICP services. However, we cannot assure you that the PRC government will not classify P4P services as a form of online advertising or as part of ICP services in the future. If new regulations characterize P4P services as a form of online advertising or as part of ICP services, our tax liability may increase, given the advertising revenues are subject to a 3% construction fee for culture undertakings in addition to the 6% value-added tax, or VAT, which has replaced the original 5% business tax for advertising revenues. See “Item 5.A. Operating and Financial Review and Prospects—Operating Results—Taxation” for more information on PRC business tax and VAT. Moreover, if the change in classification of P4P services were to be retroactively applied, we might be subject to sanctions, including payment of delinquent taxes and fines. In addition, the classification of P4P services as a form of online advertising could subject us to an obligation to examine the content of our P4P customers’ listings on our websites and the associated risks. See “—Risks Related to Our Business—We have been and may again be subject to claims based on the content found on our websites or the results in our paid search listings.” Such examinations could be burdensome and increase our operating costs and expenses. Any change in the classification of P4P by the PRC government may materially and adversely affect our business, results of operations and financial condition.

Our contractual arrangements with our consolidated affiliated entities in China and the individual nominee shareholders may not be as effective in providing control over these entities as direct ownership.

Since PRC law restricts or imposes conditions on foreign equity ownership in internet, online advertising, online audio and video services and mobile application distribution companies in China, we operate our websites and conduct our online advertising, online audio and video services and mobile application distribution businesses through our consolidated affiliated entities in China. We have no equity interest in any of these entities and must rely on contractual arrangements to control and operate the businesses and assets held by our consolidated affiliated entities, including the domain names and trademarks that have been transferred from our subsidiaries to our consolidated affiliated entities in accordance with requirements of PRC law. These contractual arrangements may not be as effective in providing control over these entities as direct ownership. For example, our consolidated affiliated entities and the individual nominee shareholders could breach their contractual arrangements with us by, among other things, failing to operate our business, such as using the domain names and trademarks our subsidiaries have transferred to them or maintaining our websites, in an acceptable manner or taking other actions that are detrimental to our interests. If our consolidated affiliated entities or the individual nominee shareholders fail to perform their obligations under these contractual arrangements, we may have to incur substantial costs to enforce such arrangements, and rely on legal remedies under PRC law, including contract remedies, which may not be sufficient or effective. If we are unable to enforce these contractual arrangements, or if we suffer significant delay or other obstacles in the process of enforcing these contractual arrangements, we may not be able to have the power to direct the activities that most significantly affect the economic performance of our consolidated affiliated entities, and we may lose control over the assets owned by our consolidated affiliated entities, including our *baidu.com* domain name and website, and any other domain names and websites we have access to may not attract a large number of users and customers at the same level as *baidu.com*. As a result, our ability to conduct our business may be materially and adversely affected, and we may not be able to consolidate the financial results of the relevant affiliated entities into our consolidated financial statements in accordance with U.S. GAAP, which may materially and adversely affect our results of operations and damage our reputation.

Our contractual arrangements with our consolidated affiliated entities in China may result in adverse tax consequences to us.

As a result of our corporate structure and the contractual arrangements between our subsidiaries and each of our consolidated affiliated entities in China, we are subject to VAT at a rate of 6% as a result of the pilot VAT reform program on both revenues generated by our consolidated affiliated entities' operations in China and revenues derived from our subsidiaries' contractual arrangements with these consolidated affiliated entities. Where our consolidated affiliated entity is qualified as a VAT general taxpayer, the VAT charged by our subsidiaries on the revenues obtained from such consolidated affiliated entity based on the contractual arrangement between our subsidiaries and such consolidated affiliated entity will constitute input VAT for the consolidated affiliated entity, and will be creditable against output VAT arising in connection with VAT taxable activities carried out by the consolidated affiliated entity. See "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Taxation" for more information on the pilot VAT reform program. Moreover, we would be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between our subsidiaries and these consolidated affiliated entities were not on an arm's-length basis and therefore constituted a favorable transfer pricing. Under the PRC Enterprise Income Tax Law, or the EIT Law, an enterprise must submit its annual tax return together with information on related-party transactions to the PRC tax authorities. The PRC tax authorities may impose reasonable adjustments on taxation if they have identified any related party transactions that are inconsistent with arm's-length principles. For example, the PRC tax authorities could request that our consolidated affiliated entities adjust their taxable income upward for PRC tax purposes. Such adjustment could adversely affect us by increasing our consolidated affiliated entities' tax expenses without reducing our subsidiaries' tax expenses, which could subject our consolidated affiliated entities to interest due on late payments and other penalties for under-payment of taxes.

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We may have exposure to greater than anticipated tax liabilities.

We are subject to enterprise income tax, or EIT, business tax, VAT, and other taxes in many provinces and cities in China and our tax structure is subject to review by various local tax authorities. The determination of our provision for income tax and other tax liabilities requires significant judgment. In the ordinary course of our business, there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate decisions by the relevant tax authorities may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

The individual nominee shareholders of our consolidated affiliated entities may have potential conflicts of interest with us, which may adversely affect our business. We do not have any arrangements in place to address such potential conflicts.

We have designated individuals who are PRC nationals to be the nominee shareholders of our consolidated affiliated entities in China. For example, Robin Yanhong Li, our chairman, chief executive officer and co-founder, is also the principal nominee shareholder of Baidu Netcom, which is our principal consolidated affiliated entity.

Although the individual nominee shareholders are contractually obligated to act in good faith and in our best interest, they may still have potential conflicts of interest with us. For example, some individual nominee shareholders of our consolidated affiliated entities do not have a significant equity stake in our company other than the share options granted to them. We cannot assure you that when conflicts of interest arise, any or all of these individuals will act in the best interests of our company or such conflicts will be resolved in our favor. In addition, these individuals may breach, cause our consolidated affiliated entities to breach or refuse to renew, the existing contractual arrangements with us. Currently, we do not have any arrangements to address potential conflicts of interest between these individuals and our company, except that we could exercise our transfer option under the exclusive equity purchase and transfer option agreement with the relevant individual nominee shareholder to request him/her to transfer all of his/her equity ownership in the relevant consolidated affiliated entity to a PRC entity or individual designated by us. We rely on Mr. Robin Yanhong Li, who is also a director of our company, to abide by the Cayman Islands law, which provides that directors owe a fiduciary duty to the company, and those who are also directors or officers of our PRC subsidiaries to abide by PRC law, which provides that directors and officers owe a fiduciary duty to the company. Such fiduciary duty requires directors and/or officers to act in good faith and in the best interests of the company and not to use their positions for personal gains. There are, however, no specific provisions under the Cayman Islands or PRC law on how to address potential conflicts of interest. If we cannot resolve any conflict of interest or dispute between us and the individual nominee shareholders of our consolidated affiliated entities, we would have to rely on legal proceedings, which could disrupt our business, distract management and subject us to substantial uncertainty as to the outcome of any such legal proceedings.

We may be unable to collect long-term loans to the nominee shareholders of our consolidated affiliated entities in China.

As of the date of this annual report, we have made long-term loans in an aggregate principal amount of RMB935.1 million (US\$154.5 million) to the nominee shareholders of our consolidated affiliated entities. We extended these loans to enable the nominee shareholders to fund the capitalization of these entities. As of the date of this annual report, all of the registered capital of our consolidated affiliated entities in China has been fully funded. We may in the future provide additional loans to the nominee shareholders of our consolidated affiliated entities in China in connection with any increase in their capitalization to the extent necessary and permissible under applicable law. Our ability to ultimately collect these loans will depend on the profitability of these consolidated affiliated entities and their operational needs, which are uncertain.

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We are in the process of registering the pledges of equity interests by nominee shareholders of some of our consolidated affiliated entities, and we may not be able to enforce the equity pledges against any third parties who acquire the equity interests in good faith in the relevant consolidated affiliated entities before the pledges are registered.

The nominee shareholders of each of our consolidated affiliated entities have pledged all of their equity interests in the relevant consolidated affiliated entities to our subsidiaries. An equity pledge agreement becomes effective among the parties upon execution. However, according to the PRC Property Rights Law, an equity pledge is not perfected as a security property right unless it is registered with the relevant local administration for industry and commerce. The pledge relating to each of Baidu Netcom, Beijing Perusal Technology Co., Ltd., or Beijing Perusal, and BaiduPay has been registered with the relevant local administration for industry and commerce, while we are in the process of registering the pledge of the registered capital of certain of our newly acquired or established consolidated affiliated entities. Prior to the completion of the registration, we may not be able to successfully enforce the equity pledge against any third parties who have acquired property right interests in good faith in the equity interests in the relevant consolidated affiliated entities.

Risks Related to Doing Business in China

Changes in China's economic, political or social conditions or government policies could have a material and adverse effect on our business and operations.

Most of our business operations are conducted in China. Accordingly, our business, results of operations, financial condition and prospects are affected by economic, political and social conditions in China generally and by continued economic growth in China as a whole.

China's economy differs from the economies of most developed countries in many respects, including the level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets, and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While China's economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. Since 2012, growth of the Chinese economy has slowed. Some of the government measures may benefit the overall Chinese economy, but may have a negative effect on us. For example, our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations. Any stimulus measures designed to boost the Chinese economy, may contribute to higher inflation, which could adversely affect our results of operations and financial condition. For example, certain operating costs and expenses, such as employee compensation and office operating expenses, may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets.

Uncertainties with respect to the PRC legal system could adversely affect us.

We conduct our business primarily through our subsidiaries and consolidated affiliated entities in China. Our operations in China are governed by PRC laws and regulations. Our subsidiaries are generally subject to laws and regulations applicable to foreign investments in China. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

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PRC laws and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China for the past decades. However, China has not developed a fully integrated legal system and recently enacted laws and regulations may not sufficiently cover all aspects of economic activities in China. In particular, because these laws and regulations are relatively new, and because of the limited volume of published decisions and their nonbinding nature, the interpretation and enforcement of these laws and regulations involve uncertainties. The following are a few examples:

- China enacted the Anti-Monopoly Law, which became effective on August 1, 2008. Because the Anti-Monopoly Law and the related regulations are still new, and there have been very few court rulings and judicial or administrative interpretations on certain key concepts used in the law, it is uncertain how the implementation and enforcement of the Anti-Monopoly Law and the related regulations would affect our business.
- The PRC Tort Liability Law became effective on July 1, 2010. In accordance with the Tort Liability Law, where an internet service provider is informed or knows that an internet user is infringing upon other persons' rights and interests through its internet service but fails to take necessary actions, it will be jointly and severally liable with the internet user as to the damages suffered by the right holders as a result of the infringing activity known to the internet service provider. The interpretation of the applicability and enforceability of the Tort Liability Law on internet search providers remain uncertain, thus we are not sure how it would affect our business.

Furthermore, the PRC legal system is based in part on government policies and internal rules, some of which are not published on a timely basis or at all. As a result, we may not be aware of our potential violation of these policies and rules. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

We may be adversely affected by the complexity, uncertainties and changes in PRC regulation of internet business and companies.

The PRC government regulates the internet industry extensively, including foreign ownership of, and the licensing and permit requirements pertaining to, companies in the internet industry. These internet-related laws and regulations are relatively new and evolving, and their interpretation and enforcement involve significant uncertainty. As a result, under certain circumstances it may be difficult to determine what actions or omissions may be deemed to be violations of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of the internet industry include, but are not limited to, the following:

- We only have contractual control over our websites. We do not own the websites due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including online information services.
- The licensing requirements relating to the internet business in China are uncertain and evolving. This means that permits, licenses or operations at some of our PRC subsidiaries and consolidated affiliated entities may be subject to challenge, or we may not be able to obtain or renew certain permits or licenses, including without limitation, a Value-Added Telecommunication Business Operating License, which is issued by the MIIT, an Internet News License, which is issued by the State Council News Office, an Internet Culture Business Permit with the permitted scope of business covering online game operation and online game virtual currency issuance or trading, which is issued by the Ministry of Culture, an Online Audio/Video Program Transmission License, which is issued by the State Administration of Radio Film and Television, or SARFT (which was consolidated with the General Administration of Press and Publication, or GAPP, and is currently known as the State Administration of Press Publication, Radio, Film and Television, or SAPPRFT), an Internet Publication License, which is issued by the GAPP (which was consolidated with the SARFT and is currently known as SAPPRFT), a Surveying and Mapping Qualification Certificate for internet map services, which is issued by the State Bureau of Surveying and Mapping, a Payment Service Permit, which is issued by the People's

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Bank of China, and a Qualification Certificate for Internet Drug Information Services, which is issued by provincial branch of the State Food and Drug Administration. Failure to obtain or renew these permits and licenses may significantly disrupt our business, or subject us to sanctions, requirements to increase capital or other conditions or enforcement, or compromise enforceability of related contractual arrangements, or have other harmful effects on us.

- New laws and regulations may be promulgated to regulate internet activities, including online advertising and online payment. Other aspects of our online operations may be regulated in the future. If these new laws and regulations are promulgated, additional licenses may be required for our online operations. If our operations do not comply with these new regulations at the time they become effective, or if we fail to obtain any licenses required under these new laws and regulations, we could be subject to penalties.

We provide value-added telecommunications services through our consolidated affiliated entities, which hold the required licenses. In July 2006, the MIIT issued the Notice of the Ministry of Information Industry on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services. This notice prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. According to this notice, either the holder of a Value-Added Telecommunication Business Operating License or its shareholders must directly own the domain names and trademarks used by the license holder in its provision of value-added telecommunication services. The notice also requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain these facilities in the regions covered by its license. Baidu Netcom, Beijing Perusal and BaiduPay, our consolidated affiliated entities, own the necessary domain names and trademarks, including pending trademark applications and have the necessary personnel and facilities to operate our websites.

We offer online games provided by our game operator partners on our websites owned and operated by our consolidated affiliated entities. We have also acquired 91 Wireless, which operates two leading smartphone application distribution platforms in China as well as a mobile game platform through consolidated affiliated entities. In September 2009, the GAPP (currently known as SAPPRFT) together with several other government agencies issued a notice, or the Circular 13, prohibiting foreign investors from participating in online game operating businesses through wholly-owned enterprises, equity joint ventures or cooperative joint ventures in China. Circular 13 expressly prohibits foreign investors from gaining control over or participating in PRC operating companies' online game operations through indirect means, such as establishing joint venture companies, entering into contractual arrangements with or providing technical support to the operating companies, or through a disguised form, such as incorporating user registration, user account management or payment through game cards into online game platforms that are ultimately controlled or owned by foreign investors. Other government agencies that also have the authority to regulate online game operations in China, such as the Ministry of Culture and the MIIT, did not join the GAPP in issuing the Circular 13. To date, neither the GAPP nor SAPPRFT has issued any interpretation of the Circular 13. Due to the ambiguity among various regulations on online games and a lack of interpretations from the relevant PRC authorities governing online game operations, there are uncertainties regarding whether PRC authorities would consider our relevant contractual arrangements to be foreign investment in online game operation businesses. While we are not aware of any online game companies which use the same or similar contractual arrangements as ours having been penalized or ordered to terminate operation by PRC authorities claiming that the contractual arrangements constitute control over, or participation in, the operation of online game operations through indirect means, it is unclear whether and how the various regulations of the PRC authorities might be interpreted or implemented in the future. If our relevant contractual arrangements were deemed to be "indirect means" or "disguised form" under the Circular 13, the relevant contractual arrangements may be challenged by the SAPPRFT or other governmental authorities. If we were found to be in violation of the Circular 13 to operate our mobile game platform, the SAPPRFT, in conjunction with relevant regulatory authorities, would have the power to investigate

and deal with such violations, including in the most serious cases, suspending or revoking the relevant licenses and registrations. If we were found to be in violation of any existing or future PRC laws or regulations, including the MIIT notice and the Circular 13, the relevant regulatory authorities would have broad discretion in dealing with such violations.

As we enter into new businesses, we may encounter additional regulatory uncertainties. For example, it remains unclear whether the provision of online payment services by BaiduPay will require BaiduPay to apply for a value-added telecommunications business operating license for “online data processing and transaction processing businesses” as provided in the Catalog of Telecommunications Businesses promulgated by the MIIT. In addition, in March 2014, according to reports on certain websites, the People’s Bank of China has formulated a draft of the Administrative Measures on the Online Payment Business of Payment Institutions for the purpose of soliciting opinions from selected groups on certain proposed changes to laws relating to online payments, such as the imposition of limits on the amounts that can be paid for consumption purposes from online payment accounts opened with online payment institutions. There are substantial uncertainties as to if and when the draft administrative measures will be adopted into law and what further changes will be made to such measures prior to or during such adoption. If the draft administrative measures are adopted into law in the future, our Baidu Wallet business may be adversely affected.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies relating to the internet industry have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the businesses and activities of, internet businesses in China, including our business.

Regulation and censorship of information disseminated over the internet in China may adversely affect our business, and subject us to liability for information displayed on or linked to our websites and negative publicity in international media.

The PRC government has adopted regulations governing internet access and 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 content that, among other things, violates PRC laws and regulations, impairs the national dignity of China, or is reactionary, obscene, superstitious, fraudulent or defamatory. Failure to comply with these requirements may result in the revocation of licenses to provide internet content and other licenses and the closure of the concerned websites. In the past, failure to comply with these requirements has resulted in the closure of certain websites. The website operator may also be held liable for the censored information displayed on or linked to the website.

In particular, the MIIT has published regulations that subject website operators to potential liability for content displayed on their websites and the actions of users and others using their systems, including liability for violations of PRC laws and regulations prohibiting the dissemination of content deemed to be socially destabilizing. The Ministry of Public Security has the authority to order any local internet service provider to block any internet website at its sole discretion. From time to time, the Ministry of Public Security has stopped the dissemination over the internet of information which it believes to be socially destabilizing. The State Secrecy Bureau is also 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 dissemination of online information. Furthermore, we are required to report any suspicious content to relevant governmental authorities, and to undergo computer security inspections. If we fail to implement the relevant safeguards against security breaches, our websites may be shut down and our business and ICP licenses may be revoked. In addition, internet companies that provide bulletin board systems (BBS), chat rooms or similar services must apply for approval from relevant authorities in practice.

Although we attempt to monitor the content in our search results and on our online communities such as Baidu Post Bar, we are not able to control or restrict the content of other internet content providers linked to or

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accessible through our websites, or content generated or placed on our Baidu Post Bar message boards or our other online communities by our users. To the extent that PRC regulatory authorities find any content displayed on our websites objectionable, they may require us to limit or eliminate the dissemination of such information on our websites. If third-party websites linked to or accessible through our websites conduct unlawful activities such as online gambling on their websites, PRC regulatory authorities may require us to report such unlawful activities to relevant authorities and to remove the links to such websites, or they may suspend or shut down the operation of these third-party websites. PRC regulatory authorities may also temporarily block access to certain websites for a period of time for reasons beyond our control. Any of these actions may reduce our user traffic and adversely affect our business. In addition, we may be subject to penalties for violations of those regulations arising from information displayed on or linked to our websites, including a suspension or shutdown of our online operations.

Moreover, our compliance with PRC regulations governing internet access and distribution of news and other information over the internet may subject us to negative publicity or even legal actions outside of China. In May 2011, eight New York residents filed a lawsuit against us before the U.S. District Court for the Southern District of New York accusing us of aiding Chinese censorship in violation of the U.S. Constitution. In March 2014, the U.S. District Court for the Southern District of New York granted our motion for judgment on the pleadings based upon the First Amendment to the U.S. Constitution and dismissed the plaintiffs' complaint in its entirety. Even though we have won the case, we cannot assure you that the plaintiffs' will not appeal this decision and our reputation may be adversely affected among users and investors outside of China.

A notice issued by the PRC Ministry of Culture in August 2009 may affect our online music services.

In August 2009, the PRC Ministry of Culture promulgated the Notice on Strengthening and Improving the Content Review of Online Music, which provides, among others that only "internet culture operating entities" approved by the Ministry of Culture may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. In addition, it is required that imported music products must pass prior content review by the Ministry of Culture before they are put on internet and domestic music products must be filed with the Ministry of Culture within 30 days after the commencement date of the online operation of the domestic music products. We hold an Internet Culture Business Permit granted by the Ministry of Culture, which allows us to engage in "internet culture activities" as defined in the relevant regulations promulgated by the Ministry of Culture. See "Item 4.B. Information on the Company—Business Overview—Regulation—Regulations on Internet Culture Activities." We provide music for users to stream and download on our platform and we have obtained licenses from many content providers. We have been communicating with the government authority in order to comply with the review or filing requirement. If we are found by the Ministry of Culture to have failed to fully comply with the requirements of this notice, we could be subject to administrative penalties, including an order to stop providing the music products that have not been reviewed by or filed with the Ministry of Culture, fines, or confiscation of income derived from activities deemed in violation of the notice. Any of these occurrences could adversely affect our business and results of operations.

The discontinuation of any of the preferential income tax treatments currently available to us in the PRC could have a material and adverse effect on our result of operations and financial condition.

Pursuant to the EIT Law, as further clarified by subsequent tax regulations implementing the EIT Law, foreign-invested enterprises and domestic enterprises are subject to EIT at a uniform rate of 25%. Certain enterprises may still benefit from a preferential tax rate of 15% under the EIT Law if they qualify as "High and New Technology Enterprises strongly supported by the state," subject to certain general factors described in the EIT Law and the related regulations.

Some of our principal PRC subsidiaries and consolidated affiliated entities, including Baidu Online Network Technology (Beijing) Co., Ltd., or Baidu Online, Baidu.com Times Technology (Beijing) Co., Ltd., or Baidu Times, Baidu Netcom and Baidu (China) Co., Ltd., or Baidu China, and certain other PRC subsidiaries and consolidated affiliated entities, are entitled to enjoy a preferential tax rate of 15% due to their qualification as "High and New Technology Enterprise", which has a term of three years. If any or some of these PRC subsidiaries and consolidated affiliated entities fail to maintain the "High and New Technology Enterprise" qualification, their applicable EIT rate will be up to 25%. Furthermore, in April 2013, Baidu Online obtained the

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certificate of “Key Software Enterprise” jointly issued by the National Development and Reform Commission, MIIT, Ministry of Commerce and State Administration of Taxation, which entitled it to enjoy a preferential income tax rate of 10% for 2011 and 2012. In December 2013, Baidu Online has obtained the certificate of “Key Software Enterprise” status for 2013 and 2014 from the relevant government authorities. There is no assurance that Baidu Online will continue to maintain the “Key Software Enterprise” status. See “Item 5.A. Operating and Financial Review and Prospects—Operating Results—Taxation—PRC Enterprise Income Tax.”

The discontinuation of any of the above-mentioned preferential income tax treatments currently available to us in the PRC could have a material and adverse effect on our result of operations and financial condition. We cannot assure you that we will be able to maintain our current effective tax rate in the future.

If our PRC subsidiaries declare and distribute dividends to their respective offshore parent companies, we will be required to pay more taxes, which could have a material and adverse effect on our result of operations.

Under the EIT Law and related regulations, dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its foreign non-resident enterprise investors, and proceeds from any such foreign enterprise investor’s disposition of assets (after deducting the net value of such assets) are subject to a 10% withholding tax, unless the foreign enterprise investor’s jurisdiction of incorporation has a tax treaty with China that provides for a reduced rate of withholding tax. Undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 are exempted from any withholding tax. The British Virgin Islands, where Baidu Holdings Limited, the direct parent company of our PRC subsidiary Baidu Online, is incorporated, does not have such a tax treaty with China. Hong Kong has a tax arrangement with China that provides for a 5% withholding tax on dividends subject to certain conditions and requirements, such as the requirement that the Hong Kong resident enterprise own at least 25% of the PRC enterprise distributing the dividend at all times within the 12-month period immediately preceding the distribution of dividends and be a “beneficial owner” of the dividends. For example, Baidu (Hong Kong) Limited, which directly owns our PRC subsidiaries Baidu China and Baidu Times, is incorporated in Hong Kong. However, if Baidu (Hong Kong) Limited is not considered to be the beneficial owner of dividends paid to it by Baidu China and Baidu Times under the tax circulars promulgated in February and October 2009, such dividends would be subject to withholding tax at a rate of 10%. See “Item 5.A. Operating and Financial Review and Prospects—Operating Results—Taxation—PRC Enterprise Income Tax.” If our PRC subsidiaries declare and distribute profits earned after January 1, 2008 to us in the future, such payments will be subject to withholding tax, which will increase our tax liability and reduce the amount of cash available to our company.

We may be deemed a PRC resident enterprise under the EIT Law, which could subject us to PRC taxation on our global income, and which may have a material and adverse effect on our results of operations.

Under the EIT Law and related regulations, an enterprise established outside of the PRC with “de facto management body” within the PRC is considered a PRC resident enterprise and is subject to the EIT at the rate of 25% on its worldwide income as well as PRC EIT reporting obligations. The related regulations define the term “de facto management body” as “the establishment that exercises substantial and overall management and control over the production, business, personnel, accounts and properties of an enterprise.” The State Administration of Taxation issued a SAT Circular 82 in April 2009, which provides certain specific criteria for determining whether the “de facto management body” of a Chinese-controlled overseas-incorporated enterprise is located in China. In July 2011, the State Administration of Taxation issued additional rules to provide more guidance on the implementation of SAT Circular 82. See “Item 5.A. Operating and Financial Review and Prospects—Operating Results—Taxation—PRC Enterprise Income Tax.” Although the SAT Circular 82 and the additional guidance apply only to overseas registered enterprises controlled by PRC enterprises, not to those controlled by PRC individuals or foreigners, the criteria set forth in SAT Circular 82 may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises or individuals. If we are deemed a PRC resident enterprise, we may be subject to the EIT at 25% on our global income, except that the dividends we receive from our PRC subsidiaries may be exempt from the EIT to the extent such dividends are deemed as “dividends among qualified PRC resident enterprises.” If we are deemed a

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PRC resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% EIT on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

Under PRC tax laws, dividends payable by us and gains on the disposition of our shares or ADSs may be subject to PRC taxation.

If we are considered a PRC resident enterprise under the EIT Law, our shareholders and ADS holders who are deemed non-resident enterprises may be subject to the EIT at the rate of 10% upon the dividends payable by us or upon any gains realized from the transfer of our shares or ADSs, if such income is deemed derived from China, provided that (i) such foreign enterprise investor has no establishment or premises in China, or (ii) it has establishment or premises in China but its income derived from China has no real connection with such establishment or premises. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our non-PRC resident enterprise shareholders and ADS holders, or if any gains realized from the transfer of our shares or ADSs by our non-PRC resident enterprise shareholders and ADS holders are subject to the EIT, your investment in our shares or ADSs could be materially and adversely affected.

Furthermore, if we are considered a PRC resident enterprise and relevant PRC tax authorities consider dividends we pay with respect to our shares or ADSs and the gains realized from the transfer of our shares or ADSs to be income derived from sources within the PRC, it is possible that such dividends and gains earned by non-resident individuals may be subject to PRC individual income tax at a rate of 20%. If we are required under PRC tax laws to withhold PRC income tax on dividends payable to our non-PRC investors that are non-resident individuals or if you are required to pay PRC income tax on the transfer of our shares or ADSs, the value of your investment in our shares or ADSs may be materially and adversely affected.

Our subsidiaries and consolidated affiliated entities in China are subject to restrictions on paying dividends and making other payments to our holding company.

Baidu, Inc. is our holding company incorporated in the Cayman Islands and does not conduct any business operations other than holding equity interests in our subsidiaries. As a result of the holding company structure, it currently relies on dividend payments from our subsidiaries in China. However, PRC regulations currently permit payment of dividends only out of accumulated profits, as determined in accordance with PRC accounting standards and regulations. Our subsidiaries and consolidated affiliated entities in China are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds. The PRC government also imposes controls on the conversion of RMB into foreign currencies and the remittance of foreign currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See “—Governmental control of currency conversion may affect the value of your investment.” Furthermore, if our subsidiaries or consolidated affiliated entities in China incur debt on their own in the future, the instruments governing the debt may restrict their ability to pay dividends or make other payments. If our subsidiaries and consolidated affiliated entities in China are unable to pay dividends or make other payments to us, we may be unable to pay dividends on our ordinary shares and ADSs.

Governmental control of currency conversion may affect the value of your investment.

The PRC government imposes controls on the convertibility of RMB into foreign currencies and, in certain cases, the remittance of foreign currency out of China. We receive most of our revenues in RMB. Under our current structure, our income at the Cayman Islands holding company level will primarily be derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade-related transactions, can be made in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange, or SAFE, by complying with certain procedural requirements. However, approval from appropriate government authorities is required where RMB is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of

loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our shareholders or ADS holders.

PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans or additional capital contributions to our PRC subsidiaries, which could adversely affect our ability to fund and expand our business.

Baidu, Inc. is our offshore holding company conducting operations in China through our PRC subsidiaries and consolidated affiliated entities. We may make loans to our PRC subsidiaries and consolidated affiliated entities, or we may make additional capital contributions to our PRC subsidiaries. Loans by Baidu, Inc. or any of our offshore subsidiaries to our PRC subsidiaries, which are treated as foreign-invested enterprises under PRC law, are subject to PRC regulations and foreign exchange loan registrations. Such loans to any of our PRC subsidiaries to finance their activities cannot exceed statutory limits and must be registered with the local counterpart of SAFE. The statutory limit for the total amount of foreign debts of a foreign-invested enterprise is the difference between the amount of total investment as approved by the PRC Ministry of Commerce or its local counterpart and the amount of registered capital of such foreign-invested enterprise. Any medium or long-term loans by Baidu, Inc. or any of our offshore subsidiaries to our consolidated affiliated entities, which are domestic PRC entities, must be approved by the National Development and Reform Commission and SAFE, or their relevant local counterparts. We may also decide to finance our PRC subsidiaries by means of capital contributions. These capital contributions must be approved by the PRC Ministry of Commerce or its local counterpart. Meanwhile, we are not likely to finance the activities of our consolidated affiliated entities by means of capital contributions given the PRC legal restrictions on foreign ownership of internet, online advertising, online audio and video services and mobile application distribution businesses.

In August 2008, SAFE promulgated a SAFE Circular No. 142 regulating the conversion by a foreign-invested enterprise of foreign currency registered capital into RMB by restricting how the converted RMB may be used. SAFE Circular No. 142 provides that the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise may only be used for purposes within the business scope approved by the applicable government authority and may not be used for equity investments within the PRC. In addition, SAFE strengthened its oversight of the flow and use of the RMB capital converted from foreign currency registered capital of a foreign-invested enterprise. The use of such RMB capital may not be altered without SAFE's approval, and such RMB capital may not in any case be used to repay RMB loans if the proceeds of such loans have not been used. Furthermore, SAFE promulgated a SAFE Circular No. 59 in November 2010, which requires that the government authorities closely examine the authenticity of settlement of net proceeds from offshore offerings and the net proceeds be settled in the manner described in the offering documents. SAFE also promulgated a SAFE Circular No. 45 in November 2011, which, among other things, restrict a foreign-invested enterprise from using RMB converted from its registered capital to provide entrusted loans or repay loans between non-financial enterprises. Violations of these circulars could result in severe monetary or other penalties.

In light of the various requirements imposed by PRC regulations on loans to and direct investment in PRC entities by offshore holding companies, including SAFE Circulars referred to above, we cannot assure you that we will be able to complete the necessary government registrations or obtain the necessary government approvals on a timely basis, if at all, with respect to future loans or capital contributions by us to our PRC subsidiaries and conversion of such loans or capital contributions into RMB. If we fail to complete such registrations or obtain such approvals, our ability to capitalize or otherwise fund our PRC operations may be negatively affected, which could adversely affect our ability to fund and expand our business.

PRC regulations relating to the establishment of offshore special purpose companies by PRC residents may limit our ability to inject capital into our PRC subsidiaries, limit our subsidiaries' ability to increase their registered capital or distribute profits to us, or may otherwise adversely affect us.

SAFE Circular No. 75 effective from November 2005 and a series of implementation rules and guidance issued by SAFE, including the most recent circular relating to operating procedures that came into effect in July 2011, require PRC residents and PRC corporate entities to register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, for the purposes of overseas equity financing activities. These regulations apply to our shareholders who are PRC residents and may apply to any offshore acquisitions that we make in the future.

Under these SAFE regulations, PRC residents who make, or have previously made, direct or indirect investments in an SPV are required to register those investments. In addition, any PRC resident who is a direct or indirect shareholder of an SPV is required to update the previously filed registration with the local branch of SAFE, with respect to that SPV, to reflect any material change involving its round-trip investment, capital variation, such as an increase or decrease in capital, transfer or swap of shares, merger, division, long-term equity or debt investment or creation of any security interest. Moreover, the PRC subsidiaries of that SPV are required to urge the PRC resident shareholders to update their SAFE registration with the local branch of SAFE when such updates are required under applicable SAFE regulations. If any PRC shareholder fails to make the required SAFE registration or update the previously filed registration, the PRC subsidiaries of that SPV may be prohibited from distributing their profits and the proceeds from any reduction in capital, share transfer or liquidation, to their SPV parent, and the SPV may also be prohibited from injecting additional capital into their PRC subsidiaries. Moreover, failure to comply with the various SAFE registration requirements described above could result in liability under PRC law for evasion of applicable foreign exchange restrictions.

We have notified holders of ordinary shares of our company whom we know are PRC residents to register with the local SAFE branch and update their registrations as required under the SAFE regulations described above. We are aware that Mr. Robin Yanhong Li, our chairman, chief executive officer and principal shareholder, who is a PRC resident, has registered with the relevant local SAFE branch, and is in the process of updating such registration to reflect recent changes as a result of certain acquisitions. We, however, cannot provide any assurances that all of our shareholders who are PRC residents will file all applicable registrations or update previously filed registrations as required by these SAFE regulations. The failure or inability of our PRC resident shareholders to comply with the registration procedures may subject the PRC resident shareholders to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends to or obtain foreign exchange-dominated loans from our company.

As it is uncertain how the SAFE regulations described above will be interpreted or implemented, we cannot predict how these regulations will affect our business operations or future strategy. For example, we may be subject to more stringent review and approval process with respect to our foreign exchange activities, such as remittance of dividends and foreign currency-denominated borrowings, which may adversely affect our results of operations and financial condition. In addition, if we decide to acquire a PRC domestic company, we cannot assure you that we or the owners of such company will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE regulations. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

Failure to comply with PRC regulations regarding the registration requirements for employee stock ownership plans or share option plans may subject the PRC plan participants or us to fines and other legal or administrative sanctions.

In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rule, replacing the earlier rules promulgated in March 2007. Under the Stock Option Rule, PRC residents who are granted stock options by an overseas publicly listed company are required,

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through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. We and our PRC resident employees who have been granted stock options are subject to these regulations. We have designated our PRC subsidiary Baidu Online to handle the registration and other procedures required by the Stock Option Rule. If we or our PRC optionees fail to comply with these regulations in the future, we or our PRC optionees and their local employers may be subject to fines and legal sanctions.

PRC regulations establish complex procedures for some acquisitions conducted by foreign investors, which could make it more difficult for us to pursue growth through acquisitions in China.

The Regulations on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors, adopted by six PRC regulatory agencies in August 2006, among other things, established additional procedures and requirements that could make merger and acquisition activities by foreign investors more time-consuming and complex. In addition, the Implementing Rules Concerning Security Review on the Mergers and Acquisitions by Foreign Investors of Domestic Enterprises, issued by the PRC Ministry of Commerce in August 2011, specify that mergers and acquisitions by foreign investors involved in “an industry related to national security” are subject to strict review by the PRC Ministry of Commerce, and prohibit any activities attempting to bypass such security review, including by structuring the transaction through a proxy or contractual control arrangement. We believe that our business is not in an industry related to national security, but we cannot preclude the possibility that the PRC Ministry of Commerce or other government agencies may publish explanations contrary to our understanding or broaden the scope of such security reviews in the future, in which case our future acquisitions in the PRC, including those by way of entering into contractual control arrangements with target entities, may be closely scrutinized or prohibited. Moreover, the Anti-Monopoly Law requires that the PRC Ministry of Commerce be notified in advance of any concentration of undertaking if certain filing thresholds are triggered. We may grow our business in part by directly acquiring complementary businesses in China. Complying with the requirements of the laws and regulations mentioned above and other PRC regulations to complete such transactions could be time-consuming, and any required approval processes, including obtaining approval from the Ministry of Commerce, may delay or inhibit our ability to complete such transactions, which could affect our ability to expand our business or maintain our market share. Our ability to expand our business or maintain or expand our market share through future acquisitions would as such be materially and adversely affected.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board, and as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the laws of the United States and professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the CSRC and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms’ audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public

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accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections.

We may be adversely affected by the outcome of the administrative proceedings brought by the SEC against the Big 4 PRC-based accounting firms.

In December 2012, the SEC brought administrative proceedings against the Big 4 accounting firms in China, including our independent registered public accounting firm, alleging that these accounting firms had violated U.S. securities laws and the SEC's rules and regulations thereunder by failing to provide to the SEC the firms' audit papers and other documents related to certain PRC-based companies that are publicly traded in the United States. On January 22, 2014, the Administrative Law Judge presiding over the matter reached an initial decision that the firms had each violated the SEC's rules of practice by failing to produce the audit work papers and related documents directly to the SEC. The initial decision further determined that each of the firms should be censured and barred from practicing before the SEC for a period of six months. The Big 4 PRC-based accounting firms recently appealed the initial administrative law decision to the SEC. The initial administrative law decision will not become effective until and unless it is endorsed by the full SEC. The accounting firms can then further appeal the final decision of the SEC through the federal appellate courts. We were not and are not subject to any SEC investigations, nor are we involved in the proceedings brought by the SEC against the accounting firms. However, the independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC is one of the four accounting firms subject to the six month suspension from practicing before the SEC in the initial administrative law decision. We may therefore be adversely affected by the outcome of the proceedings, along with other U.S.-listed companies audited by these accounting firms.

While we cannot predict the outcome of the SEC's review, nor that of any subsequent appeal process, if the Big 4 PRC-based accounting firms, including our independent registered public accounting firm, are ultimately temporarily barred from practicing 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 to not be in compliance with the requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such a determination could ultimately lead to our delisting from NASDAQ or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

Fluctuation in the value of the RMB may have a material and adverse effect on your investment.

The value of the RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in China's political and economic conditions and foreign exchange policies. The conversion of RMB into foreign currencies, including U.S. dollars, is based on rates set by the People's Bank of China. The PRC government allowed the RMB to appreciate by more than 20% against the U.S. dollar between July 2005 and July 2008. Between July 2008 and June 2010, this appreciation halted and the exchange rate between the RMB and the U.S. dollar remained within a narrow band. Since June 2010, the PRC government has allowed the RMB to appreciate slowly against the U.S. dollar again, though there have been periods when the U.S. dollar has appreciated against the Renminbi as well. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the RMB and the U.S. dollar in the future.

Our revenues and costs are mostly denominated in RMB. Any significant revaluation of RMB may materially and adversely affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADSs in U.S. dollars. For example, an appreciation of RMB against the U.S. dollar would make any new RMB denominated investments or expenditures more costly to us, to the extent that we need to convert U.S. dollars into RMB for such purposes. An appreciation of RMB against the U.S. dollar would also result in foreign currency translation losses for financial reporting purposes when we

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translate our U.S. dollar denominated financial assets into RMB, as RMB is our reporting currency. Conversely, a significant depreciation of the RMB against the U.S. dollar may significantly reduce the U.S. dollar equivalent of our earnings, which in turn could adversely affect the price of our ADSs.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises, or Circular 698, issued by the State Administration of Taxation, which became effective retroactively as of January 1, 2008, where a non-resident enterprise investor transfers equity interests in a PRC resident enterprise indirectly by way of disposing of equity interests in an overseas holding company, and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate less than 12.5% or (ii) does not tax foreign income of its residents, the non-resident enterprise investor should report such indirect transfer to the relevant tax authority of the PRC resident enterprise. The PRC tax authority will examine the true nature of the indirect transfer, and if the tax authority considers that the non-resident enterprise investor has adopted an abusive arrangement without a reasonable commercial purpose in order to reduce, avoid or defer PRC tax, they will disregard the existence of the overseas holding company that is used for tax planning purposes and re-characterize the indirect transfer. As a result, gains derived from such indirect transfer may be subject to PRC withholding tax at the rate of up to 10%. In addition, the PRC resident enterprise may be required to provide necessary assistance to support the enforcement of Circular 698.

There is some uncertainty as to the application of Circular 698. For example, the term “indirect transfer” is not clearly defined, and the relevant governmental authority has not yet promulgated any formal interpretations or declarations as to the process and format for reporting an indirect transfer to the competent tax authority, or on how to calculate the effective tax rates in a foreign tax jurisdiction or whether a non-resident enterprise investor has adopted an abusive arrangement in order to reduce, avoid or defer PRC tax. Although it appears that Circular 698 was not intended to apply to share transfers of publicly traded companies, there is uncertainty as to the application of Circular 698 to other indirect transfer of our PRC resident entities. As a result, we may have the risk of being subject to the reporting obligations or PRC tax under Circular 698 and may be required to expend resources to comply with Circular 698 or to establish that we should not be taxed under Circular 698, which may have an adverse effect on our financial condition and results of operations.

Risks Related to Our ADSs

The trading price of our ADSs has been volatile and may continue to be volatile regardless of our operating performance.

The trading price of our ADSs has been and may continue to be subject to wide fluctuations. The market price for our ADSs may continue to be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly results of operations;
- changes in financial estimates by securities research analysts;
- conditions in internet search and online marketing markets;
- changes in the operating performance or market valuations of other internet search or internet companies;
- announcements by us or our competitors or other internet companies of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- addition or departure of key personnel;
- fluctuations of exchange rates between RMB and the U.S. dollar;

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- intellectual property litigation; and
- general economic or political conditions in China or elsewhere in the world.

In addition, the stock market in general, and the market prices for internet-related companies and companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some China-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings in recent years, including, in some cases, substantial declines in the trading prices of their securities. The trading performances of these companies' securities after their offerings may affect the attitudes of investors towards Chinese companies listed in the United States in general, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities. In particular, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets. These broad market and industry fluctuations may adversely affect the market price of our ADSs. Volatility or a lack of positive performance in our ADS price may also adversely affect our ability to retain key employees, most of whom have been granted options or other equity incentives.

Substantial future sales or the perception of sales of our ADSs in the public market could cause the price of our ADSs to decline.

Sales of our ADSs in the public market, or the perception that these sales could occur, could cause the market price of our ADSs to decline. Such sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate. If any existing shareholder or shareholders sell a substantial amount of ADSs, the prevailing market price for our ADSs could be adversely affected. In addition, if we pay for our future acquisitions in whole or in part with additionally issued ordinary shares, your ownership interests in our company would be diluted and this, in turn, could have a material and adverse effect on the price of our ADSs.

You may not have the same voting rights as the holders of our ordinary shares and may not receive voting materials in time to be able to exercise your 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 attached to the shares evidenced by our ADSs on an individual basis. Holders of our ADSs will appoint the depository or its nominee as their representative to exercise the voting rights attached to the shares represented by the ADSs. You may not receive voting materials in time to instruct the depository to vote, and it is possible that you, or persons who hold their ADSs through brokers, dealers or other third parties, will not have the opportunity to exercise a right to vote. Upon our written request, the depository will mail to you a shareholder meeting notice which contains, among other things, a statement as to the manner in which your voting instructions may be given, including an express indication that such instructions may be given or deemed given to the depository to give a discretionary proxy to a person designated by us if no instructions are received by the depository from you on or before the response date established by the depository. However, no voting instruction will be deemed given and no such discretionary proxy will be given with respect to any matter as to which we inform the depository that (i) we do not wish such proxy given, (ii) substantial opposition exists, or (iii) such matter materially and adversely affects the rights of shareholders.

You may not be able to participate in rights offerings and may experience dilution of your holdings as a result.

We may from time to time distribute rights to our shareholders, including rights to acquire our securities. Under the deposit agreement for the ADSs, the depository will not offer those rights to ADS holders unless both

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the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act of 1933, or exempt from registration under the Securities Act with respect to all holders of ADSs. We are under no obligation to file a registration statement with respect to any such rights or underlying securities or to endeavor to cause such a registration statement to be declared effective. In addition, we may not be able to take advantage of any exemptions 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 as a result.

You may be subject to limitations on transfer of your ADSs.

Your 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 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 deems 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, or for any other reason.

You may face difficulties in protecting your interests, and your ability to protect your rights through the U.S. federal courts may be limited, because we are incorporated under Cayman Islands law, conduct most of our operations in China and all of our officers reside outside of the United States.

We are incorporated in the Cayman Islands, and conduct most of our operations in China through our subsidiaries and consolidated affiliated entities in China. All of our officers and a majority of our directors reside outside of the United States and some or all of the assets of these persons are located outside of the United States. As a result, it may not be possible to effect service of process within the United States or elsewhere outside of China upon our executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws.

It may also be difficult or impossible for you to bring an action against us or against our directors and officers in the Cayman Islands or in China in the event that you believe that your rights have been infringed under the securities laws or otherwise. Even if you are successful in bringing an action of this kind, the laws of the Cayman Islands and of China may render you unable to enforce a judgment against our assets or the assets of our directors and officers. There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will generally recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without retrial on the merits. Moreover, our PRC counsel has advised us that the PRC does not have treaties with the United States or many other countries providing for the reciprocal recognition and enforcement of judgment of courts.

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2013 Revision) and common law of the Cayman Islands. The rights of shareholders to take legal action against our directors and us, 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, but not 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 precedents in the United States. 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, Cayman Islands companies may not have standing to initiate a shareholder derivative action before the federal courts of the United States.

As a result of all of the above, our public shareholders may have more difficulty in protecting their interests through actions against our management, directors or major shareholders than would shareholders of a corporation incorporated in a jurisdiction in the United States.

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Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We issued Class A ordinary shares represented by our ADSs in our initial public offering. Our co-founder, chairman and chief executive officer, Robin Yanhong Li, who acquired our shares prior to our initial public offering, holds our Class B ordinary shares. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof, while Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder, such Class B ordinary shares will be automatically and immediately converted into the equal number of Class A ordinary shares. In addition, if at any time Robin Yanhong Li and his affiliates collectively own less than 5% of the total number of the issued and outstanding Class B ordinary shares, each issued and outstanding Class B ordinary share will be automatically and immediately converted into one Class A ordinary share, and we shall not issue any Class B ordinary shares thereafter.

Due to the disparate voting powers attached to these two classes, certain shareholders have significant voting power over matters requiring shareholder approval, including election of directors and significant corporate transactions, such as a merger or sale of our company or our assets. This concentrated control could discourage or prevent others from pursuing any potential merger, takeover or other change of control transactions with our company, which could deprive our shareholders and ADS holders of an opportunity to receive a premium for their shares or ADSs as part of a sale of our company and might reduce the price of our ADSs.

Our articles of association contain anti-takeover provisions that could adversely affect the rights of holders of our ordinary shares and ADSs.

Our articles of association include certain provisions that could limit the ability of others to acquire control of our company, and therefore may deprive the holders of our ordinary shares and ADSs of the opportunity to sell their ordinary shares or ADSs at a premium over the prevailing market price by discouraging third parties from seeking to obtain control of our company in a tender offer or similar transactions. These provisions include the following:

- A dual-class ordinary share structure.
- Our board of directors has the authority, without approval by the shareholders, to issue up to a total of 10,000,000 preferred shares in one or more series. Our board of directors may establish the number of shares to be included in each such series and may fix the designations, preferences, powers and other rights of the shares of a series of preferred shares.
- Our board of directors has the right to elect directors to fill a vacancy created by the increase of the board of directors or the resignation, death or removal of a director, which prevents shareholders from having the sole right to fill vacancies on our board of directors.

We may be classified as a passive foreign investment company, which could result in adverse U.S. federal income tax consequence to U.S. Holders of our ADSs or ordinary shares.

Based on the market price of our ADSs and ordinary shares, the value of our assets, and the composition of our assets and income, we believe that we were not a “passive foreign investment company,” or PFIC, for our taxable year ended December 31, 2013, and we do not expect to be a PFIC for our taxable year ending December 31, 2014 or for the foreseeable future. A non-U.S. corporation will be considered a PFIC for any taxable year if either (i) at least 75% of its gross income is passive income or (ii) at least 50% of the value of its

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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 value of our assets is generally determined by reference to the market price of the ADSs and ordinary shares, which may fluctuate considerably. In addition, because there are uncertainties in the application of the relevant rules and because PFIC status is a fact-intensive determination made on an annual basis, no assurance may be given with respect to our PFIC status for the current or any future taxable year.

If we were treated as a PFIC for any taxable year during which a U.S. Holder (defined below) held an ADS or an ordinary share, certain adverse U.S. federal income tax consequences could apply to the U.S. Holder. See “Item 10.E. Additional Information—Taxation—United States Federal Income Taxation—Passive Foreign Investment Company.”

Item 4. Information on the Company

A. History and Development of the Company.

We were incorporated in the Cayman Islands in January 2000. Since our inception, we have conducted our operations in China principally through Baidu Online, our wholly owned subsidiary in Beijing, China. Since June 2001, we also have conducted part of our operations in China through Baidu Netcom, a consolidated affiliated entity in Beijing, China, which holds the licenses and approvals necessary to operate our websites and provide online advertising services. In more recent years, we have established additional subsidiaries inside and outside of China and assisted in establishing additional PRC consolidated affiliated entities to conduct part of our operations.

On August 5, 2005, we listed our ADSs on The NASDAQ National Market (later renamed The NASDAQ Global Market) under the symbol “BIDU.” We and certain selling shareholders of our company completed the initial public offering of 4,604,224 ADSs, each then representing one Class A ordinary share, on August 10, 2005. On May 12, 2010, we effected a change of the ADS to Class A ordinary share ratio from 1 ADS representing 1 Class A ordinary share to 10 ADSs representing 1 Class A ordinary share. The ratio change has the same effect as a 10-for-1 ADS split. Our ADSs currently trade on The NASDAQ Global Select Market.

In December 2008, our shareholders approved our name change from Baidu.com, Inc. to Baidu, Inc. In November 2009, we moved into our new corporate headquarters, which we name as Baidu Campus. Our principal executive offices are located at Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, the People’s Republic of China. Our telephone number at this address is +86 (10) 5992-8888.

In July 2011, we acquired a majority stake in Qunar, an online travel search services provider, and have since then consolidated the financial results of Qunar in our consolidated financial statements. On November 1, 2013, Qunar listed its ADSs, each representing three Class B ordinary shares of Qunar, on the NASDAQ Global Market in connection with its initial public offering. We remain to be the majority shareholder of Qunar after its initial public offering.

In November 2012, we obtained the controlling interest in Qiyi.com, Inc., a prior equity method investee, and have since then consolidated its financial results into our consolidated financial statements. In May 2013, we acquired the online video business of PPStream Inc. and have merged it with iQiyi and have since then consolidated its financial results into our consolidated financial statements.

In October 2013, we acquired 100% equity interest of 91 Wireless from NetDragon Websoft Inc. and the other shareholders of 91 Wireless, and have since then consolidated its financial results into our consolidated financial statements.

B. Business Overview

We are the leading Chinese language internet search provider. As a technology-based media company, we aim to provide the best way for people to find information. In addition to serving users, we provide an effective platform for businesses to reach potential customers.

Our *Baidu.com* website was the largest website in China and the fifth largest website globally, as measured by average daily visitors and page views during the three-month period ended December 31, 2013, according to Alexa.com, an internet analytics firm. We are the most used internet search provider in China, capturing 81.6% of internet search traffic in China in 2013, according to iResearch Consulting Group, a market research firm. Our “Baidu” brand received the highest ranking for an internet brand in China in BrandZ Top 50 Most Valuable Chinese Brands 2013, a study published by Millward Brown Optimor, a brand strategy research firm.

We conduct our operations primarily in China, and our revenues generated from international operations are insignificant. Revenues generated from our operations in China accounted for approximately 99.6%, 99.5% and 99.8% of our total revenues in 2011, 2012 and 2013, respectively.

We serve three types of online participants:

Users. We offer a Chinese language search platform on our *Baidu.com* website that enables users to find relevant information online, including web pages, news, images, documents and multimedia files, through links provided on our website. We also offer several international products and services in local languages to users in several other countries.

We also provide a broad range of products and services to enrich user experience and facilitate easy and quick search, including search products, social-networking products, user-generated-content-based (UGC-based) knowledge products, location-based products and services, entertainment products, security products, mobile related products and services, products and services for developers and webmasters and other products and services. Our products and services can be accessed through PCs and mobile devices. We aspire to provide the best search experience to our users. To this end, we have invested in advanced technologies such as deep learning and semantic intelligence.

We also offer a broad range of mobile products, including Baidu Mobile Search, Baidu Mobile Maps, Baidu Mobile Assistant, 91 Assistant, HiMarket, Baidu Mobile Guardian, Baidu Mobile Browser, Baidu Photo Wonder and Baidu Yun.

Customers. We deliver online marketing services to a diverse customer base operating in a variety of industries. In 2013, we had approximately 753,000 active online marketing customers. Our online marketing customers consist of SMEs throughout China, large domestic companies and Chinese divisions and subsidiaries of large, multinational companies. We have a diverse customer base in terms of industries and geographical locations. Our defined industries in which our customers operate include medical and healthcare, education, software and online games, tourism and ticketing, machinery, construction and decoration, franchising, electronic commerce, electronic products, business services, transportation, financial services, information technology services, electronic components and household appliances. Customers in our top five industries contributed approximately 54% of our total online marketing revenues in 2013. Although we have customers located throughout China, we have a more active and larger customer base in coastal regions, reflecting the current general economic demographics in China.

We reach and serve our customers through our direct sales force as well as a network of third-party distributors across China. As many of our customers are SMEs, we use distributors to help us identify potential SME customers, collect payments and assist SMEs in setting up accounts with us and using our online marketing services. We have also engaged third-party agencies to identify and reach potential customers outside of China.

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To enable our customers to effectively capture the mobile opportunity, we provide free tools to customers to help them build and modify mobile landing pages and proactively educate customers about mobile marketing. In May 2013, we introduced an integrated bidding system to better streamline the bidding experience on PC and mobile channels for our customers. Mobile Revenue exceeded 20% of our total revenues for the fourth quarter of 2013.

Baidu Union Members. Baidu Union consists of a large number of third-party web content, software and mobile application providers. Baidu Union members can display on their properties our customers' promotional links that match the content of such members' properties. Some Baidu Union members also embed some of our products and services into their properties. We allow Baidu Union members to provide high-quality and relevant search results to their users without the cost of building and maintaining advanced search capabilities in-house and to monetize their traffic through revenue sharing arrangements with us. We reward Baidu Union members which bring higher quality traffic to us by sharing with these members more revenues as a percentage of total revenues recognized by us. The number of Baidu Union members that contributed revenues to us decreased by approximately 14.4% in 2013. The decrease in Baidu Union members reflected our continuous efforts to optimize our quality of traffic, which caused the cessation of cooperation with some union members.

Products and Services for Users

We focus on offering products and services that enable our users to find relevant information quickly and easily. We offer our main products and services to users through *Baidu.com* free of charge generally. These products and services can be accessed through PCs, mobile and other non-mobile devices. We organize our products and services into nine categories, namely, search products, social-networking products, UGC-based knowledge products, location-based products and services, entertainment products, security products, mobile related products and services, products and services for developers and webmasters, and other products and services. We also offer some products and services provided by our associated or cooperative websites.

Search Products

Baidu Web Search. Baidu's web search allows users to locate information using Chinese language search queries. Our web search also incorporates some of Bing's English search results, which are presented to our users conducting searches using English language search queries. Through our proprietary search technology, we build and continuously refine a large database of Chinese synonyms and closely associated phrases, which is essential for accurate and efficient execution of Chinese language searches. The *Baidu.com* home page features a search box prominently, which is designed not only to load quickly but also to be user-friendly. After entering a search query, users are generally presented with a list of search results, which may include our customers' links marked as sponsored links. Users can then access the desired websites by clicking on the hypertext links displayed in the search results.

In addition to providing access to approximately thirty billion indexed Chinese language web pages, we have integrated additional features into our web search, which help users find information more easily. The Baidu web search includes features such as:

- Related Search—provides alternative search terms based on the original queries to help users find relevant web pages quickly.
- Search in Results—enables users to conduct additional searches within the initial search results.
- Search Term Suggestion—displays a list of suggested search terms as the user inputs words into the search box.
- Search by Chinese Phonetics (Pinyin)—enables users to conduct quick searches by entering Chinese phonetics with letters of the English alphabet instead of Chinese characters.
- Spell Checker—suggests alternative search terms when a search appears to contain misspellings or typing errors.

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- **Advanced Search**—enables users to create more focused queries by employing techniques such as narrowing results to specified words or phrases, document formats, geographic regions, time frames or websites.
- **Snapshots**—provides snapshots of web pages taken when the pages were indexed, allowing users to view web pages that cannot be opened quickly or easily.
- **Third-party rich content microblog**—integrates and displays third-party rich content. For example, users can search for and view directly in our search results microblog contents from SINA Weibo and Tencent Weibo.
- **Other Baidu products**—integrates and displays search results from other Baidu products including Baidu News, Baidu Image Search, Baidu Video Search, Hao123, Baidu Post Bar, Baidu Space, Baidu Knows, Baidu Encyclopedia, Baidu WenKu, Baidu Map Search, Baidu Music, Baidu Translation and Baidu Dictionary.
- **Layout design**—adopts a layout design that matches users' interest for the topic to enable quick search, and offers customized recommendation links and knowledge that derive from both of our web knowledge graph and the aggregated user search history and preference, at right side of search result.
- **Baidu personalized homepage**—offers a customizable landing page providing registered users a personalized experience based on their historical search behavior. Users are presented with an intelligently recommended list of recent favorite websites or online services and can add their favorite websites and online applications on their homepage layout. Users can also view updates of their interested persons in Baidu Post Bar and Baidu Space.
- **New devices**—provide customized search experience for new devices. For example, we offer optimized display and interaction on iPad.
- **Knowledge graph**—Baidu Knowledge graph aggregates the contents from multiple sources and classifies them into different knowledge entities, where each knowledge entity is of well-defined structure, consisting of various attributes and operations. The Knowledge graph can display the content of knowledge entity in one card and render the card in the search result page. The card contains the various attributes of the entity, sorted with relevancy and popularity. With the Knowledge graph, we can answer some queries directly through displaying accurate answers on the search result page. Given a query, the Knowledge graph can find not only the directly related knowledge entity but also some loosely related knowledge entities. Our search engine renders those loosely related entities in the right panel of the search result page, so as to motivate the user to search more. With the Knowledge graph, we reinforce the conversation between users and our search engine in order to better understand the need of users.

In addition, Baidu Web Search allows users to launch some applications directly, which feature is powered by Baidu Open Platform and Baidu Open Cloud where content providers and developers can submit their contents and applications.

Baidu Image Search. Baidu Image Search enables users to search for images on the internet by term queries or various categories and offers advanced features, such as search by image file type and search within a designated website or web page. Baidu Image Search also allows users to search information on an image or search other similar images by allowing users to upload an image or enter its uniform resource locator (URL). In addition, registered users can upload, label and share with others high-quality pictures through Baidu Image Search.

Baidu Video Search. Baidu Video Search enables users to search by term queries for and access through hyperlinks online video clips that are hosted on third parties' websites. Baidu Video Search also allows users to locate and play various video content on smartphones and tablets, and support blue ray playing based on the mobile cloud technology.

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Baidu News. Baidu News provides links to an extensive selection of local, national and international news and presents news stories in a searchable format, typically within minutes of their publication on the internet. Baidu News uses an automated process to display links to related headlines, which enables users to see many different viewpoints on the same story. Baidu News is typically updated every five minutes throughout the day. Users can also choose to have links of specific types of news articles, e.g., financial news, or news articles containing specific keywords delivered to their email accounts.

Baidu Web Directory. Baidu Web Directory enables users to browse and search through websites that have been organized into categories.

Hao123.com. We also operate Hao123.com, a popular Chinese web directory navigation site in China.

Qunar. Qunar is the leading search-based commerce platform for the travel industry in China. Qunar enables travelers to find travel deals by aggregating and processing highly fragmented travel product information from tens of thousands of travel service providers into an organized and user-friendly display through its proprietary technology.

Nuomi. We acquired a majority equity interest in Nuomi Holdings Inc., or Nuomi, a previously wholly owned subsidiary of Renren Inc., in October 2013, and acquired the remaining equity interest in Nuomi in February 2014. Nuomi.com, now a wholly owned subsidiary of us, offers group buying services and products to Nuomi users. Entertainment, dining, health and beauty services make up the majority of its social commerce deals. Nuomi users can access the service through nuomi.com, Nuomi's mobile app and additional channels such as Baidu Maps and tuan.baidu.com.

Social-networking Products

Baidu Post Bar. Baidu Post Bar provides users with a query-based searchable community to exchange views and share knowledge and experience, as well as an enhanced instant communication tool. Baidu Post Bar offers both web and mobile versions. The mobile version of Baidu Post Bar has a group real-time interaction function, through which users can create or join a group based on their interests or locations. The community can be further expanded by users posting new topics that have not been covered in the community before. In Baidu Post Bar, users can search, read and browse internet message boards and after signing in, reply to other members of the community publicly. Registered users can also follow a topic through text, image, audio and video posts, and send private text and image messages, as well as audio message on mobile devices, to each other within the community. Baidu Post Bar covers a broad range of topics and interest areas, such as society, sports and entertainment. In addition, we have started cooperation with third-party partners by allowing them to set up affiliated post bars to facilitate better communication with users.

Baidu Space. Baidu Space allows registered users to create personalized homepages in a query-based searchable community. Registered users can post their blogs, photo album and certain personal information on their homepages and establish their own communities of friends who are also registered users.

Baidu Album. Baidu Album is a cloud-enabled photo storing and sharing service, which allows users to upload pictures without compression and share with others with privacy control. Baidu Album uses cloud-based back-up technology to preserve the uploaded pictures.

UGC-based Knowledge Products

Baidu Knows. Baidu Knows provides users with a query-based searchable community to share knowledge and experiences. Through Baidu Knows, registered users can post specific questions for other users to respond. Any users of our *Baidu.com* website can also search, read and browse questions and answers by registered users of Baidu Knows. Baidu Knows has also invited experts in many fields such as medical care, maternal and child health, law and education to address users' questions.

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Baidu Encyclopedia. Baidu Encyclopedia is an evolving encyclopedia compiled by registered users. Registered users can share their knowledge by adding new terms and new content in Baidu Encyclopedia. Any users of our *Baidu.com* website can also search, read and browse all terms and content contributed by registered users of Baidu Encyclopedia.

Baidu WenKu. Baidu WenKu is an online document sharing platform, through which registered users of our *Baidu.com* website can search, browse or read, by categories, documents in various formats such as Microsoft WORD, PDF and Microsoft Excel. Baidu WenKu also allows registered users to upload documents to and download from this user-created documents database.

Location-based Products and Services

Baidu Maps. Baidu Maps integrate map data from third-party suppliers and web information, providing users with services relating to locations, routes, and local merchants on their PCs and mobile devices in both offline and online modes. Baidu Maps for mobile devices (Baidu Mobile Maps) has increasingly served as a gateway for users to conduct local searches. It has an open application programming interface and integrates services and information from numerous partners.

- *Local Life Service.* Through Baidu Maps, users can access in-depth information of local merchants and can also review services provided by local business owners. Through Baidu Mobile Maps, users can also locate their current position and search for points of interests and services near their current location or designated location. These points of interests and services include restaurants, hotels, movie theaters, KTVs, gas stations, scenic spots, banks, bars, as well as food delivery, coupons and group buy deals offered and displayed by local merchants. Users can access local merchants' telephone numbers, addresses, directions, reviews and comments, coupons and latest group buy offers. Users can make online reservation at a restaurant or cinema or arrange for a taxi pickup through Baidu Maps.
- *Intelligent Direction Navigation Service.* Users can enjoy comprehensive intelligent *direction navigation* service, including suggested routes for driving, public transportation and walking, voice navigation, real-time traffic status and real-time public transportation status.

Baidu Group Buy Directory. Baidu Group Buy Directory is a navigation site through which users can view group buy items by categories provided by third-party group buy websites and click through links to these group buy websites for more information.

Baidu Navigation. Baidu Navigation is a professional navigation application that can be used in both offline and online modes. It can support both Android and iOS systems. Baidu Navigation provides users with site searching, positioning, driving route planning and driving guidance service. Baidu Navigation also supports site searching and navigation launching through voice commands.

Baidu Travel. We run a beta version of Baidu Travel, which aims to provide users with flights, hotels and other travel-related information for domestic and international destinations, covering top attractions, transportation, accommodation, shopping and cultural highlights, and allow registered users to share their travel experience by posting their own travel journals and comments.

Entertainment Products

iQiyi and PPS. iQiyi is an online video platform with a content library that includes copyrighted movies, television series, cartoons, variety shows and other programs. The programs are provided by content providers under licensing arrangements. Apart from sourcing copyrighted contents, iQiyi also produces a variety of original content. In addition, iQiyi provides online community services to facilitate user communication and interaction. Users can also search and watch iQiyi.com videos on their mobile phones free of charge. In May 2013, we acquired the online video business of PPStream Inc. and have merged it with iQiyi. PPS has since then operated as sub-brand of iQiyi. The combined entity was the largest online video platform in China as of December 2013, in terms of number of mobile users, according to iResearch.

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Baidu Music. Baidu Music is a digital music service that gives users access to millions of songs. We have been partnering with many content providers, including well-known international labels such as Universal Music, Warner Music, Sony Music and EMI Music, to provide licensed music for users in geographic locations within the license scope to stream and download from our platform. Baidu Music's front page mainly provides the latest releases, hot charts and editor's compilation, and also contains a search box whereby users can search for music by term queries. Registered members can store their music in a cloud-based "digital music space" and get their personal playlist synchronized between multiple devices. Baidu Music can also be played on iPhone and Android-based mobile phones, through which mobile phone users can get access to Baidu Music easily.

Baidu Media Player. Baidu Media Player is an audio and video player using the streaming media technology. Baidu Media Player enables users to play multimedia files of various popular formats online and offline.

Baidu Games. Baidu Games is a channel where registered users can play web games provided by our online game operator partners. In addition, we also offer a web games portal, providing game players with updated web game-related information such as new releases, walk-throughs and reviews. Baidu DuoKu mobile games platform collaborates with licensed content providers inside and outside China in providing a diverse array of licensed and healthy games to users, hosting dedicated mobile channels and up-to-date licensed games, and has attracted a large community of mobile game players.

Security Products

Baidu Mobile Guardian. Baidu Mobile Guardian is a powerful phone security software, using mobile anti-virus technology. It can provide users with free system optimization, mobile handset accelerator, virus sweeper, data privacy, free system optimization, harassing phone intercept, refuse removal and other features. Baidu Mobile Guardian ranked No. 1 in January 2014 by AV-Test, an international authoritative testing organization.

Baidu Guard. Baidu Guard is a computer maintenance software that we offer free of charge. Using cloud-based technology, Baidu Guard offers computer speedup, system cleanup, software management, and security maintenance functions.

Baidu Antivirus. Baidu Antivirus is an antivirus software that we offer free of charge. It offers proactive defense, file protection, USB protection, download protection, browser protection, self-defense and other professional security features, and protects PCs from virus, worms, Trojans and other malware infections. Ultrafast response based on cloud technology provides accurate scan reports and real-time protection for PCs.

Mobile Related Products and Services

Baidu Mobile Search. Baidu Mobile Search enables users to access our search and community-based products and services such as Baidu News, Baidu Post Bar, Baidu Knows and Baidu Map Search using mobile devices, including WAP-enabled mobile phones. Baidu Mobile Search supports text, voice and image search to better serve users of mobile devices. By minimizing graphics and interactive contents, Baidu Mobile Search offers a user friendly and productive mobile internet search experience.

Baidu Mobile Assistant. Baidu Mobile Assistant is a mobile application marketplace designed for Android mobile devices. The platform offers an extensive and diversified array of applications, and selects and recommends high-quality applications based on big data analytics. Baidu Mobile Assistant helps improve users' phone management, allowing users to download, upgrade, manage and delete applications easily and conveniently. It also allows users to share files such as applications, videos, audios and images easily without data usage.

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91 Wireless. 91 Wireless is one of the leading mobile application marketplaces and mobile game operators in China. 91 Wireless mainly engages in the development and operation of two leading smartphone application distribution platforms in China, namely 91 Assistant and HiMarket, or together the 91 Smartphone Apps Marketplaces, a community website *91.com*, 91 Launcher, 91 Panda Reader, as well as other popular products for smartphone users. 91 Wireless operates its mobile games through *18183.com*, which is a comprehensive game portal site where users can search and download mobile games, obtain game related news and share experience.

Baidu Mobile Browser. We offer this web browser for mobile phones based on Android.

Baidu Yun. Through Baidu Yun, we offer personal cloud computing services to users. Baidu Yun allows users to upload documents, images, audios and videos to its cloud servers, stores the uploaded data with security control and provides real-time back-ups, and makes them accessible across different terminals including tablets, smartphones and desktops. Users can also share these data in many friend circles.

Baidu PhotoWonder. Baidu PhotoWonder is an application for users of smartphones based on iOS and Android to take and enhance photos and share them among some social networking sites. Baidu PhotoWonder has a celebrity face match functionality that uses facial recognition and search technology and allows users to find celebrities who look similar to the users.

Other Baidu Mobile Applications. We offer several other mobile applications which provide functions similar to those provided by non-mobile devices such as Baidu Travel, Baidu Video, Baidu Post Bar, Baidu Knows, Baidu Encyclopedia, Baidu WenKu, Baidu Album and Baidu News. These applications are tailored for mobile device users and also offer some particular functions.

Products and Services for Developers and Webmasters

Baidu Open Cloud. Through the paradigm of LightApp, mobile applications, and opening up its technologies and cloud capacities to developers, Baidu Open Cloud platform provides a complete solution that takes developers from “development” to “distribution” and from “creation” to “monetization.” Baidu Open Cloud platform works with developers in the following aspects in building an ecosystem:

- **App Builder**—App Builder is a set of tools to help content publishers and service providers build applications quickly and easily. It provides services such as standardization guidelines, a wide selection of templates and components, and the ability to import data and generate and distribute applications.
- **Clouda**—Clouda is an open-source project created and maintained by Baidu Open Cloud and worldwide developer community over the past two years. Clouda uses JavaScript as its only language for both server and client implementations, and has a built-in cloud-client unifying philosophy, a reactive user interface, real-time infrastructure and spider-friendly capability. Clouda can be used to build both web applications and hybrid applications.
- **SiteApp**—SiteApp is the tool that allows webmasters to effortlessly transform PC websites into mobile-compatible sites. When users search for a site with Baidu mobile search, they will automatically be directed to the mobile site generated by SiteApp instead of the PC website if the webmasters choose to use SiteApp. The choice will increase traffic to the mobile sites. In addition, SiteApp can help monetize mobile traffic if webmasters choose to utilize online ads or other Baidu Union resources.
- **Baidu Cloud Push**—Baidu Cloud Push is a messaging service that helps developers send messages from the server to their mobile applications. It builds a stable communication channel between the cloud and end devices, allowing end-to-end data exchange. Baidu Cloud Push now supports both Android and iOS platforms with a unified backend solution, providing push notifications and push messaging with user targeting and geo-location targeting options.

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- **Personal Cloud Storage (PCS)**—PCS provides cloud storage and service to individual users. The service allows users to backup or restore personal data, synchronize data among various devices, and share data with others. In addition, PCS provides developers with abundant capabilities, such as handling both file data and structured data, generating thumbnail, transcoding, labeling, Cloud Match and third-party ID access/authorization.
- **Baidu App Engine (BAE)**—BAE provides developers with a runtime environment for PHP, JAVA and Python. Additionally, cloud storage, message service and cloud database are also provided by BAE. The goal of BAE is to enable developers to deploy and manage their applications easily and automatically and provide a running environment of dynamic scaling and load balancing. Owing to BAE, developers can focus on the business logic instead of the maintenance work.
- **Mobile Test Center (MTC)**—MTC provides developers with overall and automated test services based on hundreds of models, free of charge. It covers both native application and web application, including all the mainstream resolutions, models and Android versions.
- **Baidu Media Cloud**—Baidu Media Cloud provides a package of multimedia-related services, including video-processing, face recognition, voice recognition and image-processing services, through cross-platform software development kits (SDKs) and RESTful APIs.

LBS Open Platform. Location based services (LBS) open platform provides Web, Android or iOS-based third-party application developers with free services, including location, maps, data on local merchants, cloud storage and cloud computing of LBS data. Based on these basic services, developers can develop their own LBS applications. We also provide automobile manufacturers, telematics service providers (TSPs), automobile terminal hardware manufacturers, and hardware related software developers with automobile networking API in order to facilitate the developments of automobile terminal applications, including location search, driving routes search, latitude and longitude search by addresses, sending routes information on the web to mobile phones and inquires about transportation events at current city.

Baidu Webmaster Platform. Baidu Webmaster Platform consists primarily of the tools section, data section and discussion section, and provides website managers with tools and data to allow them to better monitor and manage their websites and improve the search engine optimization (SEO) and hence the user experiences of their websites.

Baidu Ads Manager. Baidu Ads Manager is a technology platform which helps publishers manage their advertisement inventory more effectively.

Baidu Top Searches and Search Index. Baidu Top Searches provides listings of top search terms based on daily search queries entered on Baidu.com. The listings are organized by categories and allow users to easily locate popular search terms on topics of interest. We also offer Baidu Search Index, a data sharing platform based on the behavior data of Baidu users, through which one can study the search trend of a particular query, observe users' interest and demand, monitor public opinions, locate users' features and analyze the market characteristics.

Baidu Open Platform. Baidu Open Platform is a platform aiming at providing one-stop online services to users by intelligently identifying users' demands before providing optimized treatments and responses. It is also designed to increase coverage of Baidu products and services. Baidu Open Platform, accessible through *open.baidu.com*, has many other specialized accesses such as *mobileapp.baidu.com*. Content providers can submit their contents to Baidu Open Platform. These contents are presented on Baidu's search result pages directly and at accesses such as *open.baidu.com* by categories.

Baidu Statistics. Baidu Statistics is a platform that helps our online marketing customers to evaluate the effect of our online marketing solutions by providing various data and analyses that could be used to monitor ROI. Baidu Union members and other website owners can also benefit from Baidu Statistics in web analytics and user experience optimization. Baidu Statistics can be used for mobile applications based on iOS and Android, allowing application developers to monitor the performance of applications on a real-time basis.

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Baidu Share. Baidu Share is a tool, shown as a list of buttons, that can be embedded into other websites by website owners, and allows users of such other websites to share contents among many social networking sites and communities. By clicking the buttons embedded next to certain contents, links of the contents will be posted in the target social networking sites and communities. Contents shared using Baidu Share and the number of times these contents being shared can also be presented in our search results.

Other Products and Services

Baidu Wallet. Baidu Wallet, formerly branded as BaiduPay, provides online and mobile payment services. Baidu Wallet not only supports Baidu products and services, such as search, vertical search, application distribution, mobile search, various mobile products and other products and services that require payment from users, but also provides payment services to third-party e-commerce companies and mobile games. Baidu Wallet is a product that offers users both payment and wealth management functions. Baifa, one of the new functions of Baidu Wallet, provides certain services to users in connection with wealth management services offered by third-party funds and other companies to our users. After registering on Baifa platform, users can invest in wealth management products provided by fund companies. Baidu Wallet provides account services to help users manage their wealth.

Baidu Data Research Center. Baidu Data Research Center is an online channel providing research reports, news and other content relating to more than 10 industry sectors such as automobiles, online games, telecommunications, financial services, retail, and education. These industry-specific research reports are developed primarily by mining search queries data generated on our websites. Users registered with Baidu Data Research Center can download these reports for market research purpose.

Baidu Translation. Baidu Translation is a free online translation service that provides instant translation of texts and web pages between ten different languages, including Chinese, English, Japanese, Korean, Russian, French, Spanish, Thai, Arabic and Portuguese. Baidu Translation supports functions such as dictionary, search and translation services in one interface, and provides open translation API to translate texts and localize web pages for users' convenience. The Baidu Translation mobile app enables offline and online, voice activated translation, optical character recognition and image recognition.

Baidu Reading. Baidu Reading is an e-book platform. Baidu Reading has partnered with copyright owners and offers licensed digital books covering as social science, technology, education and many other fields. Baidu Reading is accessible from PCs and mobile devices, and allows paid online reading and download.

Baidu Browser. Baidu Browser is a PC internet browser. Baidu Browser has a landing page with pre-added links of selected popular websites and applications including games. Users can remove these links from their landing pages of Baidu Browser. They can also search for their favorite websites and applications from a collection of websites and applications, most of which are from outside developers, and add them to their Baidu Browser landing pages. We added three important features, namely, Cloud Storage, Drag Search and Cloud Reader, on Baidu Browser in 2012. Cloud Storage allows users to backup all files. Drag Search can monitor users' drag operations and then return the query results that users want immediately, such as Map, Translation and Encyclopedia.

Baidu Toolbar and Baidu Companion. Baidu Toolbar and Baidu Companion are free, downloadable software which, once installed, show up on a browser's tool bar and make our search function and some specific search capabilities readily available on every web page that a user browses.

Baidu Patent Search. Baidu Patent Search is operated in cooperation with the China Patent Information Center under the PRC State Intellectual Property Office. Baidu Patent Search enables users to search for specific Chinese patents and provides basic patent information in the search results, including the patent name, application number, filing date, issue date, inventor information and brief description of the patent.

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Baidu Search for Visually Impaired. Baidu Search for Visually Impaired is designed to assist visually impaired users to conduct a more effective search by removing certain advertisement, images and other content that may interrupt with the functioning of viewing software used by visually impaired users.

Baidu Senior Citizen Search. Baidu Senior Citizen Search is web search specifically designed for senior citizen users. Supported by Hanvon, Baidu Senior Citizen Search allows users to handwrite search terms in Chinese by moving around the mouse and produce search results more tailored to senior users' interests and experiences. It also selects websites that may be of interest to senior users and organizes these into categories and subjects.

Baidu Missing Person Search Site. We launched this missing person search site in support of those looking for missing persons. Families can upload to the site photos of the missing persons with the date they went missing and a range of other personal information that can be tracked by local law enforcement. Internet users who have come across missing persons or those suspected to be the victims of human-trafficking can upload photos and details of the encounter. Deep learning technology has been applied to match the similar faces and return the corresponding information.

Major Products and Services by Associated or Cooperative Websites

Baidu Leju. Baidu Leju is a real estate information search platform jointly developed by Baidu and China Real Estate Information Corporation, or CRIC. Baidu Leju is designed to provide Chinese internet users with comprehensive, timely information relating to the real estate markets throughout China. CRIC has the exclusive right to build and operate Baidu's web channels related to real estate and home furnishing.

International Products and Services

We offer search services, input method editor for PC and mobile users, as well as directory navigation product in other countries or regions currently.

Products and Services for Customers

We focus on providing customers with cost-effective and targeted marketing solutions. We generate almost all of our revenues from online marketing services, including online marketing services based on search queries, contextuials, audience attributes, display placements and online marketing services of other forms. Our online marketing services generally comprise text links, images, multimedia files and interactive forms.

Online Marketing Services Based on Search Queries

Online marketing services based on search queries are keyword-based marketing services targeted at and triggered by internet users' search queries, which include our P4P services and other search query-based online marketing services, for example, BrandZone. Typically, a P4P customer pays us when users click on one of its website links on Baidu search result pages or Baidu Union members' properties, while a Brand-Link customer pays us based on the duration of the placement on Baidu search result pages. Users could reach our P4P sponsored links and Brand-Link on either mobile or non-mobile devices.

P4P. Our auction-based P4P services enable our customers to bid for priority placement of their links in keyword search results. We believe we were the first auction-based P4P service provider in China. Our P4P platform enables our customers to reach users who search for information related to their products or services. Customers may use our automated online tools to create text-based descriptions of their web pages and bid on keywords that trigger the display of their web page information and links. Our P4P platform features an automated online sign-up process that allows customers to activate and manage their accounts at any time.

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Our P4P platform is an online marketplace that introduces internet search users to customers who bid for priority placement in the search results. Our intelligent ranking system takes into consideration the “quality factor” of a sponsored link for a search query in addition to the price bid on the keyword. The quality factor of a sponsored link for a search query is determined based on the relevance and certain other factors. The relevance is determined based on our analysis of past search and click-through results. Links to customers’ websites are ranked according to a comprehensive ranking index, calculated based on both the quality factor of a sponsored link for a search query and the price bid on that keyword. Our P4P online marketing customers may choose to set a daily limit on the amount spent and may also choose to target only users accessing our website from specified regions in China and/or during specific time period of the day.

We have recently launched commercial Knowledge graph, whereby we customize search results by vertical. The commercial Knowledge graph initiative enhances our users’ search experience and our customers’ ROI. Beyond the search function, commercial Knowledge graph allows users to purchase or acquire the products or services offered by our customers in the search results, and provide comments on the products or services after consumption. The search results of commercial Knowledge graph consist of a card and a landing page, both of which can display promotion information for customers. In order to meet users’ demand for different industries, we are developing commercial Knowledge graph targeting at different verticals, including medical care, education, online gaming, ecommerce, finance, automobile and travel.

Phoenix Nest, one of our current online marketing systems, is designed to improve relevance in paid search and increase value for customers, thus driving monetization efficiency. Compared to our previous auction-based online marketing system, Phoenix Nest adopts enhanced algorithms that generate more relevant online marketing and provides customers with additional tools and information to help them better manage their spending and achieve higher ROI.

We have made enhancements continually to our Phoenix Nest platform. We have opened online marketing on mobile search to all customers to allow them to promote their products and services. Besides text descriptions, customers can also promote their applications on mobile search. In order to help customers achieve better ROI from mobile search campaigns, we provide a series of special management tools in Phoenix Nest, including WAP site building tool for enhanced user experience, online chatting tool for better user engagement, mobile statistics analysis tool for enhanced conversion tracking, and performance reporting for managing campaign effectiveness. Meanwhile, we provide optimization packages in Phoenix Nest to help customers enhance the marketing performance more easily. Moreover, we have launched Phoenix Nest App (Android) allowing customers to manage their online marketing anywhere and anytime. We provide tools and features, such as Phone Calls, App Downloads, Site-Links on Mobile, Brand-Link on Mobile, allowing customers to manage and optimize mobile marketing and understand the mobile opportunity properly.

In 2013, we launched an integration project to help customers better manage their marketing placement on mobile internet. As part of our efforts to help customers build mobile sites, we have also upgraded the effectiveness and usability of our site building tools such as SiteApp, and provided a series of ancillary tools, so as to improve the number and quality of the sites built by our customers. Meanwhile, we have further improved our anti-cheating capability in order to protect customers’ interests and enhance their confidence. Moreover, we have developed a new marketing product based on Phoenix Nest, referred to as Product & Service Ads (“闪投”). Products & Services Ads is an advanced solution that allows customers with sizable products and services inventory to automatically create and manage customized and targeted marketing placements. Products & Services Ads include rich product (or service) information, such as description, image, price, location and discount.

BrandZone. BrandZone is our flagship branding display marketing product. The marketing message for a customer can integrate text description, image and video, and appear in a prominent position of the search result page. The inventory for Brandzone includes not only our web search but also various vertical search products, such as Baidu Knows, Baidu Image Search and Baidu Video Search. BrandZone allows the brand image of an advertiser to be displayed in all the vertical search products in a structured and uniform manner.

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Online Marketing Services Based on Contextuals

Online marketing services based on contextuals refer to our Network Marketing services and native advertising services.

Network Marketing. Using our ProTheme contextual promotion technology, we offer Network Marketing, a service that enables our customers' promotional links to be displayed on both Baidu's properties and Baidu Union members' properties where the customers' links are relevant to the subject and content of such web pages. We generate revenues from our Network Marketing service based on the number of clicks on our customers' links and share the revenues with our Baidu Union members for displaying our customers' promotional links on Baidu Union members' properties in accordance with pre-agreed terms.

Native Ads. We allow native ads to be placed in our vertical search products. For example, advertisers can provide corporate information and news as well as expert answers to users' inquiries in our knowledge-based vertical search products such as Baidu Knows, Baidu Encyclopedia and Baidu News, and place rich media ads in our multimedia vertical search products.

Online Marketing Services based on Audience Attributes

Online marketing services based on audience attributes allow our customers to match their promotional links or advertisements to their target audience. Customers can define and manage their target audience using a combination of individual audience attributes selected from a portfolio of pre-defined audience attributes, which cover online consumers' intent, needs and wants, demographics, location, interest, lifestyle, preferences and others. We generate revenue from these services typically based on the number of clicks on our customers' links and share the revenues with our Baidu Union members for displaying our customers' promotional links on Baidu Union members' properties in accordance with pre-agreed terms. Some customers pay us on a cost per thousand impressions basis for the links on Baidu Union members' properties.

Online Marketing Services of Display Placements

Online marketing services of display placements allow our customers to display links insensitive to search queries at a designated location on Baidu's properties or Baidu Union members' properties. We have extended our display ads network to mobile applications, helping mobile application developers monetize their mobile applications. Our customers mainly pay us, among other less common forms of payments, based on the duration of the placement on Baidu's properties or on a cost per action basis, for example, number of registered users, on Baidu Union members' properties.

Online Marketing Services of Other Forms

We offer other forms of online marketing services, including directing traffic to a customer's content to allow more exposure of the content to users, and to enable users to purchase and use the content through non-mobile devices. Users could also access some of the content through mobile devices, such as 91 Wireless' mobile game and application distribution platforms. In addition, we also provide groupbuy services through *nuomi.com*.

We also offer certain value-added consultative services that help customers maximize their ROI.

Baidu Marketing Platform. On Baidu Marketing Platform, customers can not only understand and use our various online marketing services but also enjoy our value-added services. At the early phase of their marketing placement, we provide various consulting services to assist customers in better understanding the market conditions and designing suitable marketing solutions. We also provide all-around marketing infrastructure services, including guidance on building mobile sites, site building tools such as SiteApp, and site testing tools. During the marketing placement, our experts on the platform can assist customers in understanding and using our various products and services to increase customer satisfaction. At the later phase of the placement, our statistics analysis tools can help customers assess the marketing effectiveness and achieve better ROI.

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Certification Services. We classify and certify merchants based on the standards developed based on our experiences, and evaluate the credibility of merchants periodically based on their behavior on Baidu Marketing Platform and other business activities. We have adopted related reward and penalty measures aiming to guide the merchants to improve their credibility.

Baidu Credit. Based on customers' historical marketing placements and credibility on the Baidu Marketing Platform, we provide a short-term credit line to customers so that they can continue their marketing activities when they are short of capital.

Sales and Distribution

We sell our online marketing services directly and through our distribution network. We have direct sales presence in Beijing, Shanghai and major cities in Guangdong Province, covering the major regional markets for our online marketing services.

Our distributors provide numerous services, including identifying customers, collecting payments, assisting customers in setting up accounts with us, suggesting keywords to maximize ROI and engaging in other marketing and educational services aimed at acquiring customers. We offer discounts to distributors as consideration for their services. We have relied on distributors for several reasons. Our P4P customer base in China is geographically diverse and fragmented, as many of our P4P customers are SMEs located in different regions in China. Moreover, SMEs are generally less experienced with online marketing as compared to large companies and therefore benefit from the extensive services provided by distributors. Finally, secure online payment and credit card systems are in early stages of development in China. Distributors serve as an important channel to reach SME customers throughout China and collect payments from them. We offer our online marketing services to medium and large corporate customers through third-party agencies and our direct sales force. We have also engaged third-party agencies to identify and reach the potential customers outside of China.

Marketing

We focus on continually improving the quality of our products and services, as we believe satisfied users and customers are more likely to recommend our products and services to others. Through these efforts and the increased use of internet in China, we have built our brand with modest marketing expenditures.

Our initial public offering in 2005 and subsequent positive media coverage have significantly enhanced our brand recognition. We have also implemented a number of marketing initiatives designed to promote our brand awareness among potential users, customers and Baidu Union members, and we invested significant resources on the promotion activities for our mobile products in last two years. For example, we have purchased advertising time on several television channels in China, cooperated with mobile device producers for our mobile products promotion, conducted cross-marketing activities with a number of leading consumer brands, conducted marketing activities targeted at specific types of users like students, launched localized marketing initiatives tailored to potential customers in various regions with the assistance of our distributors, organized and sponsored seminars and discussion forums targeted at existing and potential customers, conducted marketing activities aiming at keeping close relationships with website owners which are or may become Baidu Union members and educated new customers with tailored online or offline search engine marketing trainings to strengthen their search engine marketing abilities in 2012. In 2013, we successfully hosted the second annual "Baidu Moments Marketing Ceremony," introducing the "branding moments" marketing theory, and also worked with Millward Brown ACSR, a market survey institution, to release the "Brand Digital Asset", which evaluated the performance of brands in the digital field. In the meanwhile, we continued to implement a number of marketing initiatives designed to promote awareness of mobile marketing and Light App-based new marketing methods.

Competition

The internet search industry in China is rapidly evolving and highly competitive. Our primary competitors include U.S.-based internet search providers providing Chinese language internet search services and

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China-based internet companies. We compete with these entities for both users and customers on the basis of user traffic, quality (relevance) and safety and user experience of search results, availability and ease of use of products and services, the number of customers, distribution channels and the number of associated third-party websites. We also face competition from traditional advertising media.

U.S.-based Internet Search Providers. U.S.-based internet search providers such as Google have a strong global presence, well established brand names, more users and customers and significantly greater financial resources than we do. We may also continue to face competition from other existing competitors and new entrants in the Chinese language search market.

China-based Internet Companies. Chinese internet companies such as Sohu and Tencent offer a broad range of online services, including search service. Tencent has merged its search engine “SOSO” related business with Sohu’s search engine “Sogou” as part of Tencent’s investment in Sogou in 2013. These companies have widely recognized brand names in China and significant financial resources. We compete with these portals primarily for user traffic and online marketing. We also compete with B2B service providers such as Alibaba, which also offers search services on its websites. In addition, Qihoo 360, a company operating an internet platform and primarily providing security products, launched its search services in 2012 and competes with us on internet search.

Other Advertising Media. Other advertising media, such as newspapers, yellow pages, magazines, billboards, other forms of outdoor media, television, radio and mobile applications compete for a share of our customers’ marketing budgets. Large enterprises currently spend a relatively small percentage of their marketing budgets on online marketing as compared to other advertising media.

Technology

We have developed a proprietary technological infrastructure consisting of technologies for web search, mobile, P4P, targetization and large-scale systems. Our established infrastructure serves as the backbone for both our PC and mobile platforms.

In January 2013, we established the Baidu Institute of Deep Learning. Deep learning is an emerging computer science field that seeks to mimic the human brain with hardware and software. This technology has helped us develop cutting-edge speech and image recognition technologies, enhance the search experience we provide to users and improve our ad targeting technology and monetization capability.

Web Search Technology

Our web search technology applies a combination of techniques to determine the importance of a web page independent of any particular search query and the relevance of that page to a particular search query.

Link Analysis Techniques. Link analysis is a technique that determines the relevance between a user query and a web page by evaluating the combination of the anchor texts and the number of web pages linked to that web page. We treat a link from web page A to web page B as a “vote” by page A in favor of page B. The subject of the “vote” is described in the anchor texts of that link. The more “votes” a web page gets, the higher the relevance. We compare search queries with the content of web pages to help determine relevance. Our text-based scoring techniques do more than just counting the number of times a search term appears on a web page. For example, our technology determines the proximity of individual search terms to each other on a given web page, and prioritizes results where the search terms are near each other. Other aspects of a page’s content are also considered. By combining link analysis with our information extraction techniques, we are able to deliver relevant search results.

Information Extraction Techniques. We extract information from a web page using high performance algorithms and information extraction techniques. Our techniques enable us to understand web page content,

delete extraneous data, build link structures, identify duplicate and junk pages and decide whether to include or exclude a web page based on its quality. Our techniques can process millions of web pages quickly. In addition, our anti-spam algorithms and tools can identify and respond to spam web pages quickly and effectively.

Web Crawling Techniques. Our powerful computer clusters and intelligent scheduling algorithms allow us to crawl web pages efficiently. We can easily scale up our system to collect an ever-growing number of Chinese web pages. Our spider technology enables us to refresh web indices at intervals ranging from every few minutes to every few weeks. We set the index refresh frequency based on our knowledge of internet search users' needs and the nature of the information. For example, our news index is typically updated every five minutes, and can be as frequent as every minute, throughout the day given the importance of timely information for news. We also mine multimedia and other forms of files from web page repositories.

Our Project Aladdin, an ongoing research and development project, aims at uncovering useful information of the "Hidden Web," which usually refers to the invisible database of the numerous websites and the part of the internet that traditional search engine technology may not be able to index. The resulted Aladdin platform enriches our search index and hence provides richer search results to our users. In 2012, we made a major upgrade to the Aladdin platform, which not only provides a better and faster way to integrate new "hidden web" information into our search index, but also revolutionizes the search result presentation of the left side of the search result page. Furthermore, the upgraded platform integrates our knowledge graph to render highly relevant "knowledge panel" at the right side of the search result page to encourage users to acquire more knowledge or take actions directly within the page. Aladdin has become Baidu Open Platform. With Aladdin, mobile application developers do not have to construct and manage websites, and can therefore focus on improving their mobile applications. Aladdin can help incubate websites without webpages.

Natural Language Processing Techniques. We analyze and understand user queries and web pages by using various natural language processing techniques, including, among others, word segmentation, named entity recognition, syntax and semantic analysis, paraphrasing and language dependent encoding. For example, we can identify Chinese names on a web page. When a user searches for a person based on the person's Chinese name, we can display the web pages that are specifically related to that person. We also mine user behavior and search interests from our large search query logs. We provide additional web search features such as advanced search, spelling check and search by Chinese phonetics (Pinyin).

Multimedia Technologies. We work on developing intelligent algorithms and systems to better understand human spoken languages, identify audio contents, and recognize the meaning of images and videos. These technologies will enable users to access information in a most natural way, and help our search engine better organize the vast amount of multimedia contents on the web. For example, our speech recognition technology has been applied to our mobile search on smartphones, and our face recognition technology has been applied to generate relevant photos when a person is searched. In 2013, we launched our similar image search engine, which can recognize the object and scene in the image that users want to search for and return an image that contains the most similar object and scene.

Mobile Search Technology. In order to improve search relevance and user experience on mobile devices, we made big progress on mobilizing standard web pages. Through mobilizing standard web pages technology we analyze the content and features of web pages for PCs, and automatically convert such pages to the layouts suitable for mobile devices. The technology also allows users to view the pages in an efficient way, with less time and less traffic consumed. We have also adopted the web app technology of LightApp for mobile searches, which technology allows us to crawl the information and services that regular crawlers cannot get, and present them in a way suitable for mobile devices.

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P4P Technology

Our P4P platform serves billions of relevant, targeted sponsored links each day based on search terms users enter or content they view on the web page. Our key P4P technology includes:

P4P Auction System. We use a web-based auction system to enable customers to bid for positions and automatically deliver relevant, targeted promotional links on Baidu's properties and Baidu Union members' properties. The system starts by screening the relevance between the sponsored links and a particular query. Our intelligent ranking system takes into consideration the quality factor of a sponsored link for a search query in addition to the price bid on the keyword. The quality factor of a sponsored link for a search query is determined based on the relevance and certain other factors. The relevance is determined based on the analysis of past search and click-through results. Links to customers' websites are ranked according to a comprehensive ranking index, calculated based on both the quality factor of a sponsored link for a search query and the price bid on that keyword. We employ a dynamic mechanism in determining the minimum bidding price for each keyword.

One of our current online marketing systems, Phoenix Nest, is designed to generate more relevant results, compared with the previous auction-based online marketing system we used before December 2009. Phoenix Nest helps customers more easily find users' favorite search terms to bid on, and provides customers with more tools for budget management and more data for the effective measurement of ROI. We have been continually improving our click-through rate (CTR) estimation technology, for example, we have introduced deep neural network (DNN) technology into our CTR estimation,

P4P Billing System. We record every click and charge customers a fee by multiplying the number of clicks by the cost per click. Our system is designed to detect fraudulent clicks based on factors such as click patterns and timestamps. This system also computes the amount a Baidu Union member or a distributor should be paid. The billing information is integrated with our internal Oracle ERP financial system.

P4P Customer Service System. This system offers data and tools to analyze data for our customers to evaluate and optimize the performance of our online marketing services provided to them. Through this system, our customers can also manage information relating to online marketing services such as their budgets and time periods for the services.

ProTheme Contextual Promotion Technology. Our ProTheme technology employs techniques that consider factors such as theme finding, keyword analysis, word frequency and the overall link structure of the web to analyze the content of individual web pages and to match sponsored links in our P4P platform to the web pages almost instantaneously. With this targeting technology, we can automatically provide contextually relevant promotional links. For example, our technology can provide links offering tickets to fans of a specific sports team or a news story about that team.

Targetization Technology

Our Targetization technology matches our customers' promotional links with their targeted internet users. Our automatic algorithm can analyze a user's audience attributes based on his or her past search experience and display promotional links that the user may be interested in viewing.

Large-Scale Systems and Technologies

We generally develop custom software for our products or services that are running on clusters of commodity hardware. Our investment in large-scale system infrastructure produces several key benefits: reduction in cost of storing and processing large amounts of data, simplification of deployment and operation of large-scale products and services, and automation of administration tasks of large-scale clusters of computers. Moreover, our infrastructure can be easily scaled to deal with traffic growth and data volume increase.

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Our large-scale system infrastructure uses distributed software and high performance parallel computing technologies. It provides high-quality web search services and web page collections using cost-effective servers running linux operating system. We have management information systems that enable us to perform tasks such as service operations, administration, and trouble-shooting very efficiently. In addition, we have developed framework that can help us conduct live effect test of new ideas without affecting major live services.

Our infrastructure significantly improves the relevance between a user query and marketing results by using advanced search and information retrieval algorithms that are computationally intensive. Our infrastructure also shortens our product development life cycle and allows us to innovate more quickly and cost-effectively. We constantly evaluate new hardware alternatives and software techniques to further reduce our infrastructure cost.

Intellectual Property

We rely on a combination of trademark, copyright and trade secret protection laws in China and other jurisdictions, as well as confidentiality procedures and contractual provisions to protect our intellectual property and our brand. We have 154 issued patents in China and intend to apply for more patents to protect our core technologies. We also enter into confidentiality, non-compete and invention assignment agreements with our employees and consultants and nondisclosure agreements with selected third parties. “百度”, our company’s name “Baidu” in Chinese, has been recognized as a well-known trademark in China by the Trademark Office under the State Administration for Industry and Commerce. In addition to owning the trademark “百度” and the related logo, we have applied for registration of additional trademarks and logos, including “百度一下你就知道”, “有问题百度一下”, “百度云”, “百度Hi” and “百付宝”. We also have registered certain trademarks in Hong Kong, including “百度” and our company logo, in the United States, including “Baidu”, in Singapore and Indonesia, including our company logo. In addition, we have registered our domain name *Baidu.com*, *hao123.com* and *baifubao.com* with MarkMonitor.com, *Baidu.jp* with humeia.co.jp and *Baidu.cn*, *Baidu.com.cn*, and certain other websites with China National Network Information Center, or CNNIC.

Internet, technology and media companies are frequently involved in litigation based on allegations of infringement or other violations of intellectual property rights. Furthermore, the application of laws governing intellectual property rights in China and abroad is uncertain and evolving and could involve substantial risks to us. See “Item 3.D. Key Information—Risk Factors—Risks Related to Our Business—We may face intellectual property infringement claims and other related claims that could be time-consuming and costly to defend and may result in an adverse impact over our operations” and “—We may be subject to patent infringement claims with respect to our P4P platform.”

Regulation

The PRC government extensively regulates the telecommunications industry, including the internet sector. The State Council, the MIIT and other relevant government authorities have promulgated an extensive regulatory scheme governing internet-related services. This section summarizes the principal PRC laws and regulations relating to our business.

In the opinion of Han Kun Law Offices, our PRC legal counsel, (i) the ownership structure relating to our consolidated affiliated entities complies with current PRC laws and regulations; (ii) subject to the disclosure and risks disclosed under “Item 3.D. Key Information—Risk Factors—Risks Related to Our Corporate Structure,” “—Risks Related to Doing Business in China” and “—Regulation,” our contractual arrangements with our consolidated affiliated entities and the nominee shareholders are valid and binding on all parties to these arrangements and do not violate current PRC laws or regulations; and (iii) subject to the disclosure and risks disclosed under “Item 3.D. Key Information—Risk Factors—Risks Related to Our Corporate Structure,” “—Risks Related to Doing Business in China” and “—Regulation,” the business operations of our consolidated affiliated entities, as described herein, comply with current PRC laws and regulations in all material respects.

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China's internet industry and online advertising market are evolving. There are substantial uncertainties regarding the interpretation and application of existing or proposed PRC laws and regulations. We cannot assure you that the PRC regulatory authorities would find that our corporate structure and our business operations comply with PRC laws and regulations. If the PRC government finds us to be in violation of PRC laws and regulations, we may be required to pay fines and penalties, obtain certain licenses or permits and change, suspend or discontinue our business operations until we comply with applicable PRC laws and regulations.

Regulations on Value-Added Telecommunications Services and Internet Content Services

Internet content services. The Telecommunications Regulations promulgated by the PRC State Council in September 2000 categorize all telecommunications businesses in the PRC as either basic or value-added. Internet content services, or ICP services, are classified as value-added telecommunications businesses. Pursuant to the Telecommunications Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the MIIT or its provincial level counterparts. The Administrative Measures on Internet Information Services, also promulgated by the PRC State Council in September 2000, require companies engaged in the provision of commercial internet content services to obtain an ICP license from the relevant government authorities before providing any commercial internet content services within the PRC. "Commercial internet content services" generally refer to provision of information, webpage production and other services through internet for a fee. We do not believe our P4P services are categorized as part of internet content services that require an ICP license under these regulations. Although our PRC subsidiary Baidu Online conducts the P4P business by, among other things, designing P4P keywords, interacting with potential P4P customers and engaging in sales activities with our customers, P4P search results are displayed on the websites operated by Baidu Netcom, including *baidu.com*. Baidu Netcom, as the owner of our domain name *baidu.com* and holder of the necessary licenses and approvals, such as an ICP license, operates the website to display P4P search results and other marketing content.

The Administrative Measures for Telecommunications Business Operating License, promulgated by the MIIT with latest amendments becoming effective in April 2009, set forth the types of licenses required for value-added telecommunications services and the qualifications and procedures for obtaining such licenses. For example, a value-added telecommunications service operator providing commercial value-added services in multiple provinces is required to obtain an inter-regional license, whereas a value-added telecommunications service operator providing the same services in one province is required to obtain a local license.

BBS services. The Internet Electronic Messaging Service Administrative Measures promulgated by the MIIT in November 2000 require ICP operators to obtain specific approvals before providing BBS services. BBS services include electronic bulletin boards, electronic forums, message boards and chat rooms. On July 4, 2010, the approval requirement for operating BBS services was terminated by a decision issued by the PRC State Council. However, in practice, the competent authorities in Beijing still require the relevant operating companies to obtain such approval for the operation of BBS services.

Content regulation. National security considerations are an important factor in the regulation of internet content in China. The National People's Congress, the PRC's national legislature, has enacted laws with respect to maintaining the security of internet operation and internet content. Under these laws and applicable regulations, violators may be subject to penalties, including criminal sanctions, for internet content that:

- opposes the fundamental principles stated in the PRC constitution;
- compromises national security, divulges state secrets, subverts state power or damages national unity;
- harms the dignity or interests of the state;
- incites ethnic hatred or racial discrimination or damages inter-ethnic unity;
- undermines the PRC's religious policy or propagates heretical teachings or feudal superstitions;

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- disseminates rumors, disturbs social order or disrupts social stability;
- disseminates obscenity or pornography, encourages gambling, violence, murder or fear or incites the commission of a crime;
- insults or slanders a third party or infringes upon the lawful rights and interests of a third party; or
- is otherwise prohibited by law or administrative regulations.

ICP operators are required to monitor their websites, including electronic bulletin boards. They may not post or disseminate any content that falls within the prohibited categories and must remove any such content from their websites. The PRC government may shut down the websites of ICP license holders that violate any of the above-mentioned content restrictions and revoke their ICP licenses.

Restrictions on Foreign Ownership in Value-Added Telecommunications Services

Pursuant to the Provisions on Administration of Foreign-Invested Telecommunications Enterprises, promulgated by the PRC State Council with latest amendments becoming effective in September 2008, the ultimate foreign equity ownership in a value-added telecommunications services provider must not exceed 50%. In order to acquire any equity interest in a value-added telecommunication business in China, a foreign investor must satisfy a number of stringent performance and operational experience requirements, including demonstrating good track records and experience in operating value-added telecommunication business overseas. Foreign investors that meet these requirements must obtain approvals from the MIIT and the Ministry of Commerce (or the Ministry of Commerce's authorized local counterparts), which retain considerable discretion in granting approvals. According to publicly available information, the PRC government has issued telecommunications business operating licenses to only a limited number of foreign-invested companies, all of which are Sino-foreign joint ventures engaging in the value-added telecommunication business. We believe that it would be impracticable for us to acquire any equity interest in our consolidated affiliated entities without diverting management attention and resources. Moreover, we believe that our contractual arrangements with these entities and the individual nominee shareholders provide us with sufficient and effective control over these entities. Accordingly, we currently do not plan to acquire any equity interest in any of these entities.

An Notice on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services, issued by the MIIT in July 2006, prohibits domestic telecommunication services providers from leasing, transferring or selling telecommunications business operating licenses to any foreign investor in any form, or providing any resources, sites or facilities to any foreign investor for their illegal operation of a telecommunications business in China. Pursuant to this notice, either the holder of a Value-Added Telecommunication Business Operating License or its shareholders must directly own the domain names and trademarks used by such license holders in their provision of value-added telecommunication services. The notice further requires each license holder to have the necessary facilities, including servers, for its approved business operations and to maintain the facilities in the regions covered by its license. If a license holder fails to comply with the requirements in the notice and cure such non-compliance, the MIIT or its local counterparts have the discretion to take measures against such license holders, including revoking their Value-Added Telecommunication Business Operating Licenses.

Due to the restrictions under these PRC regulations, we operate our websites mainly through Baidu Netcom and Beijing Perusal, and operate an online payment platform through BaiduPay. Baidu Netcom, Beijing Perusal and BaiduPay are our PRC consolidated affiliated entities, and are considered domestic PRC entities under PRC law given that the nominee shareholders are PRC citizens or PRC entities. Each of Baidu Netcom, Beijing Perusal, BaiduPay and some of our other PRC consolidated affiliated entities holds a Value-Added Telecommunications Business Operating License. In compliance with the Notice of the MIIT on Intensifying the Administration of Foreign Investment in Value-added Telecommunications Services, Baidu Netcom, Beijing Perusal and BaiduPay, our consolidated affiliated entities, own the necessary domain names and trademarks,

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including pending trademark applications and have the necessary personnel and facilities to operate our websites. It remains unclear whether the provision of online payment services by BaiduPay will require BaiduPay to apply for a Value-Added Telecommunications Business Operating License for “online data processing and transaction processing businesses” as provided in the Catalog of Telecommunications Businesses promulgated by the MIIT, although in practice many companies conducting such business do not apply for such license.

Regulations on News Display

Displaying news on a website and disseminating news through the internet are highly regulated in the PRC. The Provisional Measures for Administrating Internet Websites Carrying on the News Displaying Business, jointly promulgated by the State Council News Office and the MIIT in November 2000, require an ICP operator (other than a government authorized news unit) to obtain State Council News Office approval to post news on its website or disseminate news through the internet. Furthermore, the disseminated news must come from government-approved sources pursuant to contracts between the ICP operator and the sources, copies of which must be filed with the relevant government authorities.

In September 2005, the State Council News Office and the MIIT jointly issued the Provisions on the Administration of Internet News Information Services, requiring internet news information service organizations to provide services as approved by the State Council News Office, subject to annual inspection under the provisions. Pursuant to the provisions, no internet news information service organizations may take the form of a foreign-invested enterprise, whether a joint venture or a wholly foreign-owned enterprise, and no cooperation between internet news information service organizations and foreign-invested enterprises is allowed prior to the security evaluation by the State Council News Office.

Baidu Netcom obtained the Internet News License, which permits it to publish internet news pursuant to the relevant PRC laws and regulations, in December 2006, and had the license renewed in June 2010. The Internet News License is subject to annual inspection by relevant government authorities.

Regulations on Internet Drug Information Services

According to the Measures for the Administration of Internet Drug Information Services, issued by the State Food and Drug Administration in July 2004, an ICP operator publishing drug-related information must obtain a qualification certificate from the State Food and Drug Administration or its provincial level counterpart.

Baidu Netcom obtained the Qualification Certificate for Internet Drug Information Services, which permits it to publish drug-related information on its website, in November 2007, and had the certificate renewed in September 2012. We have another entity in our group that has obtained the Qualification Certificate for Internet Drug Information Services.

Regulations on Internet Culture Activities

The amended Internet Culture Administration Measures, promulgated by the Ministry of Culture and becoming effective in April 2011, require ICP operators engaging in “internet culture activities” to obtain a permit from the Ministry of Culture. The “internet culture activities” include, among other things, online dissemination of internet cultural products (such as audio-video products, games, performances of plays or programs, works of art and cartoons) and the production, reproduction, importation, distribution and broadcasting of internet cultural products. Imported internet cultural products are subject to content review by the Ministry of Culture before they are disseminated online, while domestic internet cultural products must be filed with the local branch of the Ministry of Culture within 30 days following the online dissemination. Baidu Netcom was granted an Internet Culture Business Permit in April 2007, which was renewed again recently in November 2013. Beijing Perusal and some other entities in our group were also granted an Internet Culture Business Permit.

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The Several Suggestions on the Development and Administration of the Internet Music, issued by the Ministry of Culture and becoming effective in November 2006, reiterate the requirement for the internet service provider to obtain the Internet Culture Business Permit to carry on any business of internet music products. In addition, foreign investors are prohibited from engaging in the internet culture business operation.

Furthermore, the Notice on Strengthening and Improving the Content Review of Online Music, issued by Ministry of Culture in August 2009, provides that only “internet culture operating entities” approved by the Ministry of Culture may engage in the production, release, dissemination (including providing direct links to music products) and importation of online music products. Internet culture operating entities should establish strict self-monitoring system of online music content and set up special department in charge of such monitoring.

Regulations on Internet Publishing

The Interim Provisions for the Administration of Internet Publishing, jointly issued by the GAPP and the MIIT and becoming effective in August 2002, require entities that engage in internet publishing to obtain approval from the GAPP. Pursuant to the provisions, “internet publishing” refers to the act of online spreading of articles, whereby the internet information service providers select, edit and process works created by themselves or others and subsequently post such works on the internet or transmit such works to the users’ end through internet for the public to browse, read, use or download. Baidu Netcom is in the process of applying for the Internet Publication License. We have an entity in our group that holds an Internet Publication License, which is valid from November 2011 to November 2016. Another entity in our group is also in the process of applying for the Internet Publication License.

Regulation on Broadcasting Audio/Video Programs through the Internet

In July 2004, the State Administration of Radio Film and Television promulgated the Rules for the Administration of Broadcasting of Audio/Video Programs through the Internet and Other Information Networks, or the Audio/Video Broadcasting Rules. The Audio/Video Broadcasting Rules apply to the opening, broadcasting, integration, transmission or download of audio/video programs through internet and other information networks. Anyone who wishes to engage in internet broadcasting activities must first obtain an Online Audio/Video Program Transmission License, with a term of two years, issued by the State Administration of Radio Film and Television and operate in accordance with the scope as stipulated in such license. Foreign-invested enterprises are not allowed to engage in the above-mentioned business activities.

The Rules for the Administration of Internet Audio and Video Program Services, commonly known as Document 56, jointly promulgated by the State Administration of Radio Film and Television and the MIIT in December 2007, reiterate the requirement set forth in the Audio/Video Broadcasting Rules that online audio/video service provider must obtain a license from the State Administration of Radio Film and Television. Furthermore, Document 56 requires all online audio/video service providers to be either wholly state-owned or state-controlled. According to some official answers to press inquiries published on the State Administration of Radio Film and Television’s website in February 2008, officials from the State Administration of Radio Film and Television and the MIIT clarified that online audio/video service providers that already had been operating lawfully prior to the issuance of Document 56 may re-register and continue to operate without becoming state-owned or controlled, provided that the providers have not engaged in any unlawful activities. This exemption will not be granted to online audio/video service providers established after Document 56 was issued. Baidu Netcom has renewed its Online Audio/Video Program Transmission License, which is valid from July 2012 to July 2015, iQiyi has an Online Audio/Video Program Transmission License valid from October 2012 to October 2015, and another entity in our group has an Online Audio/Video Program Transmission License valid from March 2011 to March 2014.

Regulations on Payment Services by Non-financial Institutions

Pursuant to the People's Bank of China's Measures Concerning Payment Services by Non-financial Institutions, which took effect in September 2010, and its implementation rules, non-financial institutions that have been providing monetary transfer services as an intermediary between payees and payers, including online payment, issuance and acceptance of prepaid card or bank card, and other payment services as specified by the People's Bank of China, must obtain a license from the People's Bank of China prior to September 1, 2011, in order to continue providing monetary transfer services. BaiduPay applied for the license after the regulations mentioned above were promulgated and prior to September 1, 2011, and was granted the license for online payment in July 2013.

Regulations on Internet Map Services

According to the Administrative Rules of Surveying Qualification Certificate and the amended Standard for Internet Map Services issued by the National Administration of Surveying, Mapping and Geoinformation (formerly known as the State Bureau of Surveying and Mapping) in March 2009 and May 2010, respectively, the provision of internet map services by any non-surveying and mapping enterprise is subject to the approval of the National Administration of Surveying, Mapping and Geoinformation and requires a Surveying and Mapping Qualification Certificate. Internet maps refer to maps called or transmitted through internet. Pursuant to the Notice on Further Strengthening the Administration of Internet Map Services Qualification issued by the National Administration of Surveying, Mapping and Geoinformation in December 2011, any entity without applying for a Surveying and Mapping Qualification Certificate for internet map services is prohibited from providing any internet map services. Baidu Netcom currently provides online traffic information inquiry services as well as internet map services and has obtained a Surveying and Mapping Qualification Certificate for internet map services. Another entity in our group has also obtained the Surveying and Mapping Qualification Certificate.

Regulations on Online Games

Pursuant to the Interim Provisions for the Administration of Internet Publishing, the online games services provided on our websites by our online game operator partners may be deemed as a type of "internet publication" provided by us, and we may be required to obtain an Internet Publication License from the GAPP. Baidu Netcom is still in the process of applying for the Internet Publication License. We have an entity in our group that holds an Internet Publication License, and another entity also in the process of applying for the Internet Publication License. The required approval by the GAPP of each online game provided on our websites is handled by our online game operator partners.

In June 2010, the Ministry of Culture promulgated the Interim Administration Measures of Online Games. In accordance with these measures, an ICP service provider operating online games, must obtain an Internet Culture Business Permit. Baidu Netcom and some other entities in our group have obtained an Internet Culture Business Permit for operating online games. These measures also specify that the Ministry of Culture is responsible for the censorship of imported online games and the filing of records of domestic online games. The procedures for the filing of records of domestic online games must be conducted with the Ministry of Culture within 30 days after the commencement date of the online operation of such online games or the occurrence date of any material alteration of such online games. The approval by or filing with the Ministry of Culture of each online game provided on our websites has been handled primarily by our online game operator partners.

In September 2009, the GAPP (currently known as SAPPRFT) together with several other government agencies issued a Circular 13, which explicitly prohibits foreign investors from participating in online game operating businesses through wholly-owned enterprises, equity joint ventures or cooperative joint ventures in China. The Circular 13 expressly prohibits foreign investors from gaining control over or participating in PRC operating companies' online game operations through indirect means, such as establishing joint venture

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companies, entering into contractual arrangements with or providing technical support to the operating companies, or through a disguised form, such as incorporating user registration, user account management or payment through game cards into online game platforms that are ultimately controlled or owned by foreign investors. We offer online games provided by our game operator partners on our websites owned and operated by our consolidated affiliated entities. We have also acquired 91 Wireless, which operates two leading smartphone application distribution platforms in China as well as a mobile game platform through our consolidated affiliated entities. If our contractual arrangements were deemed to be “indirect means” or “disguised form” under the Circular 13, our relevant contractual arrangements may be challenged by the SAPPRFT or other governmental authorities. If we were found to be in violation of the Circular 13 to operate our mobile game platform, the SAPPRFT, in conjunction with relevant regulatory authorities, would have the power to investigate and deal with such violations, including in the most serious cases, suspending and revoking the relevant licenses and registrations.

Regulations on Online Game Virtual Currency

The Interim Administration Measures of Online Games require companies that (i) issue online game virtual currency (including prepaid cards and/or prepayment or prepaid card points), or (ii) offer online game virtual currency transaction services to apply for the Internet Culture Business Permit from provincial branches of the Ministry of Culture. The regulations prohibit companies that issue online game virtual currency from providing services that would enable the trading of such virtual currency. Any company that fails to submit the requisite application will be subject to sanctions, including but not limited to termination of operation, confiscation of incomes and fines. The regulations also prohibit online game operators from allocating virtual items or virtual currency to players based on random selection through lucky draw, wager or lottery that involves cash or virtual currency directly paid by the players. In addition, companies that issue online game virtual currency must comply with certain specific requirements, for example, online games virtual currency can only be used for products and services related to the issuance company’s own online games. Baidu Netcom and some other entities in our group have obtained the Internet Culture Business Permit for issuing online game virtual currency.

Regulations on Advertisements

The PRC government regulates advertising, including online advertising, principally through the State Administration for Industry and Commerce, although there are no national PRC laws or regulations regulating online advertising business specifically. Under the Rules for Administration of Foreign-Invested Advertising Enterprise, promulgated by the State Administration for Industry and Commerce and the Ministry of Commerce in March 2004 and amended in October 2008, foreign investors are permitted to own equity interests in PRC advertising companies. However, foreign investors in wholly foreign-owned and joint venture advertising companies are required to have at least three years and two years, respectively, of direct operations in the advertising industry outside of China. The Administrative Regulations for Advertising Operation Licenses, taking effect in January 2005, exempt enterprises (other than radio stations, television stations, newspapers and magazines, non-corporate entities and other specified entities) from the previous requirement to obtain an advertising operation license in addition to a business license.

We conduct our online advertising business through our consolidated affiliated entities in China, Baidu Netcom and Beijing Perusal, each of which holds a business license that covers online advertising in its business scope. Our subsidiaries Baidu Times and Baidu China have also expanded their respective business license to cover advertising in their respective business scope.

Advertisers, advertising operators and advertising distributors are required by PRC advertising laws and regulations to ensure that the contents of the advertisements they prepare or distribute are true and in full compliance with applicable laws and regulations. In addition, where a special government review is required for certain categories of advertisements before publishing, the advertisers, advertising operators and advertising distributors are obligated to confirm that such review has been performed and the relevant approval has been

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obtained. Violation of these regulations may result in penalties, including fines, confiscation of advertising income, orders to cease dissemination of the advertisements and orders to publish an advertisement correcting the misleading information. In the case of serious violations, the State Administration for Industry and Commerce or its local branches may force the violator to terminate its advertising operation or even revoke its business license. Furthermore, advertisers, advertising operators or advertising distributors may be subject to civil liability if they infringe on the legal rights and interests of third parties.

Tort Liability Law

In accordance with the PRC Tort Liability Law, which became effective in July 2010, internet users and internet service providers bear tortious liabilities in the event that they infringe upon other persons' rights and interests through the internet. Where an internet user conducts tortious acts through internet services, the infringed person has the right to request the internet service provider take necessary actions such as deleting contents, screening and de-linking. Failing to take necessary actions after being informed, the internet service provider will be subject to joint and several liabilities with the internet user with regard to the additional damages incurred. Where an internet service provider knows that an internet user is infringing upon other persons' rights and interests through its internet service but fails to take necessary actions, it is jointly and severally liable with the internet user.

Regulations on Intellectual Property Rights

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

Patent. The PRC Patent Law provides for patentable inventions, utility models and designs, which must meet three conditions: novelty, inventiveness and practical applicability. The State Intellectual Property Office under the State Council is responsible for examining and approving patent applications. A patent is valid for a term of twenty years in the case of an invention and a term of ten years in the case of utility models and designs.

Copyright. The PRC Copyright Law and its implementation rules extend copyright protection to products disseminated over the internet and computer software. There is a voluntary registration system administered by the China Copyright Protection Center. Creators of protected works enjoy personal and property rights, including, among others, the right of disseminating the works through information network.

Pursuant to the relevant PRC regulations, rules and interpretations, ICP operators will be jointly liable with the infringer if they (i) participate in, assist in or abet infringing activities committed by any other person through the internet, (ii) are or should be aware of the infringing activities committed by their website users through the internet, or (iii) fail to remove infringing content or take other action to eliminate infringing consequences after receiving a warning with evidence of such infringing activities from the copyright holder. The court will determine whether an internet service provider should have known of their internet users' infringing activities based on how obvious the infringing activities are by taking into consideration a number of factors, including (i) the information management capabilities that the provider should have based on the possibility that the services provided by it may trigger infringing acts, (ii) the degree of obviousness of the infringing content, (iii) whether it has taken the initiative to select, edit, modify or recommend the contents involved, (iv) whether it has taken positive and reasonable measures against infringing acts, and (v) whether it has set up convenient programs to receive notices of infringement and made timely and reasonable responses to the notices. Where an internet service provider has directly obtained economic benefits from any contents made available by an internet user, it shall have a higher duty of care with respect to the internet user's act of infringement of others' copyrights. Advertisements placed for or other benefits particularly connected with specific contents may be deemed as direct economic benefits from such contents, but general advertising fees or service fees charged by an internet service provider for its internet services will not be included. In addition, where an ICP operator is clearly aware of the infringement of certain content against another's copyright through the internet, or fails to

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take measures to remove relevant contents upon receipt of the copyright holder's notice, and as a result, it damages the public interest, the ICP operator could be ordered to stop the tortious act and be subject to other administrative penalties such as confiscation of illegal income and fines. An ICP operator is also required to retain all infringement notices for a minimum of six months and to record the content, display time and IP addresses or the domain names related to the infringement for a minimum of 60 days.

An internet service provider may be exempted from liabilities for providing links to infringing or illegal content or providing other internet services which are used by its users to infringe others' copyright, if it does not know and does not have constructive knowledge that such content is infringing upon other parties' rights or is illegal. However, if the legitimate owner of the content notifies the internet service provider and requests removal of the links to the infringing content, the internet service provider would be deemed to have constructive knowledge upon receipt of such notification, but would be exempted from liabilities if it removes or disconnects the links to the infringing content at the request of the legitimate owner. At the request of the alleged infringer, the internet service provider should immediately restore links to content previously disconnected upon receipt of initial non-infringing evidence.

We have adopted measures to mitigate copyright infringement risks. For example, our policy is to remove links to web pages and materials uploaded by the users if we know these web pages or materials contain materials that infringe upon third-party rights or if we are notified by the legitimate copyright holder of the infringement with proper evidence.

Software Products. The amended Administrative Measures on Software Products, promulgated by the MIIT and becoming effective in April 2009, provide a registration and filing system with respect to software products made in or imported into China. Software products may be registered with the relevant local authorities in charge of software industry administration. Registered software products may enjoy preferential treatment status granted by applicable software industry regulations. Software products can be registered for five years, and the registration is renewable upon expiration.

In addition, the Computer Software Protection Regulations and the Computer Software Copyright Registration Procedures apply to software copyright registration, license agreement registration and transfer agreement registration. Although such registration is not mandatory under PRC law, software copyright owners are encouraged to go through the registration process and registered software may receive better protection.

Trademark. The PRC Trademark Law and its implementation rules protect registered trademarks. The Trademark Office under the State Administration for Industry and Commerce handles trademark registrations and grants a term of ten years to registered trademarks. Trademark license agreements must be filed with the Trademark Office for record. “百度” is recognized as a well-known trademark in China by the Trademark Office under the State Administration for Industry and Commerce. In addition to owning the trademark “百度” and the related logo, we have applied for registration of additional trademarks and logos, including “百度一下你就知道”, “有问题百度一下”, “百度云”, “百度Hi” and “百付宝”.

Domain name. Domain names are protected under the Administrative Measures on the Internet Domain Names promulgated by the MIIT in November 2004. The MIIT is the major regulatory body responsible for the administration of the PRC internet domain names, under supervision of which the China Internet Network Information Center, or CNNIC, is responsible for the daily administration of .cn domain names and Chinese domain names. We have registered *Baidu.cn*, *Baidu.com.cn*, *hao123.com* and certain other domain names with CNNIC.

Regulations on Information Security

The National People's Congress has enacted legislation that prohibits use of the internet that breaches the public security, disseminates socially destabilizing content or leaks state secrets. Breach of public security

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includes breach of national security and infringement on legal rights and interests of the state, society or citizens. Socially destabilizing content includes any content that incites defiance or violations of PRC laws or regulations or subversion of the PRC government or its political system, spreads socially disruptive rumors or involves cult activities, superstition, obscenities, pornography, gambling or violence. State secrets are defined broadly to include information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

Pursuant to applicable regulations, ICP operators must complete mandatory security filing procedures and regularly update information security and censorship systems for their websites with local public security authorities, and must also report any public dissemination of prohibited content.

In addition, the State Secrecy Bureau has issued provisions authorizing the blocking of access to any website it deems to be leaking state secrets or failing to comply with the relevant legislation regarding the protection of state secrets during online information distribution. Specifically, internet companies in China with bulletin boards, chat rooms or similar services must apply for specific approval prior to operating such services.

Furthermore, the Provisions on Technological Measures for Internet Security Protection, promulgated by the Ministry of Public Security, require all ICP operators to keep records of certain information about its users (including user registration information, log-in and log-out time, IP address, content and time of posts by users) for at least 60 days and submit the above information as required by laws and regulations. The Network Information Protection Decision states that ICP operators must request identity information from users when ICP operators provide information publication services to the users. If ICP operators come across prohibited information, they must immediately cease the transmission of such information, delete the information, keep relevant records, and report to relevant government authorities.

Baidu Netcom, Beijing Perusal, BaiduPay and some other entities in our group are ICP operators, and are therefore subject to the regulations relating to information security. They have taken measures to comply with these regulations. They are registered with the relevant government authority in accordance with the mandatory registration requirement. Baidu Netcom's policy is to remove links to web pages which to its knowledge contain information that would be in violation of PRC laws or regulations. In addition, we monitor our websites to ensure our compliance with the above-mentioned laws and regulations.

Regulations on Internet Privacy

The PRC Constitution states that PRC law protects the freedom and privacy of communications of citizens and prohibits infringement of these rights. In recent years, PRC government authorities have enacted legislation on internet use to protect personal information from any unauthorized disclosure. The Network Information Protection Decision provides that electronic information that identifies a citizen or involves privacy of any citizen is protected by law and must not be unlawfully collected or provided to others. ICP operators collecting or using personal electronic information of citizens must specify the purposes, manners and scopes of information collection and uses, obtain consent of the relevant citizens, and keep the collected personal information confidential. ICP operators are prohibited from disclosing, tampering with, damaging, selling or illegally providing others with, collected personal information. ICP operators are required to take technical and other measures to prevent the collected personal information from any unauthorized disclosure, damage or loss. The Administrative Measures on Internet Information Services prohibit an ICP operator from insulting or slandering a third party or infringing upon the lawful rights and interests of a third party. Pursuant to the Internet Electronic Messaging Service Administrative Measures, ICP operators that provide electronic messaging services must keep users' personal information confidential and must not disclose the personal information to any third party without the users' consent or unless required by law. According to the Provisions on Protection of Personal Information of Telecommunication and Internet Users, telecommunication business operators and ICP operators shall be responsible for the security of the personal information of users they collect or use in the course of their provision of services. Without obtaining the consent from the users, telecommunication business operators and

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ICP operators may not collect or use the users' personal information. The personal information collected or used in the course of provision of services by the telecommunication business operators or ICP operators must be kept in strict confidence, and may not be divulged, tampered with or damaged, and may not be sold or illegally provided to others. The ICP operators are required to take certain measures to prevent any divulge, damage, tamper or loss of users' personal information.

The relevant telecommunications authorities are further authorized to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability, including warnings, fines, confiscation of illegal gains, revocation of licenses or filings, closing of the relevant websites, administrative punishment, criminal liabilities, or civil liabilities, if they violate relevant provisions on internet privacy. The PRC government, however, has the power and authority to order ICP operators to turn over personal information if an internet user posts any prohibited content or engages in illegal activities on the internet.

Regulations on Foreign Exchange

Foreign Currency Exchange

Pursuant to the Foreign Currency Administration Rules, as amended, and various regulations issued by SAFE and other relevant PRC government authorities, RMB is freely convertible to the extent of current account items, such as trade related receipts and payments, interest and dividends. Capital account items, such as direct equity investments, loans and repatriation of investment, unless expressly exempted by laws and regulations, still require prior approval from SAFE or its provincial branch for conversion of RMB into a foreign currency, such as U.S. dollars, and remittance of the foreign currency outside of the PRC.

Payments for transactions that take place within the PRC must be made in RMB. Foreign currency revenues received by PRC companies may be repatriated into China or retained outside of China in accordance with requirements and terms specified by SAFE.

Dividend Distribution

Wholly foreign-owned enterprises and Sino-foreign equity joint ventures in the PRC may pay dividends only out of their accumulated profits, if any, as determined in accordance with PRC accounting standards and regulations. Additionally, these foreign-invested enterprises may not pay dividends unless they set aside at least 10% of their respective accumulated profits after tax each year, if any, to fund certain reserve funds, until such time as the accumulative amount of such fund reaches 50% of the enterprise's registered capital. In addition, these companies also may allocate a portion of their after-tax profits based on PRC accounting standards to employee welfare and bonus funds at their discretion. These reserves are not distributable as cash dividends.

Foreign Exchange Registration of Offshore Investment by PRC Residents

Pursuant to SAFE's Notice on Relevant Issues Concerning Foreign Exchange Administration for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles, or SAFE Circular No. 75, issued in October 2005, and a series of implementation rules and guidance, including the most recent circular relating to operating procedures that came into effect in July 2011, PRC residents, including PRC resident natural persons or PRC companies, must register with local branches of SAFE in connection with their direct or indirect offshore investment in an overseas special purpose vehicle, or SPV, for the purposes of overseas equity financing activities. Such PRC residents are also required to amend their registration or filing with the local branches of SAFE for the injection of equity interests or assets of an onshore enterprise into the offshore company, or the overseas funds raised by such offshore company or any other material change involving a change in the capital of the offshore company. PRC residents who are shareholders of SPVs that were established and which have completed their inbound investment before November 1, 2005 were required to register with the local SAFE branch before March 31, 2006. We have notified holders of ordinary shares of our

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company whom we know are PRC residents to register with the local SAFE branch and update their registrations as required under the SAFE regulations described above. We are aware that Mr. Robin Yanhong Li, our chairman, chief executive officer and principal shareholder, who is a PRC resident, has registered with the relevant local SAFE branch, and is in the process of updating such registration to reflect recent changes as a result of certain acquisitions. We, however, cannot provide any assurances that all of our shareholders who are PRC residents will file all applicable registrations or update previously filed registrations as required by these SAFE regulations. Under SAFE Circular No. 75, failure to comply with the registration procedures set forth above may result in penalties, including restrictions on a PRC subsidiary's foreign exchange activities and its ability to distribute dividends to the SPV.

In February 2012, SAFE promulgated the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Stock Incentive Plan of Overseas Publicly-Listed Company, or the Stock Option Rule, replacing the earlier rules promulgated in March 2007. Under the Stock Option Rule, PRC residents who are granted stock options by an overseas publicly listed company are required, through a PRC agent or PRC subsidiary of such overseas publicly listed company, to register with SAFE and complete certain other procedures. We and our PRC resident employees who have been granted stock options are subject to these regulations. We have designated our PRC subsidiary Baidu Online to handle the registration and other procedures required by the Stock Option Rule. Failure of the option holders to complete their SAFE registrations may subject these PRC employees to fines and legal sanctions and may also limit the ability of the overseas publicly listed company to contribute additional capital into its PRC subsidiary and limit the PRC subsidiary's ability to distribute dividends.

Regulations on Labor

The Labor Contract Law, which became effective in January 2008, and its implementation rules, impose more restrictions on employers and have been deemed to increase labor costs for employers, compared to the Labor Law, which became effective in January 1995. For example, pursuant to the Labor Contract Law, an employer is obliged to sign labor contract with unlimited term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labor contracts. The employer has to compensate the employee upon the expiration of a fixed-term labor contract, unless the employee refuses to renew such contract on terms the same as or more favorable to the employee than those contained in the expired contract. The employer also has to indemnify an employee if the employer terminates a labor contract without a cause permitted by law. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective in January 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from 5 to 15 days per year, depending on their length of service. Employees who waive such vacation time at the request of employers must be compensated for three times their regular salaries for each waived vacation day.

Regulations on Taxation

For a discussion of applicable PRC tax regulations, see "Item 5.A. Operating and Financial Review and Prospects—Operating Results—Taxation."

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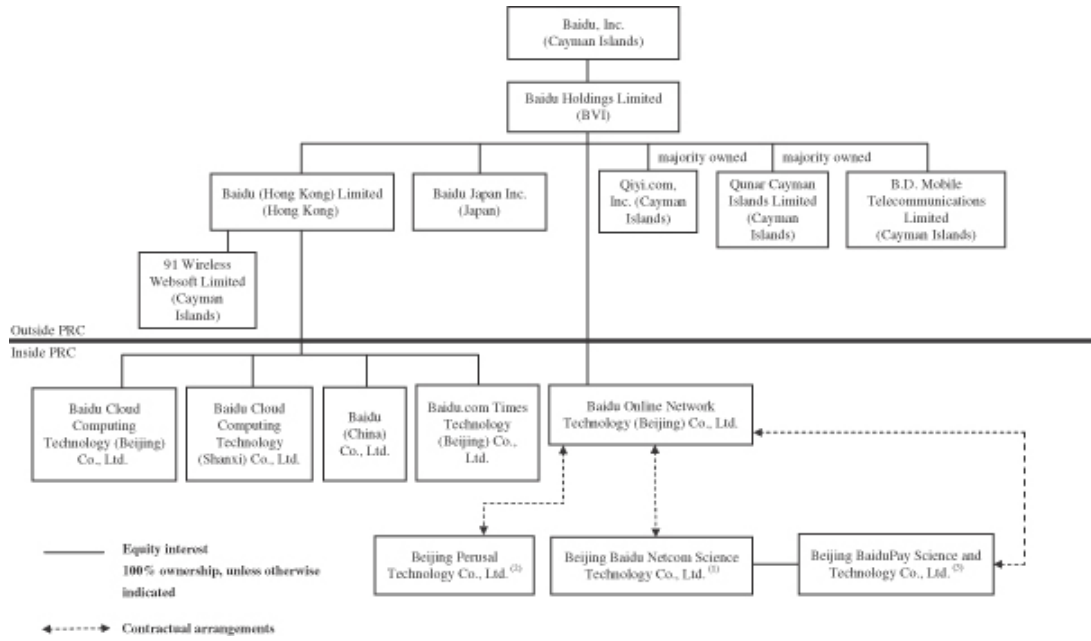
C. Organizational Structure

The following is a list of our principal subsidiaries and consolidated affiliated entities as of the date of this annual report on Form 20-F:

Name	Place of Formation	Relationship
Baidu Online Network Technology (Beijing) Co., Ltd.	China	Wholly owned subsidiary
Baidu Holdings Limited	British Virgin Islands	Wholly owned subsidiary
Beijing Baidu Netcom Science Technology Co., Ltd.	China	Consolidated affiliated entity
Baidu (China) Co., Ltd.	China	Wholly owned subsidiary
Baidu.com Times Technology (Beijing) Co., Ltd.	China	Wholly owned subsidiary
Beijing Perusal Technology Co., Ltd.	China	Consolidated affiliated entity
Baidu Japan Inc.	Japan	Wholly owned subsidiary
Baidu (Hong Kong) Limited	Hong Kong	Wholly owned subsidiary
Beijing BaiduPay Science and Technology Co., Ltd.	China	Consolidated affiliated entity
Qunar Cayman Islands Limited	Cayman Islands	Majority-owned subsidiary
Qiyi.com, Inc.	Cayman Islands	Majority-owned subsidiary
B.D. Mobile Telecommunications Limited	Cayman Islands	Wholly owned subsidiary
Baidu Cloud Computing Technology (Shanxi) Co., Ltd.	China	Wholly owned subsidiary
Baidu Cloud Computing Technology (Beijing) Co., Ltd.	China	Wholly owned subsidiary
91 Wireless Websoft Limited	Cayman Islands	Wholly owned subsidiary

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The following diagram illustrates our corporate structure, including our principal subsidiaries and consolidated affiliated entities as of the date of this annual report on Form 20-F:



- * The diagram above omits the names of subsidiaries and consolidated affiliated entities that are insignificant individually and in the aggregate. Baidu HR Consulting (Shanghai) Co., Ltd., a consolidated affiliated entity, has ceased operations and is in the process of being liquidated and dissolved.
- (1) Beijing Baidu Netcom Science Technology Co., Ltd. is 99.5% owned by Mr. Robin Yanhong Li, our chairman and chief executive officer, and 0.5% owned by Mr. Zhan Wang, an employee of ours. Please see "Item 6.E. Directors, Senior Management and Employees—Share Ownership" for Mr. Robin Yanhong Li's beneficial ownership in our company. Mr. Zhan Wang's beneficial ownership of our company is less than 1% of our total outstanding shares.
 - (2) Beijing Perusal Technology Co., Ltd. is 80% owned by Mr. Jiping Liu and 20% owned by Ms. Yazhu Zhang. Mr. Jiping Liu and Ms. Yazhu Zhang are third-party individuals designated by us, and their respective beneficial ownership in our company is less than 1% of our total outstanding shares.
 - (3) Beijing BaiduPay Science and Technology Co., Ltd. is 91% owned by Beijing Baidu Netcom Science Technology Co., Ltd. and 9% owned by Mr. Zhixiang Liang, an employee of ours. Mr. Zhixiang Liang's beneficial ownership in our company is less than 1% of our total outstanding shares.

Contractual Arrangements with Our Consolidated Affiliated Entities and the Nominee Shareholders

PRC laws and regulations restrict and impose conditions on foreign investment in internet, online advertising, online audio and video services and mobile application distribution businesses. Accordingly, we operate these businesses in China through our consolidated affiliated entities. We have entered into a series of contractual arrangements with our consolidated affiliated entities and the nominee shareholders of our consolidated affiliated entities. These contractual arrangements enable us to:

- receive substantially all of the economic benefits from our consolidated affiliated entities in consideration for the services provided by our subsidiaries;
- exercise effective control over our consolidated affiliated entities; and
- hold an exclusive option to purchase all or part of the equity interests in our consolidated affiliated entities when and to the extent permitted by PRC law.

We do not have any equity interest in our consolidated affiliated entities. However, as a result of contractual arrangements, we have effective control over and are considered the primary beneficiary of these companies, and we have consolidated the financial results of these companies in our consolidated financial statements. If our consolidated affiliated entities or the nominee shareholders fail to perform their respective obligations under the contractual arrangements, we could be limited in our ability to enforce the contractual arrangements that give us effective control over our consolidated affiliated entities. Further, if we are unable to maintain effective control, we would not be able to continue to consolidate the financial results of our consolidated affiliated entities in our financial statements. In 2011, 2012 and 2013, we derived approximately 29%, 29% and 28% of our total revenues, respectively, from our consolidated affiliated entities through contractual arrangements. For a detailed description of the regulatory environment that necessitates the adoption of our corporate structure, see “Item 4.B. Information on the Company—Business Overview—Regulation.” For a detailed description of the risks associated with our corporate structure, see “Item 3.D. Key Information—Risk Factors—Risks Related to Our Corporate Structure.”

Contractual Arrangements relating to Baidu Netcom, Beijing Perusal and BaiduPay

The following is a summary of the material provisions of the agreements among (i) our wholly-owned PRC subsidiary, Baidu Online, (ii) each of Baidu Netcom, Beijing Perusal and BaiduPay, our principal consolidated affiliated entities, and (iii) the nominee shareholders of these consolidated affiliated entities.

Exclusive Technology Consulting and Services Agreement

Pursuant to the exclusive technology consulting and services agreement between Baidu Online and Baidu Netcom, Baidu Online has the exclusive right to provide to Baidu Netcom technology consulting and services related to, among other things, the maintenance of servers, software development, design of advertisements, and e-commerce technical services. Baidu Online owns the intellectual property rights resulting from the performance of this agreement. Baidu Netcom agrees to pay a monthly service fee to Baidu Online based on the formula as provided in the agreement in exchange for the technology consulting and services provided by Baidu Online. Under the agreement, the monthly service fee is equal to the product of the standard monthly fee for page view per thousand times multiplied by the actual times of page view for the month divided by 1,000. Baidu Online has the right to adjust the service fees at its sole discretion without the consent of Baidu Netcom. The agreement shall be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

The exclusive technology consulting and services agreement between Baidu Online and each of Beijing Perusal and BaiduPay contains the same terms as those between Baidu Online and Baidu Netcom described above. Each of the agreements shall be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

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The amount of service fees Baidu Netcom paid to Baidu Online was 89%, 88% and 89% of its net income before income taxes and the service fees were charged for 2011, 2012 and 2013, respectively. After paying service fees to Baidu Online, net income of Baidu Netcom is insignificant because substantially all of its operating profits has been paid as service fees to Baidu Online. The amount of service fees Beijing Perusal paid to Baidu Online was over 100% and over 100% of its net income before income taxes and the service fees were charged for 2011 and 2012. In 2013, Baidu Perusal did not pay any service fees to Baidu Online due to its decreasing business scale and loss position. BaiduPay has not paid any service fees to Baidu Online due to its break-even or loss position since its inception.

Operating Agreement

Pursuant to the operating agreement by and among Baidu Online, Baidu Netcom and the nominee shareholders of Baidu Netcom, Baidu Online provides guidance and instructions on Baidu Netcom's daily operations and financial affairs. Baidu Online has the right to appoint senior executives of Baidu Netcom. The nominee shareholders of Baidu Netcom must appoint candidates recommended by Baidu Online as their representatives on Baidu Netcom's board of directors. In addition, Baidu Online agrees to guarantee Baidu Netcom's performance under any agreements or arrangements relating to Baidu Netcom's business arrangements with any third party. Baidu Netcom agrees that without the prior consent of Baidu Online, Baidu Netcom will not engage in any transactions that could materially affect the assets, liabilities, rights or operations of Baidu Netcom, including, without limitation, incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, incurrence of any encumbrance on any of its assets or intellectual property rights in favor of a third party or transfer of any agreements relating to its business operation to any third party. The agreement shall be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

The operating agreement by and among Baidu Online, each of Beijing Perusal and BaiduPay and the respective nominee shareholders contains the same terms as those described above. Each of the agreements shall be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

License Agreements

Baidu Online and Baidu Netcom entered into a software license agreement, a web layout copyright license agreement and a trademark license agreement. Pursuant to these license agreements, Baidu Online has granted to Baidu Netcom the right to use, including but not limited to, a software license, a web layout copyright license and a trademark license. Baidu Netcom may only use the licenses in its own business operations. Baidu Online has the right to adjust the service fees at its sole discretion. The software license agreement and web layout copyright license agreement have been renewed recently and are in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities. After Baidu Online transferred its trademarks (including pending trademark applications) to Baidu Netcom, the trademark license agreement was terminated in February 2013.

Baidu Online entered into a trademark license agreement and a web layout copyright license agreement with Beijing Perusal. Each of the license agreements between Baidu Online and Beijing Perusal contains the same terms as those between Baidu Online and Baidu Netcom described above. The initial term of each agreement is five years from the date of execution, i.e., June 23, 2006, and can be extended for one year automatically at the expiration of the initial term or each extension thereof unless Baidu Online provides prior written notice not to extend the agreements. After Baidu Online transferred its pending trademark applications to Beijing Perusal, the trademark license agreement was terminated in February 2013. The web layout copyright license agreement has been renewed recently and is in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

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Baidu Online entered into a trademark license agreement and a web layout copyright license agreement with BaiduPay. Each of the license agreements between Baidu Online and BaiduPay contains the same terms as those between Baidu Online and Baidu Netcom described above. The initial term of each agreement is five years from the date of execution, i.e., February 28, 2008, and shall be extended for one year automatically at the expiration of the initial term or each extension thereof unless Baidu Online provides prior written notice not to extend the agreements. After the transfers of certain trademarks (including pending trademark applications) from Baidu Online to BaiduPay, the trademark license agreement was terminated in February 2013. The web layout copyright license agreement has been renewed recently and is in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

Baidu Online had entered into a domain name license agreement with each of Baidu Netcom, Beijing Perusal and BaiduPay previously. After the transfers of the relevant domain names from Baidu Online to the relevant entity, the relevant domain name license agreement was terminated. As of December 31, 2013, no domain license agreement was outstanding between Baidu Online and each of Baidu Netcom, Beijing Perusal and BaiduPay.

Exclusive Equity Purchase and Transfer Option Agreement

Pursuant to the exclusive equity purchase and transfer option agreement by and among Baidu Online, Baidu Netcom and the nominee shareholders of Baidu Netcom, the nominee shareholders of Baidu Netcom have irrevocably granted Baidu Online an exclusive option to purchase, or require any of the nominee shareholders of Baidu Netcom to transfer to another person designated by Baidu Online, to the extent permitted under PRC law, all or part of the equity interests in Baidu Netcom for the cost of the initial contributions to the registered capital or the minimum amount of consideration permitted by applicable PRC law. The nominee shareholders shall remit to Baidu Online any amount that is paid by Baidu Online or its designated person in connection with the purchased equity interest. Baidu Online has sole discretion to decide when to exercise the option, whether in part or in full. Any and all dividends and other capital distributions from Baidu Netcom to the nominee shareholders shall be paid to Baidu Online in full. Baidu Online shall provide unlimited financial support to Baidu Netcom, if Baidu Netcom shall become in need of any form of reasonable financial support in the normal operation of business. If Baidu Netcom were to incur any loss and as a result cannot repay any loans from Baidu Online, Baidu Online shall unconditionally forgive any such loans to Baidu Netcom given that Baidu Netcom provides sufficient proof for its loss and incapacity to repay. The agreement shall terminate upon the nominee shareholders of Baidu Netcom have transferred all their equity interests in Baidu Netcom to Baidu Online or its designated person or upon expiration of the term of business of Baidu Online or Baidu Netcom.

The exclusive equity purchase and transfer option agreement by and among Baidu Online, each of Beijing Perusal and BaiduPay and the respective nominee shareholders contains the same terms as those described above. Each of the agreements shall terminate upon the nominee shareholders of Beijing Perusal or BaiduPay have transferred all their equity interests in Beijing Perusal or BaiduPay, as the case may be, to Baidu Online or its designated person or upon expiration of the term of business of Baidu Online or the relevant consolidated affiliated entity.

Loan Agreements

Pursuant to loan agreements between Baidu Online and the nominee shareholders of Baidu Netcom, Baidu Online provided interest-free loans with an aggregate amount of RMB100.0 million (US\$16.5 million) to the nominee shareholders of Baidu Netcom solely for the latter to fund the capitalization of Baidu Netcom. The loans can be repaid only with the proceeds from sale of the nominee shareholders' equity interest in Baidu Netcom to Baidu Online or its designated person. The term of each loan agreement is ten years from the date of the agreement and can be extended with the written consent of both parties before expiration. With some of the loan agreements amended and renewed recently, the earliest will expire on February 9, 2016.

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The loan agreements between Baidu Online and the nominee shareholders of Beijing Perusal and BaiduPay contain the same terms as those described above, except that the amount of loans extended to the nominee shareholders is RMB10.0 million (US\$1.7 million) and RMB9.0 million (US\$1.5 million), respectively. The term of the loan agreements will expire on January 15, 2022 and April 22, 2022, respectively, and can be extended with the written consent of both parties before expiration.

Proxy Agreement/Power of Attorney

Pursuant to the proxy agreement between Baidu Online and the nominee shareholders of Baidu Netcom, the nominee shareholders of Baidu Netcom agree to entrust all the rights to exercise their voting power to the person(s) designated by Baidu Online. Each of the nominee shareholders of Baidu Netcom has executed an irrevocable power of attorney to appoint the person(s) designated by Baidu Online as his/her attorney-in-fact to vote on his/her behalf on all matters requiring shareholder approval. The proxy agreement shall be in effect for an unlimited term unless terminated in writing by Baidu Online. The power of attorney shall be in effect for as long as the nominee shareholders of Baidu Netcom hold any equity interests in Baidu Netcom.

Each of the proxy agreements and powers of attorney between Baidu Online and the nominee shareholders of Beijing Perusal and BaiduPay contains the same terms as those described above. Each of the proxy agreements shall be in effect for an unlimited term unless terminated in writing by Baidu Online. Each of the powers of attorney shall be in effect for as long as the relevant nominee shareholder of Beijing Perusal or BaiduPay holds any equity interests in Beijing Perusal or BaiduPay, as the case may be.

Equity Pledge Agreement

Pursuant to the equity pledge agreement between Baidu Online and the nominee shareholders of Baidu Netcom, the nominee shareholders of Baidu Netcom have pledged all of their equity interests in Baidu Netcom to Baidu Online to guarantee their obligations under the loan agreement and Baidu Netcom's performance of its obligations under the exclusive technology consulting and service agreement. If Baidu Netcom or the nominee shareholders breach their respective contractual obligations, Baidu Online, as the pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The nominee shareholders of Baidu Netcom agree not to dispose of the pledged equity interests or take any actions that would prejudice Baidu Online's interest. The equity pledge agreement will expire two years after expiration of the term of or the fulfillment by Baidu Netcom and the nominee shareholders of their respective obligations under the exclusive technology consulting and service agreement and the loan agreement.

Each of the equity pledge agreements between Baidu Online and the nominee shareholders of Beijing Perusal and BaiduPay contains the same terms as those described above.

The equity pledges described above have been perfected by registration with the relevant local administration for industry and commerce as required for a property right under the PRC Property Rights Law.

Through the design of the aforementioned agreements, the nominee shareholders of these affiliated entities effectively assigned their full voting rights to Baidu Online, which gives Baidu Online the power to direct the activities that most significantly impact the affiliated entities' economic performance. Baidu Online obtains the ability to approve decisions made by the affiliated entities and the ability to acquire the equity interests in the affiliated entities when permitted by PRC law. Baidu Online is obligated to absorb a majority of the expected losses from the affiliated entities' activities through providing unlimited financial support to the affiliated entities and is entitled to receive a majority of residual returns from the affiliated entities through the exclusive technology consulting and service fees. As a result of these contractual arrangements, Baidu Online is determined to be the primary beneficiary of these affiliated entities. Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between us and these affiliated entities through these contractual arrangements, and we consolidate these affiliated entities through Baidu Online.

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We have also entered into contractual arrangements with several other affiliated entities and their respective nominee shareholders through our subsidiaries other than Baidu Online, which results in these subsidiaries being the primary beneficiary of the relevant affiliated entities. As a result of these contractual arrangements, there exists a parent-subsidiary relationship between us and the relevant affiliated entities, and we consolidate these affiliated entities through subsidiaries besides Baidu Online.

D. Property, Plant and Equipment

Baidu Campus, our corporate headquarters, is located in Shangdi, an area designated by the Beijing municipal government as the center of the city's information technology industry. We also lease some offices in Beijing, Tokyo (Japan), California (USA), Thailand, Brazil, Egypt, Indonesia and many other cities in China, from unrelated third parties.

We host our servers in China at the internet data centers of China Telecom, China Unicom and China Mobile in seven selected cities in China, and we also have content delivery network locations in various cities across China. We expect to use five additional data centers in 2014. We also have a data center of our own in Beijing.

In December 2011, we commenced construction of an office building in Shenzhen, which will serve as our international center in Southern China. We have paid RMB129.5 million (US\$21.4 million) for the land use right. Our capital expenditure in connection with the construction of this office building in Shenzhen was RMB109.5 million (US\$18.1 million) in 2013. We expect to complete the planned construction at the end of 2016.

In August 2012, we commenced construction of another office building, Baidu Science Park, in Beijing. We have paid in advance RMB444.0 million (US\$73.3 million) for the land use right. Our capital expenditures in connection with the construction of Baidu Science Park was RMB173.8 million (US\$28.7 million) in 2013. We expect to complete the planned construction in 2015.

In September 2012, we commenced construction of Shanxi Cloud Computing Center, which will serve as our internet data centers in northern China. We have paid RMB71.5 million (US\$11.8 million) for the land use right. Our capital expenditure in connection with the construction of Shanxi Cloud computing Center was RMB331.9 million (US\$54.8 million) in 2013. We expect to fully complete the planned construction in 2017.

We have paid RMB220.9 million (US\$36.5 million) for the right to use three pieces of land in Beijing, where we plan to build our Beijing Cloud Computing Center. We are in the process of planning the construction work, and the completion date is not determinable at this stage.

We currently plan to fund these expenditures with our cash, cash equivalents, short-term investments and anticipated cash flow generated from our operating activities.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects

The following discussion of our financial condition and results of operations is based upon, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this annual report on Form 20-F. This report contains forward-looking statements. See "Forward-Looking Information." In evaluating our business, you should carefully consider the information provided under the caption "Item 3.D. Key Information—Risk Factors" in this annual report on Form 20-F. We caution you that our businesses and financial performance are subject to substantial risks and uncertainties.

A. Operating Results

Overview

Our operations are primarily based in China, where we derive almost all of our revenues. Total revenues in 2013 were RMB31.9 billion (US\$5.3 billion), a 43.2% increase over 2012. Operating profit in 2013 was RMB11.2 billion (US\$1.8 billion), a slight increase over 2012. Net income attributable to Baidu, Inc. in 2013 was RMB10.5 billion (US\$1.7 billion), a slight increase over 2012.

Our total assets as of December 31, 2013 were RMB71.0 billion (US\$11.7 billion), of which cash and cash equivalent amounted to RMB9.7 billion (US\$1.6 billion). Our total liabilities as of December 31, 2013 were RMB30.3 billion (US\$5.0 billion), accounting for 42.7% of total liabilities and equity. As of December 31, 2013, our retained earnings accumulated to RMB34.5 billion (US\$5.7 billion).

In July 2011, we completed our acquisition of a majority stake in Qunar and have since then consolidated the financial results of Qunar in our consolidated financial statements. On November 1, 2013, Qunar listed its ADSs, each representing three Class B ordinary shares of Qunar, on the NASDAQ Global Market in connection with its initial public offering. We remain to be the majority shareholder of Qunar after its initial public offering.

In November 2012, we purchased all of the series A and series B preferred shares of Qiyi.com, Inc. held by Providence Equity Partners, which allowed us to control Qiyi.com, Inc., and have since then consolidated the financial results of Qiyi.com, Inc. in our consolidated financial statements. In May 2013, we acquired the online video business of PPStream Inc. and have merged it with iQiyi and have since then consolidated its financial results into our consolidated financial statements.

We are in the process of disposing of all our equity interest in Youa.com, Inc. We own 100% of the ordinary shares in Youa.com, Inc., but do not consolidate its financial results in our financial statements under the U.S. GAAP because of our lack of “control” over the board of directors of Youa.com, Inc. and certain substantive participating rights provided to the preferred shareholders of Youa.com, Inc.

In October 2013, we acquired 100% equity interest of 91 Wireless from NetDragon Websoft Inc. and the other shareholders of 91 Wireless, and have since then consolidated its financial results into our consolidated financial statements.

The major factors affecting our results of operations and financial condition are discussed below.

Revenues

Revenue Generation

We derive almost all of our revenues from online marketing services, which accounted for approximately 99.9%, 99.7% and 99.6% of our total revenues in 2011, 2012 and 2013, respectively.

A majority of our revenues from online marketing services were derived from our P4P services. Our P4P platform is an online marketplace that introduces internet search users to customers who pay us a fee based on click-throughs for priority placement of their links in the search results. We recognize P4P revenues when a user clicks on a customer’s link in the search results, based on the amount that the customer has agreed to pay for each click-through.

We also provide to our customers other performance-based online marketing services and time-based online advertising services. For other performance-based online marketing services, our customers pay us based on performance criteria other than click-throughs, such as the number of telephone calls brought to our customers, the successful booking of air tickets or hotel rooms, the number of users registered with our customers, or the number of minimum click-throughs. For time-based online advertising services, our customers pay us based on the duration of the advertisement placed on our Baidu’s properties and Baidu Union members’ properties.

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The most significant factors that directly or indirectly affect our online marketing revenues are:

- the number of our users and online marketing customers;
- the number of searches initiated on our websites and our Baidu Union members' properties;
- the rate at which users click on paid search results;
- the competitiveness of bidding for keywords by P4P customers;
- the total online marketing budgets of our customers; and
- the total number of sponsored links and advertisements displayed on our websites and the bidding price for each click-through.

Our P4P services revenues have primarily been driven by the increase in the number of page views, the increase in the number of P4P customers, and our success in optimizing the display of sponsored links. We believe that an increase in the number of active P4P customers generally leads to an increase in the number of sponsored links and a higher average price per click-through for selected keywords. Our P4P customer growth has primarily been driven by the adoption of our P4P services by SMEs and, to a lesser extent, large enterprises.

Our online marketing services have historically been driven by the general increase in our customers' online marketing budgets. We expect the number of our online marketing customers to grow and our customer mix may change. However, we expect our online marketing customer base to remain diverse for the foreseeable future. Any prolonged economic slowdown in China may cause our customers to decrease or delay their online marketing spending, hamper our efforts to grow our customer base, or result in fewer clicks by our users on sponsored links or advertisements displayed on our or Baidu Union members' properties. Any of these consequences could negatively affect our online marketing revenues.

Our online marketing customers are increasingly seeking marketing solutions with measurable results in order to maximize their ROI. To meet our customers' needs, we will continue to evaluate the effectiveness of our various products and services and adjust the mix of our service offerings to optimize our customers' ROI. We expect that we will continue to earn a substantial majority of our revenues from our online marketing services. As a result, we plan to continue focusing most of our resources on expanding our online marketing services.

Revenue Collection

We collect payments for our P4P services both from our customers directly and through our distributors. We require our P4P customers to pay a deposit before using our P4P services and remind them by an automated notice to replenish the accounts after their account balance falls below a designated amount. We deduct the amount due to us from the deposit paid by a customer when a user clicks on the customer's link in the search results.

We offer payment terms to some of our customers based on their historical marketing placements and credibility. We also offer longer payment terms to certain qualified distributors, consistent with industry practice.

As of December 31, 2013, we had accounts receivable of RMB2.2 billion (US\$366.9 million), net of allowance of RMB43.8 million (US\$7.2 million), mainly due from customers of other performance-based online marketing services and time-based online advertising services.

Operating Costs and Expenses

Our operating costs and expenses consist of cost of revenues, selling, general and administrative expenses, and research and development expenses. Share-based compensation expenses are allocated among the above three categories of operating costs and expenses, based on the nature of the work of the employees who have received share-based compensation. Our total operating costs and expenses increased significantly from 2011 to 2013 due to the growth of our business.

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Cost of Revenues

The following table sets forth the components of our cost of revenues both in absolute amount and as a percentage of total revenues for the periods indicated.

	For the Years Ended December 31,					
	2011		2012		2013	
	RMB	%	RMB	%	RMB	US\$
	(In thousands, except percentages)					
Total revenues	14,500,786	100.0	22,306,026	100.0	31,943,924	5,276,760
Cost of revenues:						
Sales tax and surcharges	(1,024,858)	(7.1)	(1,572,420)	(7.0)	(2,329,558)	(384,816)
Traffic acquisition costs	(1,155,546)	(8.0)	(1,929,966)	(8.7)	(3,704,146)	(611,881)
Bandwidth costs	(626,444)	(4.3)	(1,069,306)	(4.8)	(1,938,520)	(320,221)
Depreciation of servers and other equipment	(657,845)	(4.5)	(1,062,060)	(4.8)	(1,469,646)	(242,768)
Operational costs	(358,169)	(2.5)	(589,555)	(2.6)	(1,175,624)	(194,199)
Content costs	(66,494)	(0.4)	(215,133)	(1.0)	(830,369)	(137,167)
Share-based compensation expenses	(7,527)	(0.1)	(10,105)	(0.0)	(23,976)	(3,961)
Total cost of revenues	(3,896,883)	(26.9)	(6,448,545)	(28.9)	(11,471,839)	(1,895,013)

Traffic Acquisition Costs. Traffic acquisition costs typically represent the portion of our online marketing revenues that we share with our Baidu Union members. We typically pay a Baidu Union member, based on a pre-agreed arrangement, a portion of the online marketing revenues generated from valid click-throughs by users of that member's properties.

Bandwidth Costs. Bandwidth costs are the fees we pay to telecommunications carriers such as China Telecom and China Unicom for telecommunications services and for hosting our servers at their internet data centers. We expect our bandwidth costs, as variable costs, to increase with the increasing number of racks of servers and the increasing traffic on our websites. Our bandwidth costs could also increase if the telecommunications carriers increase their service charges.

Depreciation of Servers and Other Equipment. We include in our cost of revenues depreciation expenses of servers and other computer hardware that are directly related to our business operations and technical support.

Operational Costs. Operational costs include primarily salary and benefit expenses, intangible assets amortization, travel and other expenses incurred by our operating and technical support personnel. Salary and benefit expenses include wages, bonuses, medical insurance, unemployment insurance, pension benefits, employee housing fund and other welfare benefits.

Content Costs. Content costs consist primarily of the fees we paid for the licensed content from copyright owners or content distributors, and the amortization of the licensed copyrights for video content.

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Operating Expenses

The following table sets forth the components of our operating expenses both in absolute amount and as a percentage of total revenues for the periods indicated.

	For the Years Ended December 31,						
	2011		2012		2013		
	RMB	%	RMB	%	RMB	US\$	%
	(In thousands, except percentages)						
Total revenues	<u>14,500,786</u>	<u>100.0</u>	<u>22,306,026</u>	<u>100.0</u>	<u>31,943,924</u>	<u>5,276,760</u>	<u>100.0</u>
Cost of revenues	<u>(3,896,883)</u>	<u>(26.9)</u>	<u>(6,448,545)</u>	<u>(28.9)</u>	<u>(11,471,839)</u>	<u>(1,895,013)</u>	<u>(35.9)</u>
Operating expenses:							
Selling, general and administrative	(1,692,810)	(11.7)	(2,501,336)	(11.3)	(5,173,533)	(854,607)	(16.2)
Selling and marketing	(1,216,718)	(8.4)	(1,841,590)	(8.3)	(4,012,709)	(662,853)	(12.6)
General and administrative	(476,092)	(3.3)	(659,746)	(3.0)	(1,160,824)	(191,754)	(3.6)
Research and development	<u>(1,334,434)</u>	<u>(9.2)</u>	<u>(2,304,825)</u>	<u>(10.3)</u>	<u>(4,106,832)</u>	<u>(678,400)</u>	<u>(12.9)</u>
Total costs and operating expenses	<u>(6,924,127)</u>	<u>(47.8)</u>	<u>(11,254,706)</u>	<u>(50.5)</u>	<u>(20,752,204)</u>	<u>(3,428,020)</u>	<u>(65.0)</u>

Selling, General and Administrative Expenses

Our selling and marketing expenses primarily consist of promotional and marketing expenses and compensation for our sales and marketing personnel. We expect to incur higher selling and marketing expenses as a result of efforts on our diversified mobile and PC applications distribution and operation, increased compensation for our sales and marketing personnel and our intensified marketing and brand promotion efforts.

Our general and administrative expenses consist primarily of salaries and benefits for our general and administrative personnel and fees and expenses for legal, accounting and other professional services.

Research and Development Expenses

Research and development expenses primarily consist of salaries and benefits for research and development personnel. We expense research and development costs as they are incurred, except for capitalized software development costs that fulfill the capitalization criteria under Accounting Standards Codification, or ASC, subtopic 350-40, *Intangibles-Goodwill and Other: Internal-Use Software*.

Share-based Compensation Expenses

Baidu, Inc. grants options and restricted shares to our employees as share-based compensation awards. As of December 31, 2013, there was RMB357.3 million (US\$59.0 million) unrecognized share-based compensation cost related to options of Baidu, Inc., which is expected to be recognized over a weighted-average vesting period of 2.9 years. As of December 31, 2013, there was RMB652.9 million (US\$107.9 million) unrecognized share-based compensation cost related to restricted shares, which is expected to be recognized over a weighted-average vesting period of 2.8 years. To the extent the actual forfeiture rate is different from our original estimate, actual share-based compensation cost related to these awards may be different from our expectation.

Certain of our subsidiaries also have equity incentive plans granting share-based awards. Total share-based compensation expenses recognized and unrecognized were insignificant, both individually or in the aggregate.

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The following table sets forth the allocation of our share-based compensation expenses both in absolute amount and as a percentage of total share-based compensation expenses among our employees based on the nature of work which they were assigned to perform.

	For the Year Ended December 31,						
	2011		2012		2013		
	RMB	%	RMB	%	RMB	US\$	%
	(In thousands, except percentages)						
Allocation of Share-based Compensation Expenses							
Cost of revenues	7,527	4.9	10,105	4.8	23,976	3,961	4.7
Selling, general and administrative	50,012	32.9	54,512	25.6	164,704	27,207	32.0
Research and development	94,489	62.2	147,692	69.6	326,047	53,859	63.3
Total share-based compensation expenses	<u>152,028</u>	<u>100.0</u>	<u>212,309</u>	<u>100.0</u>	<u>514,727</u>	<u>85,027</u>	<u>100.0</u>

Taxation

We are not subject to income or capital gain tax under the current laws of the Cayman Islands and the British Virgin Islands. Under the current laws of Hong Kong, our subsidiaries incorporated in Hong Kong are exempted from income tax on their foreign-derived income. Additionally, none of these jurisdictions impose a withholding tax on dividends.

PRC Enterprise Income Tax

Enterprise Income Tax. The current EIT Law, which became effective on January 1, 2008, imposes a uniform EIT rate of 25% on all PRC resident enterprises, including foreign-invested enterprises and domestic enterprises, unless they qualify for certain exceptions. Pursuant to a Caishui (2008) No. 1 Notice promulgated jointly by the Ministry of Finance and the State Administration of Taxation in February 2008, all preferential EIT treatments granted prior to January 1, 2008 are eliminated, except for those specified under the EIT Law and certain other tax regulations.

An enterprise may benefit from a preferential tax rate of 15% under the EIT Law if it qualifies as a “High and New Technology Enterprise strongly supported by the state.” Pursuant to the Administrative Measures on the Recognition of High and New Technology Enterprises, the provincial counterparts of the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation shall jointly determine whether an enterprise is qualified as a “High and New Technology Enterprise” under the EIT Law. In making such determination, these government agencies shall consider, among other factors, ownership of core technology, whether the products or services fall within the scope of high and new technology strongly supported by the state as specified in the measures, the ratios of technical personnel and research and development personnel to total personnel, the ratio of research and development expenditures to annual sales revenues, the ratio of revenues attributed to high and new technology products or services to total revenues, and other measures set forth in relevant guidance. All enterprises that had been granted the “High and New Technology Enterprise” status before the effectiveness of the EIT Law are required to be re-examined in accordance with the measures mentioned above before they can be entitled to the preferential tax rate. A “High and New Technology Enterprise” certificate is effective for a period of three years and could be renewed for another three years. After that, an entity needs to re-apply for the “High and New Technology Enterprise” status in order to be able to enjoy the preferential tax rate of 15%. A number of PRC subsidiaries and consolidated affiliated entities, such as Baidu Online and Baidu Netcom, obtained the “High and New Technology Enterprise” certificate. The “High and New Technology Enterprise” certificates of these entities will expire on January 1, 2014, 2015 or 2016.

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An enterprise may benefit from a preferential tax rate of 10% under the EIT law if it qualifies as a “Key Software Enterprise” designated jointly by the National Development and Reform Commission, MIIT, Ministry of Commerce and State Administration of Taxation. A “Key Software Enterprise” certificate is effective for a period of two years. After that, an entity needs to re-apply for the “Key Software Enterprise” status in order to be able to enjoy the preferential tax rate of 10%. Baidu Online obtained the “Key Software Enterprise” certificate and the certificate and the related tax holiday will expire on January 1, 2015.

If any entity fails to maintain the “High and New Technology Enterprise” or “Key Software Enterprise” qualification under the EIT Law, their tax rates will increase, which could have a material and adverse effect on our results of operations and financial position. Historically, all of the above mentioned PRC subsidiaries and consolidated affiliated entities successfully re-applied for the certificates when the prior ones expired.

If our PRC subsidiaries or consolidated affiliated entities that have enjoyed preferential tax treatment no longer qualify for the treatment, we will consider available options under applicable law that would enable us to qualify for alternative preferential tax treatment. To the extent we are unable to offset the impact of the expiration of existing preferential tax treatment with new tax exemptions, tax incentives or other tax benefits, the expiration of existing preferential tax treatment may cause our effective tax rate to increase. The amount of income tax payable by our PRC subsidiaries and consolidated affiliated entities in the future will depend on various factors, including, among other things, the results of operations and taxable income of, and the statutory tax rate applicable to, each of the entities. Our effective tax rate depends partially on the extent of the relative contribution of each of our subsidiaries and consolidated affiliated entities to our consolidated taxable income. In 2011, 2012 and 2013, our consolidated effective tax rate was 15.22%, 13.16% and 15.01%, respectively.

Withholding Tax

Under the EIT Law and its implementation rules, dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its non-resident enterprise investors, and proceeds from any such non-resident enterprise investor’s disposition of assets (after deducting the net value of such assets) shall be subject to a 10% EIT, namely withholding tax, unless the non-resident enterprise investor’s jurisdiction of incorporation has a tax treaty or arrangement with China that provides for a reduced withholding tax rate or an exemption from withholding tax. The Caishui (2008) No. 1 Notice clarifies that undistributed profits earned by foreign-invested enterprises prior to January 1, 2008 will be exempted from any withholding tax.

The British Virgin Islands, where Baidu Holdings Limited, the sole shareholder of certain of our PRC subsidiaries such as Baidu Online, was incorporated, does not have such a tax treaty with China.

Hong Kong, where Baidu (Hong Kong) Limited, our wholly owned subsidiary and the sole shareholder of certain of our PRC subsidiaries such as Baidu Times and Baidu China, was incorporated, has a tax arrangement with China that provides for a lower withholding tax rate of 5% on dividends subject to certain conditions and requirements, such as the requirement that the Hong Kong resident enterprise own at least 25% of the PRC enterprise distributing the dividend at all times within the 12-month period immediately preceding the distribution of dividends and be a “beneficial owner” of the dividends. However, pursuant to a SAT Circular 81 issued by the State Administration of Taxation in February 2009, if the relevant PRC tax authorities determine, in their discretion, that a company benefits from the reduced withholding tax rate on dividends due to a structure or arrangement designed for the primary purpose of obtaining favorable tax treatment, the PRC tax authorities may adjust the preferential tax treatment. Moreover, pursuant to a SAT Circular 601 issued by the State Administration of Taxation in October 2009, a resident of a contracting state will not qualify for the benefits under the tax treaties or arrangements, if it is not the “beneficial owner” with respect to dividend, interest and royalty income. According to SAT Circular 601, a “beneficial owner” shall have ownership and right to dispose of the income or the rights and properties giving rise to the income, and generally engages in substantive business activities. An agent or conduit company will not be regarded as a “beneficial owner” and, therefore, will

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not qualify for treaty benefits. A conduit company normally refers to a company that is set up primarily for the purpose of evading or reducing taxes or transferring or accumulating profits.

If our PRC subsidiaries declare and distribute profits earned after January 1, 2008 to us in the future, the dividend payments will be subject to withholding tax, which will increase our tax liability and reduce the amount of cash available to our company.

Tax Residence

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with “de facto management body” within the PRC is considered a resident enterprise and will be subject to the EIT at the rate of 25% on its worldwide income. The term “de facto management body” refers to “the establishment that exercises substantial and overall management and control over the production, business, personnel, accounts and properties of an enterprise.”

Pursuant to SAT Circular 82 issued by the State Administration of Taxation in April 2009, an overseas registered enterprise controlled by a PRC company or a PRC company group will be classified as a “resident enterprise” with its “de facto management body” located within China if the following requirements are satisfied: (i) the senior management and core management departments in charge of its daily operations are mainly located in the PRC; (ii) its financial and human resources decisions are subject to determination or approval by persons or bodies located in the PRC; (iii) its major assets, accounting books, company seals, and minutes and files of its board and shareholders’ meetings are located or kept in the PRC; and (iv) no less than half of the enterprise’s directors or senior management with voting rights reside in the PRC. In July 2011, the State Administration of Taxation issued additional rules to provide more guidance on the implementation of SAT Circular 82. Although the SAT Circular 82 and the additional guidance only apply to overseas registered enterprises controlled by PRC enterprises and not those controlled by PRC individuals or foreigners, the determining criteria set forth in the circular may reflect the State Administration of Taxation’s general position on how the “de facto management body” test should be applied in determining the tax resident status of offshore enterprises, regardless of whether they are controlled by PRC enterprises, individuals or foreigners.

If we are deemed a PRC resident enterprise, we may be subject to the EIT at the rate of 25% on our global income, except that the dividends we receive from our PRC subsidiaries may be exempt from the EIT to the extent such dividends are deemed “dividends among qualified resident enterprises.” If we are considered a resident enterprise and earn income other than dividends from our PRC subsidiaries, a 25% EIT on our global income could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

PRC Business Tax and VAT

In November 2011, the PRC Ministry of Finance and the State Administration of Taxation jointly issued two circulars setting out the details of the pilot VAT reform program, which change the charge of sales tax from business tax to VAT for certain pilot industries. The pilot VAT reform program initially applied only to the pilot industries in Shanghai, and was expanded to eight additional regions, including, among others, Beijing and Guangdong province, in 2012. In August 2013, the program was further expanded nationwide.

With respect to all of our PRC entities for the period immediately prior to the implementation of the pilot VAT reform program, revenues from our P4P services, online advertising services and other services are subject to a 5% PRC business tax. Revenues from our online advertising services are subject to an additional 3% cultural business construction fee.

Our entities located in Shanghai, Beijing and Guangdong Province fall within the scope of the pilot program and have been recognized as the VAT general taxpayers since January 1, 2012, September 1, 2012 and November 1, 2012, respectively, the effective time of the pilot program in each of the regions. Our entities

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located outside of Shanghai, Beijing and Guangdong Province have been subject to VAT since August 1, 2013. From the applicable effective time onwards, these entities are required to pay VAT instead of business tax for P4P services, online advertising services and other services that are deemed by the relevant tax authorities to be within the pilot industries at a rate of 6%. In addition, cultural business construction fee is imposed at the rate of 3% on revenues derived from our online advertising services.

PRC Urban Maintenance and Construction Tax and Education Surcharge

Any entity, foreign-invested or purely domestic, or individual that is subject to consumption tax, VAT and business tax is also required to pay PRC urban maintenance and construction tax. The rates of urban maintenance and construction tax are 7%, 5% or 1% of the amount of consumption tax, VAT and business tax actually paid depending on where the taxpayer is located. All entities and individuals who pay consumption tax, VAT and business tax are also required to pay education surcharge at a rate of 3%, and local education surcharges at a rate of 2%, of the amount of VAT, business tax and consumption tax actually paid.

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Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. The period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

	For the Years Ended December 31,			
	2011	2012	2013	
	RMB	RMB	RMB	US\$

(In thousands)

Consolidated Statements of Comprehensive Income Data

Revenues:				
Online marketing services	14,489,767	22,245,643	31,802,219	5,253,352
Other services	11,019	60,383	141,705	23,408
Total revenues	14,500,786	22,306,026	31,943,924	5,276,760
Operating costs and expenses: ⁽¹⁾				
Cost of revenues	(3,896,883)	(6,448,545)	(11,471,839)	(1,895,013)
Selling, general and administrative	(1,692,810)	(2,501,336)	(5,173,533)	(854,607)
Research and development	(1,334,434)	(2,304,825)	(4,106,832)	(678,400)
Total operating costs and expenses	(6,924,127)	(11,254,706)	(20,752,204)	(3,428,020)
Operating profit	7,576,659	11,051,320	11,191,720	1,848,740
Interest income	418,201	866,465	1,308,542	216,156
Interest expense	(82,551)	(107,857)	(447,084)	(73,853)
Other income, net, including exchange gains or losses	76,278	449,738	137,644	22,737
Loss from equity method investments	(179,408)	(294,229)	(5,806)	(959)
Taxation	(1,188,861)	(1,574,159)	(1,828,930)	(302,118)
Net income	6,620,318	10,391,278	10,356,086	1,710,703
Less: Net loss attributable to noncontrolling interests	(18,319)	(64,750)	(162,880)	(26,906)
Net income attributable to Baidu, Inc.	6,638,637	10,456,028	10,518,966	1,737,609

(1) Share-based compensation expenses:

Cost of revenues	(7,527)	(10,105)	(23,976)	(3,961)
Selling, general and administrative	(50,012)	(54,512)	(164,704)	(27,207)
Research and development	(94,489)	(147,692)	(326,047)	(53,859)
	<u>(152,028)</u>	<u>(212,309)</u>	<u>(514,727)</u>	<u>(85,027)</u>

Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Revenues. Our total revenues increased by 43.2% from RMB22.3 billion in 2012 to RMB31.9 billion (US\$5.3 billion) in 2013. This increase was due to a substantial increase in our revenues from online marketing services. Our online marketing revenues increased by 43.0% from RMB22.2 billion in 2012 to RMB31.8 billion (US\$5.3 billion) in 2013. This increase was mainly attributable to the increase in the number of our active online marketing customers from approximately 596,000 in 2012 to 753,000 in 2013, and the increase in the average revenue per customer from approximately RMB37,300 in 2012 to approximately RMB42,200 (US\$6,971) in

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2013. The increase in our active online marketing customers was mainly due to our effective distribution network and direct sales. The increase in the average revenue per customer was primarily attributable to the increase in the number of paid clicks and the higher price per click as more customers participated in our P4P auction platform. The number of active online marketing customers and average revenue per customer exclude our group-buying related businesses, consistent with previous reporting. The number of paid clicks increased by approximately 32.7% from 2012 to 2013.

Operating Costs and Expenses. Our total operating costs and expenses increased by 84.4% from RMB11.3 billion in 2012 to RMB20.8 billion (US\$3.4 billion) in 2013. This increase was primarily due to the expansion of our business.

- *Cost of Revenues.* Our cost of revenues increased by 77.9% from RMB6.4 billion in 2012 to RMB11.5 billion (US\$1.9 billion) in 2013. This increase was primarily due to the following factors:
 - *Traffic Acquisition Costs.* Our traffic acquisition costs increased by 91.9% from RMB1.9 billion in 2012 to RMB3.7 billion (US\$611.9 million) in 2013. Traffic acquisition costs represent 11.6% of total revenues in 2013, compared to 8.7% in 2012. The increase in traffic acquisition costs as a percentage of total revenues reflects an increased revenue contribution from our Baidu Union members, primarily the increased contribution of contextual ads and hao123 promotions from our Baidu Union members.
 - *Bandwidth Costs and Depreciation Expenses.* Our bandwidth costs increased by 81.3% from RMB1.1 billion in 2012 to RMB1.9 billion (US\$320.2 million) in 2013. Our depreciation expenses of servers and other equipment increased by 38.4% from RMB1.1 billion in 2012 to RMB1.5 billion (US\$242.8 million) in 2013. The absolute increases in these costs were mainly due to an increase in network infrastructure capacity and iQiyi.
 - *Sales Tax and Surcharges.* Our sales tax and surcharges increased by 48.2% from RMB1.6 billion in 2012 to RMB2.3 billion (US\$384.8 million) in 2013, primarily as a result of the increase in our online marketing revenues.
 - *Operational Costs.* Our operational costs increased by 99.4% from RMB589.6 million in 2012 to RMB1.2 billion (US\$194.2 million) in 2013, primarily due to amortization of acquired intangible assets related to the acquired companies and higher personnel related expenses.
 - *Content Costs.* Our content costs increased by 286.0% from RMB215.1 million in 2012 to RMB830.4 million (US\$137.2 million) in 2013, primarily due to the increase of video content cost of iQiyi, which has been consolidated into our financial statements since November 2012.
- *Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 106.8% from RMB2.5 billion in 2012 to RMB5.2 billion (US\$854.6 million) in 2013. This increase was primarily due to the following factors:
 - total salaries and benefits and staff-related expenses increased by 57.0% from RMB1.2 billion in 2012 to RMB1.9 billion (US\$313.1 million) in 2013, primarily due to the increased headcount to support our expanded online marketing services and the increase of sales commission;
 - total office operating expenses increased by 51.2% from RMB186.5 million in 2012 to RMB281.9 million (US\$46.6 million) in 2013, primarily as a result of increase and expansion of our offices;
 - total traveling, communication and business development expenses increased by 66.9% from RMB101.3 million in 2012 to RMB169.0 million (US\$27.9 million) in 2013, primarily due to the increased headcount and activities to support our expanded online marketing services;
 - marketing and promotion expenses increased by 226.6% from RMB648.7 million in 2012 to RMB2.1 billion (US\$350.0 million) in 2013, primarily due to the increased marketing and promotion activities in connection with the distribution and operations of our mobile application products.

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- share-based compensation expenses allocated to selling, general and administrative expenses increased by 202.1% from RMB54.5 million in 2012 to RMB164.7 million (US\$27.2 million) in 2013.
- *Research and Development Expenses.* Our research and development expenses increased by 78.2% from RMB2.3 billion in 2012 to RMB4.1 billion (US\$678.4 million) in 2013, primarily due to an increase in the number of research and development staff.

Operating Profit. As a result of the foregoing, we generated an operating profit of RMB11.2 billion (US\$1.8 billion) in 2013, a 1.3% increase from RMB11.1 billion in 2012.

Other income, net, including exchange gains or losses. Our other income, net, including exchange gains or losses was RMB137.6 million (US\$22.7 million) in 2013, compared to RMB449.7 million in 2012. The other income, net, including exchange gains or losses in 2012 was primarily attributable to gains arising from re-measurement of some existing equity method investments immediately before the acquisition of these investees in 2012, whereas we had no such transaction in 2013.

Loss from equity method investments: Our loss from equity method investments decreased from RMB294.2 million in 2012 to RMB5.8 million (US\$1.0 million) in 2013. The loss in 2012 primarily related to the recognized accumulated losses of Youa.com Inc. and Qiyi.com, Inc., whereas such loss from in 2013 was not significant as Qiyi.com Inc. has been consolidated into our financial statements since November 2012 and the carrying amount of long-term investment in Youa.com Inc. has been reduced to zero.

Taxation. Our income tax expenses increased by 16.2% from RMB1.6 billion in 2012 to RMB1.8 billion (US\$302.1 million) in 2013, primarily due to the increase in profit before tax in 2013.

Net income attributable to Baidu, Inc. As a result of the foregoing, net income attributable to Baidu, Inc. increased slightly from RMB10.46 billion in 2012 to RMB10.52 billion (US\$1.7 billion) in 2013.

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Revenues. Our total revenues increased by 53.8% from RMB14.5 billion in 2011 to RMB22.3 billion in 2012. This increase was due to a substantial increase in our revenues from online marketing services. Our online marketing revenues increased by 53.5% from RMB14.5 billion in 2011 to RMB22.2 billion in 2012. This increase was mainly attributable to the increase in the number of our active online marketing customers from approximately 488,000 in 2011 to over 596,000 in 2012, and the increase in the average revenue per customer from approximately RMB29,700 in 2011 to approximately RMB37,300 in 2012. The increase in our online marketing customers was mainly due to our effective distribution network and our expanded direct sales, especially in Beijing, Shanghai, Guangzhou, Shenzhen and Dongguan. The increase in the average revenue per customer was primarily attributable to the increase in the number of paid clicks and the higher price per click as more customers participated in our P4P auction platform. The number of paid clicks increased by approximately 26.9% from 2011 to 2012.

Operating Costs and Expenses. Our total operating costs and expenses increased by 62.5% from RMB6.9 billion in 2011 to RMB11.3 billion in 2012. This increase was primarily due to the expansion of our business.

- *Cost of Revenues.* Our cost of revenues increased by 65.5% from RMB3.9 billion in 2011 to RMB6.4 billion in 2012. This increase was primarily due to the following factors:
 - *Traffic Acquisition Costs.* Our traffic acquisition costs increased by 67.0% from RMB1.2 billion in 2011 to RMB1.9 billion in 2012. Traffic acquisition costs represent 8.7% of total revenues in 2012, compared to 8.0% in 2011. The increase in traffic acquisition costs as a percentage of total revenues reflects an increased revenue contribution from our Baidu Union members, such as expanded contextual ads revenue contribution from our Baidu Union members.

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- *Bandwidth Costs and Depreciation Expenses.* Our bandwidth costs increased by 70.7% from RMB626.4 million in 2011 to RMB1.1 billion in 2012. Our depreciation expenses of servers and other equipment increased by 61.4% from RMB657.8 million in 2011 to RMB1.1 billion in 2012. The absolute increases in these costs were due to an increase in network infrastructure capacity.
- *Sales Tax and Surcharges.* Our sales tax and surcharges increased by 53.4% from RMB1.0 billion in 2011 to RMB1.6 billion in 2012, primarily as a result of the increase in our online marketing revenues.
- *Operational Costs.* Our operational costs increased by 64.6% from RMB358.2 million in 2011 to RMB589.6 million in 2012, primarily due to higher compensation paid to our operation and technical support staff and amortization of acquired intangible assets related to the Qunar acquisition.
- *Content Costs.* Our content costs increased by 223.5% from RMB66.5 million in 2011 to RMB215.1 million in 2012, primarily due to the video content cost of iQiyi, which was consolidated into our financial statements in 2012, and higher music and flight information content cost due to the expansion of our business.
- *Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 47.8% from RMB1.7 billion in 2011 to RMB2.5 billion in 2012. This increase was primarily due to the following factors:
 - total salaries and benefits and staff-related expenses increased by 40.5% from RMB859.0 million in 2011 to RMB1.2 billion in 2012, primarily due to the increased direct sales commission and headcount to support our expanded online marketing services;
 - total office operating expenses increased by 27.4% from RMB146.4 million in 2011 to RMB186.5 million in 2012, primarily as a result of increase and expansion of our offices;
 - total traveling, communication and business development expenses increased by 60.7% from RMB63.0 million in 2011 to RMB101.3 million in 2012, primarily due to the increased headcount and activities to support our expanded online marketing services;
 - marketing and promotion expenses increased by 72.1% from RMB376.8 million in 2011 to RMB648.7 million in 2012, primarily due to the increased marketing and promotion activities in connection with the distribution and operations of our mobile application products.
 - share-based compensation expenses allocated to selling, general and administrative expenses increased by 9.0% from RMB50.0 million in 2011 to RMB54.5 million in 2012.
- *Research and Development Expenses.* Our research and development expenses increased by 72.7% from RMB1.3 billion in 2011 to RMB2.3 billion in 2012, primarily due to an increase in the number of research and development staff.

Operating Profit. As a result of the foregoing, we generated an operating profit of RMB11.1 billion in 2012, a 45.9% increase from RMB7.6 billion in 2011.

Other income, net, including exchange gains or losses. Our other income, net, including exchange gains or losses was RMB449.7 million in 2012, compared to RMB76.3 million in 2011, primarily due to gains arising from re-measurement of some existing equity method investments immediately before the acquisition of these investees in 2012.

Loss from equity method investments: Our loss from equity method investments increased from RMB179.4 million in 2011 to RMB294.2 million in 2012, primarily due to the recognized accumulated losses of Youa.com Inc. and Qiyi.com, Inc.

Taxation. Our income tax expenses increased by 32.4% from RMB1.2 billion in 2011 to RMB1.6 billion in 2012, primarily due to the significant increase in profit before tax in 2012.

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Net income attributable to Baidu, Inc. As a result of the foregoing, net income attributable to Baidu, Inc. increased by 57.5% from RMB6.6 billion in 2011 to RMB10.5 billion in 2012.

Inflation

Inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the annual average percent changes in the consumer price index in China for 2011, 2012 and 2013 were increases of 5.4%, 2.6% and 2.6%, respectively. The year-over-year percent changes in the consumer price index for January 2012, 2013 and 2014 were increases of 4.5%, 2.0% and 2.5%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

Foreign Currency

The average exchange rate between U.S. dollar and RMB has declined from RMB8.2264 per U.S. dollar in July 2005 to RMB6.0738 per U.S. dollar in December 2013. As of December 31, 2013, we recorded RMB163.3 million (US\$27.0 million) of net foreign currency translation gain in accumulated other comprehensive income as a component of shareholders' equity. We have not hedged exposures to exchange fluctuations using any hedging instruments. See also "Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—Fluctuation in the value of the RMB may have a material and adverse effect on your investment." and "Item 11. Quantitative and Qualitative Disclosures about Market Risk—Foreign Exchange Risk."

Critical Accounting Policies

We prepare financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of our contingent assets and liabilities at the end of each fiscal period and the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. For further information on our significant accounting policies, see Note 2 to our consolidated financial statements. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Consolidation of Affiliated Entities

In order to comply with PRC laws and regulations limiting foreign ownership of or imposing conditions on internet, online advertising, online audio and video services and mobile application distribution businesses, we operate our websites and conduct our online advertising, online audio and video services and mobile application

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distribution businesses through our affiliated entities in China by means of contractual arrangements. We have entered into certain exclusive agreements with the affiliated entities through our subsidiaries, which obligate them to absorb a majority of the risk of loss and receive a majority of the residual returns from the affiliated entities' activities. In addition, we have entered into certain agreements with the affiliated entities and the nominee shareholders of affiliated entities through our subsidiaries, which enable us to direct the activities that most significantly affect the economic performance of the affiliated entities. Based on these contractual arrangements, we consolidate the affiliated entities as required by SEC Regulation SX-3A-02 and ASC topic 810, *Consolidation*, because we hold all the variable interests of the affiliated entities through the subsidiaries, which are the primary beneficiaries of the affiliated entities. We will reconsider the initial determination of whether a legal entity is a consolidated affiliated entity upon certain events listed in ASC 810-10-35-4 occurred. We will also continuously reconsider whether we are the primary beneficiaries of our affiliated entities as facts and circumstances change. See "Item 3.D. Risk Factors—Risks Related to Our Corporate Structure."

Revenue Recognition

We recognize revenues based on the following principles:

(1) Click-through based online marketing services

Our auction-based P4P platform enables a customer to place its website link and related description on our search result list on the website which could be accessed through personal computers or mobile devices. The customers make bids on keywords based on how much they are willing to pay for each click to their listings in the search results listed on our website and the relevance between the keywords and the customer's businesses. Internet users' search of the keyword will trigger the display of the listings. The ranking of the customer's listing depends on both the bidding price and the listing's relevance to the keyword searched. Customer pays us only when a user clicks on one of its website links. Other than the auction-based P4P platform, we have certain vertical platforms from which we generate revenue through pre-determined prices per click. Revenue is recognized when a user clicks on one of the customer-sponsored website links, as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC topic 605, or ASC 605, *Revenue Recognition*.

For certain customers engaged through direct sales, we may provide certain value-added consultative support services to help its customers to better utilize its online marketing system. Fees for such services are recognized as revenue on a pro-rata basis over the contracted service period.

(2) Other performance-based online marketing services

To the extent we provide online marketing services based on performance criteria other than click-throughs, such as the number of telephone calls brought to our customers, the number of users registered with our customers, the number of minimum click-throughs, the number of successful reservation of hotels or issuance of air tickets, the number of downloads (and user registrations) of mobile applications, the number of incremental end users and the total incremental revenue generated, revenue is recognized when the specified performance criteria are met together with satisfaction of other applicable revenue recognition criteria as prescribed by ASC 605.

(3) Time-based online advertising services

For time-based online advertising services such as text links, banners, icons or other forms of graphical advertisements on the websites or mobile applications, we recognize revenue, in accordance with ASC 605, on a pro-rata basis over the contractual term commencing on the date the customer's advertisement is displayed on a specified web page or mobile applications. For certain time-based contractual agreements, we may also provide certain performance guarantees, in which cases revenue is recognized at the later of the completion of the time commitment or performance guarantee.

(4) Online game services and other revenue sharing services

We operate an online game platform, on which registered users can access games provided by third-party game developers. We also operates mobile platforms on which users can access smartphone related products such as themes, wallpapers and e-books developed and owned by third-party content providers. The rights and obligations of each party to the arrangement indicate that we are acting as an agent whereas the game developer or the content provider is the principal as a result of being the primary obligor in the arrangement in accordance with ASC subtopic 605-45 (“ASC 605-45”), *Revenue Recognition: Principal Agent Consideration*.

We recognize the shared revenue from these online promotional services, on a net basis, based on the ratios pre-determined with the game developers or content providers when all the revenue recognition criteria set forth in ASC 605 are met, which is generally when the user purchases virtual currencies issued by the game developers or purchases contents developed by the content providers.

(5) Online marketing services involving Baidu Union

Baidu Union is the program through which we expand distribution of our customers’ sponsored links or advertisements by leveraging traffic of the Baidu Union members’ internet properties. We make payments to Baidu Union members for acquisition of traffic. We recognize gross revenue for the amount of fees we receive from our customers. Payments made to Baidu Union members are included in cost of revenues as traffic acquisition costs.

(6) Group buying services

We generate revenue from group buying services as a marketing agent by offering goods and services provided by third-party merchant partners at a discount through the website or mobile application that connects merchants to consumers. We present revenue on a net basis, representing the amount billed to registered users less the amount paid to merchants, in accordance with ASC 605-45. We act as an agent rather than as the principal in the delivery of the products or services as it does not assume the risks and rewards of ownership of products nor is it responsible for the actual fulfillment of services. Both of these are the responsibilities of the merchants. We recognize revenue when all of the criteria prescribed in ASC 605 are met, which is generally when the merchants provide the services or when the products are delivered to the customers, or upon the end of redemption period. Since our paying users have the ability to request for full refund before redemption for the products or services offered by the merchants, the underlying sale from which we earn the related commission revenue as an agent is not culminated until our paying users actually redeem.

(7) Barter transactions

We engage in barter transactions from time to time and in such situations follow the guidance set forth in ASC topic 845, *Nonmonetary Transactions*. While nonmonetary transactions are generally recorded at fair value, if such value is not determinable within reasonable limits, the transaction is recognized based on the carrying value of the products or services provided. We also engage in certain advertising barter transactions and follow the guidance set forth in ASC subtopic 605-20, or ASC 605-20, *Revenue Recognition: Services*. The advertising barter transactions generally are recorded at fair value. If the fair value of the advertising surrendered in the barter transaction is not determinable within required limits, the barter transaction is recorded based on the carrying amount of the advertising surrendered, which is likely to be zero. The amount of revenues recognized for barter transactions was insignificant for each of the periods presented.

In certain instances, we are granted equity instruments in exchange for services and account for such transactions in accordance with ASC 845, *Nonmonetary Transactions*. With respect to the measurement date, in accordance with ASC subtopic 505-50, or ASC 505-50, *Equity: Equity-based Payments to Non-Employees*, we measure the fair value of those equity instruments for revenue recognition purposes as of the earlier of either of the following dates:

- The date the parties come to a mutual understanding of the terms of the equity-based compensation arrangement and a commitment for performance by us to earn the equity instruments is reached;

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- The date when our performance necessary to earn the equity instruments is completed.

If, as of the measurement date, the fair value of the equity instruments received is not determinable within reasonable limits, the transaction is recognized based on the fair value of the services provided. If the fair value of both the equity instruments received and the services provided cannot be determined, no revenue is recognized for the services provided and the equity instrument received is recorded at zero carrying value. The amount of revenues recognized for such transactions was insignificant for each of the years presented.

(8) Other revenue recognition related policies

In accordance with ASC subtopic 605-25, or ASC 605-25, *Multiple-Deliverable Revenue Arrangements*, for deliverables in multiple-element arrangements, the total consideration of the arrangements is allocated based on their relative selling price, with the selling price of each deliverable determined using vendor-specific objective evidence of selling price, or VSOE, third-party evidence or TPE of selling price, or management's best estimate of the selling price, or BEBP. We consider all reasonably available information in determining the BEBP, including both market and entity-specific factors.

We deliver some of our online marketing services to end customers through engaging third party distributors. In this context, we may provide cash incentives to distributors. The cash incentives are accounted for as reduction of revenue in accordance with ASC subtopic 605-50, *Revenue Recognition: Customer Payments and Incentives*.

We provide sales incentives to customers to entitle customers to receive reductions in the price of the online marketing services by meeting certain cumulative consumption requirements. We account for these award credits granted to members in conjunction with a current sale of products or services as a multiple-element arrangement by analogizing to ASC 605-25. The consideration allocated to the award credits, as deferred revenue, is based on an assumption that the customer will purchase the minimum amount of future service necessary to obtain the maximum award credits available. The deferred revenue is recognized as revenue proportionately as the future services are delivered to the customer or when the award credits expire.

Cash received in advance from customers is recorded as customer advances and deposits. The unused cash balances remaining in customers' accounts are included as liabilities of us. Deferred revenue is recorded when services are provided before the other revenue recognition criteria set forth in ASC 605 are fulfilled.

Share-based Compensation

We account for share-based compensation in accordance with ASC topic 718, or ASC 718, *Compensation-Stock Compensation: Overall*. We have elected to recognize share-based compensation using the straight-line method for all share-based awards issued with no performance conditions. For awards with performance conditions, compensation cost is recognized on an accelerated basis if it is probable that the performance condition will be achieved.

Forfeitures have been estimated based on historical experience and are periodically reviewed. Cancellation of an award accompanied by the concurrent grant of a replacement award is accounted for as a modification of the terms of the cancelled award, or the modification awards. The compensation costs associated with the modification awards are recognized if either the original vesting condition or the new vesting condition has been achieved. Such compensation costs will not be less than the grant-date fair value of the original award. The incremental compensation cost is measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date. Therefore, in relation to the modification awards, we recognize share-based compensation over the vesting periods of the new options, which comprises, (i) the amortization of the incremental portion of share-based compensation over the remaining vesting term, and (ii) any unrecognized compensation cost of original award, using either the original term or the new term, whichever results in higher expenses for each reporting period.

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We account for share awards issued to non-employees in accordance with the provisions of ASC 505-50. We use the Black-Scholes-Merton option pricing model method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to share-based compensation. ASC 718 also requires share-based compensation to be presented in the same manner as cash compensation rather than as a separate line item.

Income Taxes

We recognize income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted tax rates in effect for the years in which the differences are expected to reverse. We record a valuation allowance against the amount of deferred tax assets that we determine is not more likely than not to be realized. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date. For reconciliation of tax computed by applying the respective statutory income tax rate to pre-tax income, please see "Income taxes" under Note 12 to our audited consolidated financial statements.

We comply with the provisions of ASC topic 740, or ASC 740, *Income Taxes*, in accounting for uncertainty in income taxes. ASC 740 clarified the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. We have elected to classify interest and penalties related to an uncertain tax position (if and when required) as part of income tax expense in the consolidated statements of comprehensive income. As of and for the years ended December 31, 2011, 2012 and 2013, the amounts of unrecognized tax benefits as well as interest and penalties associated with uncertainty in income taxes were insignificant.

Allowance for Doubtful Accounts

Accounts receivable are recognized and carried at original invoiced amount less an allowance for any potential uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. We generally do not require collateral from our customers.

We maintain allowances for doubtful accounts for estimated losses resulting from the failure of customers to make payments on time. We review the accounts receivable on a periodic basis and make general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, we consider many factors, including the age of the balance, the customer's payment history, its current credit-worthiness and current economic trends.

Impairment of Long-Lived Assets Other Than Goodwill

We evaluate long-lived assets, such as fixed assets and purchased or internally developed intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC topic 360, or ASC 360, *Property, Plant and Equipment*. When such events occur, we assess the recoverability of the assets group based on the undiscounted future cash flow the assets group is expected to generate and recognize an impairment loss when estimated undiscounted future cash flow expected to result from the use of the assets group plus net proceeds expected from disposition of the assets group, if any, is less than the carrying value of the assets group. If we identify an impairment, we reduce the carrying amount of the assets group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. We use estimates and judgments in our impairment tests and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. Asset groups to be disposed of would be reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet. The impairment charges of long-lived assets are RMB8.0 million, nil and RMB6.7 million (US\$1.1 million) for 2011, 2012 and 2013, respectively.

Impairment of Goodwill

We assess goodwill for impairment in accordance with ASC subtopic 350-20, or ASC 350-20, *Intangibles—Goodwill and Other: Goodwill*, which requires that goodwill be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20.

Prior to 2011, we had one reporting unit because no discrete financial information was available below the consolidation level. Subsequent to the acquisitions in 2011 and thereafter, there were segment managers who regularly review the operating results of certain acquired entities and the rest of our group, which constituted two, three and three separate reporting units as of December 31, 2011 and 2012 and 2013, respectively.

Goodwill was tested for impairment in the annual impairment tests on December 31 in each year using the two-step process required by ASC 350-20. First, we compared the carrying amount of the reporting unit compared to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and we are not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then we must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit's goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss. In accordance with ASU No. 2011-08, or ASU 2011-08, *Testing Goodwill for Impairment*, we have the option to first assess qualitative factors to determine whether it is necessary to perform the two-step test. If we believe, as a result of the qualitative assessment, that it is more-like-than-not that the fair value of the reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

In 2013, we elected to assess goodwill for impairment test for goodwill at the two reporting units, representing acquired entities, using the two-step process. The fair value of these two reporting units exceeded their respective carrying amount, and therefore goodwill related to the two reporting units were not impaired and we were not required to perform further testing. We performed a qualitative assessment for the remaining reporting unit. Based on the requirements of ASU 2011-08, we evaluated all relevant factors, weighed all factors in their totality and concluded that it was not more-likely-than-not the fair value was less than the carrying amount of the third reporting unit, and further impairment testing on goodwill was unnecessary as of December 31, 2013.

The impairment charges of goodwill are RMB113.0 million, nil and nil for 2011, 2012 and 2013, respectively.

Impairment of Long-term Investments

Our long-term investments mainly consist of cost method investments and equity method investments in privately held companies.

We periodically review our cost method investments and equity method investments for impairment. If we conclude that any of such investments is impaired, we will assess whether such impairment is other-than-temporary. Factors we consider to make such determination include the performance and financial position of the investee as well as other evidence of market value. Such evaluation includes but is not limited to, reviewing the investee's cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment's cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

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The fair value determination, particularly for investments in privately-held companies, 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 and the determination of whether any identified impairment is other-than-temporary. If impairment is considered other-than-temporary, we will write down the asset to its fair value and take the corresponding charge to the consolidated financial statements. The impairment charges of long-term investments are RMB47.9 million, RMB169.2 million and RMB17.5 million (US\$2.9 million) for 2011, 2012 and 2013, respectively.

Business Combination

We account for business combinations using the purchase method of accounting in accordance with ASC 805: *Business Combinations*. The purchase method accounting requires that the consideration transferred to be allocated to the assets, including separately identifiable assets and liabilities we acquired, based on their estimated fair values. The consideration transferred of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

In a business combination achieved in stages, we remeasured our previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, was recognized in earnings.

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and noncontrolling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. We determine discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets, forecasted life cycle and forecasted cash flows over that period.

B. Liquidity and Capital Resources

As of December 31, 2013, our principal sources of liquidity was RMB38.4 billion (US\$6.3 billion) of cash, cash equivalents and short-term investments. Our cash and cash equivalents consist of cash on hand and investments in interest bearing demand deposit accounts, time deposits, money market funds and other liquid investments which have original maturities of three months or less. The short-term investments primarily consist of fixed-rate and adjustable-rate debt investments with original maturity of less than one year. We believe that our current cash, cash equivalents, short-term investments and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital and capital expenditures, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our existing cash is insufficient to meet our requirements, we may seek to sell additional equity securities, debt securities or borrow from banks.

Furthermore, cash transfers from our PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may

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restrict the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency denominated obligations. See “Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may affect the value of your investment.” As of December 31, 2013, our PRC subsidiaries and consolidated affiliated entities held RMB33.6 billion (US\$5.5 billion) of cash, cash equivalents and short-term investments, RMB730.6 million (US\$120.7 million) of which were in the form of foreign currencies.

In July 2011, we entered into a two-year unsecured loan arrangement with Goldman Sachs Lending Partners LLC of US\$350.0 million, at an annual interest rate of 1.3%. The loan was used to acquire Qunar’s ordinary shares. We repaid the loan and all accrued interest in July 2013 upon maturity, and there was no outstanding balance as of December 31, 2013.

In September 2012, we entered into a loan agreement with Australia and New Zealand Banking Group Limited (Hong Kong Branch), whereby we committed to borrow an unsecured loan of AU\$105.0 million (US\$108.0 million) for general working capital purposes. We drew down AU\$55.0 million (settled by US\$56.8 million) in October 2012 under the loan commitment, with a term of two years and a fixed annual interest rate of 2.75%. The remaining commitment of AU\$50.0 million was cancelled by both parties. As of December 31, 2013, we had an outstanding balance of AU\$55.0 million (US\$56.8 million), which will be due in October 2014.

In July 2013, we entered into a loan agreement with Sumitomo Mitsui Banking Corporation, whereby we committed to borrow an unsecured loan of US\$150.0 million for general working capital purposes. We drew down US\$150.0 million in July 2013 under the loan commitment, with a term of two years and a fixed annual interest rate of 1.17%. As of December 31, 2013, we had an outstanding balance of US\$150.0 million, which will be due in July 2015.

In August 2013, we entered into a loan agreement with Australia and New Zealand Banking Group Limited (Hong Kong Branch), whereby we committed to borrow an unsecured loan of AU\$235.0 million (US\$200.0 million) for general working capital purposes. We drew down AU\$235.0 million (US\$200.0 million) in August 2013 under the loan commitment, with a term of two years and a fixed annual interest rate of 1.65%. As of December 31, 2013, we had an outstanding balance of AU\$235.0 million (US\$200.0 million), which will be due in August 2015.

In November 2012, we issued an aggregate of US\$1.5 billion senior unsecured notes in two equal tranches, due in 2017 and 2022, with stated annual interest rates of 2.25% and 3.50%, respectively. The net proceeds from the sale of the notes were used for general corporate purposes. As of December 31, 2013, the total carrying value and estimated fair value of these notes were US\$1.5 billion and US\$1.4 billion. The estimated fair value was based on quoted prices for our publicly-traded debt as of December 31, 2013. We are not subject to any financial covenants or other significant restrictions under the notes. During 2013, we paid an aggregate of US\$43.1 million in interest payments related to these notes.

In August 2013, we issued an aggregate of US\$1.0 billion senior unsecured notes due in 2018, with stated annual interest rate of 3.25%. The net proceeds from the sale of the notes were used for general corporate purposes, including merger and acquisition activities. As of December 31, 2013, the total carrying value and estimated fair value of these notes were US\$1.0 billion and US\$1.0 billion, respectively. The estimated fair value was based on quoted prices for our publicly-traded debt as of December 31, 2013. We are not subject to any financial covenants or other significant restrictions under the notes. No interest were due in year 2013 related to these notes.

We may use the net proceeds from our issuance and sale of the notes to fund the operations of our PRC subsidiaries by making additional capital contribution to our existing PRC subsidiaries, injecting capital to

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establish new PRC subsidiaries and/or providing loans to our PRC subsidiaries. Such transfer of funds from Baidu, Inc. or any of our offshore subsidiaries to our PRC subsidiaries is subject to the PRC regulatory restrictions and procedures: (i) capital increase of the existing PRC subsidiaries and establishment of new PRC subsidiaries must be approved by the PRC Ministry of Commerce or its local counterpart and registered with SAFE or its local counterpart; and (ii) loans to any of our PRC subsidiaries must not exceed the statutory limit, which is the difference between the amount of total investment as approved by the PRC Ministry of Commerce or its local counterpart and the amount of registered capital of the PRC subsidiary, and must be registered with the local counterpart of SAFE. See “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans or additional capital contributions to our PRC subsidiaries, which could adversely affect our ability to fund and expand our business.”

As of December 31, 2013, we had RMB17.6 billion (US\$2.9 billion) in long-term loans and notes payables (including current portion of RMB343.6 million (US\$56.8 million)) and had no short-term loans.

Cash Flows and Working Capital

As of December 31, 2011, 2012 and 2013, we had RMB14.2 billion, RMB32.5 billion and RMB38.4 billion (US\$6.3 billion) in cash, cash equivalents and short-term investments.

The following table sets forth a summary of our cash flows for the periods indicated.

	For the Years Ended December 31,			
	2011	2012	2013	
	RMB	RMB	RMB	US\$
	(In thousands)			
Net cash generated from operating activities	8,178,819	11,995,994	13,792,971	2,278,438
Net cash used in investing activities	(14,250,529)	(13,750,100)	(23,322,819)	(3,852,657)
Net cash generated from financing activities	2,425,810	9,518,885	7,541,561	1,245,777
Effect of exchange rate changes on cash	(8,594)	(11,629)	(200,548)	(33,128)
Net increase (decrease) in cash and cash equivalents	(3,654,494)	7,753,150	(2,188,835)	(361,570)
Cash and cash equivalents at beginning of the period	7,781,976	4,127,482	11,880,632	1,962,541
Cash and cash equivalents at end of the period	4,127,482	11,880,632	9,691,797	1,600,971

Operating Activities

Net cash generated from operating activities increased to RMB13.8 billion (US\$2.3 billion) in 2013 from RMB12.0 billion in 2012. This increase was mainly attributable to the adding-back to net income of increased depreciation and amortization expenses, which increased to RMB2.7 billion (US\$438.1 million) in 2013 from RMB1.5 billion in 2012.

Net cash generated from operating activities increased to RMB12.0 billion in 2012 from RMB8.2 billion in 2011. This increase was mainly attributable to the substantial increase in net income to RMB10.4 billion in 2012 from RMB6.6 billion in 2011.

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Investing Activities

Net cash used in investing activities was about RMB13.8 billion and RMB23.3 billion (US\$3.9 billion) in 2012 and 2013, respectively. The increase is primarily due to more acquisitions of businesses accomplished in 2013.

Net cash used in investing activities was about RMB14.3 billion and RMB13.8 billion in 2011 and 2012, respectively. Compared to 2011, our investment of short-term investments increased, while our acquisitions of business decreased in 2012.

Financing Activities

Net cash flow generated from financing activities was RMB7.5 billion (US\$1.2 billion) in 2013, compared to a net cash flow of RMB9.5 billion generated from financing activities in 2012. The decrease is primarily due to less long-term notes issued in 2013.

Net cash flow generated from financing activities was RMB9.5 billion (US\$1.5 billion) in 2012, compared to a net cash flow of RMB2.4 billion generated from financing activities in 2011, primarily due to the proceeds from the long-term notes issued in 2012.

Holding Company Structure

Baidu, Inc. is a holding company with no operations of its own. We conduct our operations in China primarily through our subsidiaries and consolidated affiliated entities in China. As a result, although other means are available for us to obtain financing at the holding company level, Baidu, Inc.'s ability to pay dividends to the shareholders and to service any debt it may incur may depend upon dividends paid by our PRC subsidiaries and license and service fees paid by our PRC consolidated affiliated entities. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends to Baidu, Inc. In addition, our PRC subsidiaries and consolidated affiliated entities are required to make appropriations to certain statutory reserve funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies.

Our PRC subsidiaries, being foreign-invested enterprises established in China, are required to make appropriations to certain statutory reserves, namely, a general reserve fund, an enterprise expansion fund, a staff welfare fund and a bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. Each of our PRC subsidiaries is required to allocate at least 10% of its after-tax profits to a general reserve fund until such fund has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus funds are at the discretion of the board of directors of the PRC subsidiaries.

Our consolidated affiliated entities must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely a statutory surplus fund, a statutory public welfare fund and a discretionary surplus fund. Each of our consolidated affiliated entities is required to allocate at least 10% of its after-tax profits to the statutory surplus fund until such fund has reached 50% of its respective registered capital. Appropriations to the statutory public welfare fund and the discretionary surplus fund are at the discretion of our consolidated affiliated entities.

Under PRC laws and regulations, our PRC subsidiaries and consolidated affiliated entities are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. The amounts restricted include the paid up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of our consolidated affiliated entities in which we have no legal ownership, totaling approximately RMB1.2 billion, RMB2.8 billion and RMB3.7 billion (US\$613.8 million) as of December 31, 2011, 2012 and 2013, respectively.

Capital Expenditures

We made capital expenditures of RMB1.8 billion, RMB2.3 billion and RMB2.8 billion (US\$455.4 million) in 2011, 2012 and 2013, representing 12.2%, 10.4% and 8.6% of our total revenues, respectively. In 2013, our capital expenditures were used primarily for the purchase of servers, network equipment, other computer hardware for our business and construction of our office buildings. We funded our capital expenditures primarily with net cash flow generated from operating activities.

We commenced construction of an office building in Shenzhen in December 2011, Baidu Science Park in Beijing in August 2012, and Shanxi Cloud Computing Center in September 2012, and we expect to complete the planned construction of these buildings by the end of 2016, in 2015 and 2017 respectively. See “Item 4.D. Property, Plant and Equipment” for more details of our capital expenditures associated with these projects.

Our capital expenditures may increase substantially in the future as our business continues to grow, in connection with the expansion and improvement of our network infrastructure, and our plan to build additional office buildings and cloud computing based data centers. We currently plan to fund these expenditures with our current cash, cash equivalents, short-term investments and anticipated cash flow generated from our operating activities.

C. Research and Development

We have a team of experienced engineers who are mostly based at our headquarters in Beijing. We recruit most of our engineers locally and have established various recruiting and training programs with leading universities in China. We have also recruited experienced engineers from overseas. We compete aggressively for engineering talent to help us address challenges such as Chinese language processing, information retrieval and high performance computing.

In the three years ended December 31, 2011, 2012 and 2013, our research and development expenditures, including share-based compensation expenses for research and development staff, were RMB1.3 billion, RMB2.3 billion and RMB4.1 billion (US\$678.4 million), representing 9.2%, 10.3% and 12.9% of our total revenues for 2011, 2012 and 2013, respectively. Our research and development expenses consist primarily of personnel-related costs. We have expensed substantially all of the development costs for the research and development of products and new functionality as incurred, except for certain internal-use software.

D. Trend Information

Other than as disclosed elsewhere in this annual report, we are not aware of any trends, uncertainties, demands, commitments or events for the year ended December 31, 2013 that are reasonably likely to have a material and adverse effect on our net revenues, income, profitability, liquidity or capital resources, or that would cause the disclosed financial information to be not necessarily indicative of future results of operations or financial conditions.

E. Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any off-balance sheet derivative instruments. 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 engages in leasing, hedging or research and development services with us.

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F. Contractual Obligations

The following table sets forth our contractual obligations by specified categories as of December 31, 2013.

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(In RMB thousands)		
Long-Term Debt Obligations ⁽¹⁾	20,482,857	842,026	3,057,476	11,407,441	5,175,914
Capital Lease Obligations ⁽²⁾	92,058	49,160	42,863	35	—
Operating Lease Obligations ⁽³⁾	4,982,082	2,208,713	1,810,314	777,783	185,272
Purchase Obligations ⁽⁴⁾	2,091,027	1,555,102	498,652	35,949	1,324
Total	27,648,024	4,655,001	5,409,305	12,221,208	5,362,510

(1) The long-term debt obligations represent (i) two-year loans from Australia and New Zealand Banking Group Limited (Hong Kong Branch), (ii) a two-year loan from Sumitomo Mitsui Banking Corporation, (iii) senior unsecured notes due in 2017 and 2022, and (iv) senior unsecured notes due in 2018. The total interest to be paid for these loans is RMB45.0 million (US\$7.4 million), RMB18.7 million (US\$3.1 million), RMB1.8 billion (US\$303.8 million) and RMB983.7 million (US\$162.5 million), respectively. Please see "Loans Payable" under Note 10 and "Notes payable" under Note 11 to our audited consolidated financial statements.

(2) Capital lease obligations represent our obligations for leasing servers, and the total amount of interest to be paid is RMB6.2 million (US\$1.0 million).

(3) Operating lease obligations represent our obligations for leasing premises and bandwidth.

(4) Purchase obligations consist primarily of expenditures in connection with the expansion and improvement of network infrastructure, our plan to build or acquire additional office buildings and cloud computing-based data centers, and expenditures for video content.

Other than the contractual obligations set forth above, we do not have any contractual obligations that are long-term debt obligations, capital (finance) lease obligations, purchase obligations or other long-term liabilities reflected on our balance sheet.

Item 6. Directors, Senior Management and Employees**A. Directors and Senior Management**

The following table sets forth information regarding our executive officers and directors as of the date of this annual report.

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Robin Yanhong Li	45	Chairman and Chief Executive Officer
Jennifer Xinzhe Li	46	Chief Financial Officer
William Decker	67	Independent Director
James Ding	48	Independent Director
Nobuyuki Idei	76	Independent Director
Greg Penner	44	Independent Director
Dejian Liu	42	Director

Robin Yanhong Li is co-founder, chairman and chief executive officer of our company, and oversees our overall strategy and business operations. Mr. Li has been serving as the chairman of our board of directors since our inception in January 2000 and as our chief executive officer since January 2004. Mr. Li served as our president from February 2000 to December 2003. Prior to founding our company, Mr. Li worked as a staff engineer for Infoseek, a pioneer in the internet search engine industry, from July 1997 to December 1999. Mr. Li was a senior consultant for IDD Information Services from May 1994 to June 1997. Mr. Li currently serves as an independent director and chairman of the compensation committee of New Oriental Education & Technology Group Inc., a NYSE-listed company that provides private educational services in China. Mr. Li also acts as the vice chairman of the internet Society of China (ISC). Mr. Li has also been a vice chairman of All-China Federation of Industry & Commerce since December 2012. Mr. Li received a bachelor's degree in information science from Peking University in China and a master's degree in computer science from the State University of New York at Buffalo.

Jennifer Xinzhe Li has served as our chief financial officer since March 2008. Ms. Li is in charge of our finance and accounting. Ms. Li has extensive experience in U.S. GAAP reporting and in developing and leading finance and accounting teams before she joined us. Prior to joining our company, Ms. Li served as controller of General Motors Acceptance Corporation (GMAC)'s North American Operations from 2005 to 2008. Prior to that, Ms. Li worked at General Motors China, where she was responsible for overseeing finance functions of General Motors' wholly owned and joint venture businesses in China from 2001 to 2004, with the last post as its chief financial officer. From 1994 to 2001, she held several other finance positions at General Motors in Canada, the United States and Singapore. Ms. Li has been serving as a director of Philip Morris International, Inc. since May 2010. Ms. Li holds an M.B.A. degree from the University of British Columbia in Vancouver, B.C., Canada and a bachelor of arts degree from Tsinghua University in China.

William Decker has served as our independent director and chairman of the audit committee since October 2005. Mr. Decker is a retired partner at PricewaterhouseCoopers LLP. Prior to his retirement in July 2005, Mr. Decker was the partner in charge of PricewaterhouseCoopers LLP's Global Capital Markets Group. He led a team of more than 300 professionals in 25 countries that provided technical support to non-U.S. companies on SEC regulations, U.S. GAAP reporting and assistance with Sarbanes-Oxley Act compliance work. Mr. Decker has served as an independent director and the chairman of the audit committee of VisionChina Media Inc., a NASDAQ-listed company that operates an out-of-home advertising network on mass transportation systems in China, from December 2007 to December 2011. Mr. Decker received a bachelor of science degree in accounting from Fairleigh Dickinson University in New Jersey.

James Ding has served as our independent director since our initial public offering in August 2005. Mr. Ding served as a co-chairman of the board of directors of AsiaInfo-Linkage Inc., a NASDAQ-listed

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company, from July 2011 to January 2014. Prior to that, Mr. Ding served as the chairman of the board of AsiaInfo from April 2003 to July 2010, and a member of the board since AsiaInfo's inception in 1993. Mr. Ding served as the chief executive officer and president of AsiaInfo from 1999 to 2003 and as senior vice president and chief technology officer of AsiaInfo from 1993 to 1999. Mr. Ding is currently a general partner and managing director of GSR Ventures, an early stage venture fund focusing on semiconductor, internet, wireless, new media and green technology investment in China. Mr. Ding also serves as a director of NetQin Mobile Inc., a NYSE-listed mobile internet service provider, and an independent director of Huayi Brothers Media Corporation, a ChiNext Shenzhen-listed company. Mr. Ding received a master's degree in information science from the University of California, Los Angeles and a bachelor's degree in chemistry from Peking University in China.

Nobuyuki Idei has served as our independent director since June 2007. Being an experienced director, Mr. Idei currently also serves as director of Accenture, director of FreeBit Co. Ltd., director of Lenovo Group, director of Monex Group, Inc. and chairman of the National Conference on Fostering Beautiful Forests in Japan. Mr. Idei is founder and chief executive officer of Quantum Leaps Corporation, a specialist consultancy that advises private and public institutions on the changing role of technology in the 21st century. Mr. Idei is also founder and chairman of the board of Asia Innovators' Initiative, a private non-profit organization which he established in 2011 to serve as a catalyst for social innovation in Asia by bringing together a diverse range of individuals and promoting knowledge sharing. Mr. Idei was chairman and chief executive officer of Sony Corporation from 2000 to 2005, chief corporate advisor from 2005 to 2007 and chairman of the advisory board from 2007 to 2012. Prior to that, Mr. Idei held a range of leadership positions at Sony including general manager of the audio division, senior general manager of the home video group, and president and representative director. Mr. Idei has also served in a number of other advisory positions including as counselor to the Bank of Japan, member of Japan's national IT Strategy Council, and vice chairman of Nippon Keidanren. Mr. Idei received a bachelor of science degree in economics and politics from Waseda University in Tokyo.

Greg Penner has served as our director since July 2004. Mr. Penner is a general partner at Madrone Capital Partners, an investment management firm based in Menlo Park, California. From 2002 to 2004, Mr. Penner was the senior vice president and chief financial officer of Wal-Mart Japan. From 2000 to 2002, Mr. Penner was senior vice president of finance and strategy for Walmart.com. From 1997 to 2000, Mr. Penner was a general partner at Peninsula Capital, an early stage venture capital fund. Previously, Mr. Penner worked in strategic planning at Wal-Mart Stores, Inc. and corporate finance at Goldman, Sachs & Co. Mr. Penner serves as a director of Wal-Mart Stores, Inc. and Hyatt Hotels Corporation, and as a director of several private companies. He is also a director of The Charter Growth Fund and sits on the board of Teach for America. Mr. Penner received an M.B.A. degree from the Stanford Graduate School of Business and a bachelor's degree in international economics from the School of Foreign Service at Georgetown University.

Dejian Liu has served as our director since October 2013. Mr. Liu is the founder, chairman and executive director of NetDragon Websoft Inc., or NetDragon, a China-based developer and operator of online games and mobile internet platforms listed on the Hong Kong Stock Exchange. Since founding NetDragon in 1999, he has led it to become a leading player in China's online gaming and mobile Internet industries. Mr. Liu is responsible for NetDragon's overall strategic development and is the chief designer in its game development team. Mr. Liu also served as chairman and non-executive director of 91 Wireless Websoft Limited, which was a former subsidiary of NetDragon and acquired by us in October 2013. Mr. Liu was vice president of Beso Biological Research Center, Inc. from 1995 to 2005. He was also vice president of Fuzhou Yangzhenhua 851 Bio-Engineering Research Inc. from 1995 to 2000 before being promoted to president of that organization in 2001. Mr. Liu received a bachelor's degree of Science in Chemistry from the University of Kansas.

B. Compensation

In 2013, we paid an aggregate of approximately RMB8.0 million (US\$1.3 million) in cash compensation and granted options to purchase an aggregate of 35,178 Class A ordinary shares to our executive officers as a

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group. We also paid an aggregate of approximately RMB0.4 million (US\$73,500) in cash compensation and granted 240 restricted Class A ordinary shares to our non-executive directors as a group. Our PRC subsidiaries and consolidated affiliated entities are required by law to make contributions equal to certain percentages of each employee's salary for his or her pension insurance, medical insurance, housing fund, unemployment and other statutory benefits. Other than the above-mentioned statutory contributions mandated by applicable PRC law, we have not set aside or accrued any amount to provide pension, retirement or other similar benefits to our executive officers and directors. No executive officer is entitled to any severance benefits upon termination of his or her employment with our company except as required under applicable PRC law.

Our board of directors and shareholders approved the issuance of up to 5,040,000 ordinary shares upon exercise of awards granted under our 2000 option plan. Our 2000 option plan terminated in January 2010 upon the expiration of its ten-year term. As of December 31, 2013, an aggregate of 268 Class A ordinary shares were issuable upon exercise of outstanding awards granted under our 2000 option plan. At the annual general meeting held on December 16, 2008, our shareholders approved a new 2008 share incentive plan, which has reserved an additional 3,428,777 Class A ordinary shares for awards to be granted pursuant to its terms. As of December 31, 2013, options to purchase an aggregate of 268,104 Class A ordinary shares and an aggregate of 213,133 restricted Class A ordinary shares had been granted under the 2008 share incentive plan.

The following table summarizes, as of December 31, 2013, the outstanding options and restricted Class A ordinary shares that we granted to our current directors and executive officers and to other individuals as a group under our 2000 option plan and 2008 share incentive plan. Each Class A ordinary share is represented by 10 ADSs.

<u>Name</u>	<u>Ordinary Shares Underlying Outstanding Options</u>	<u>Exercise Price (US\$/Share)</u>	<u>Grant Date</u>	<u>Expiration Date</u>
Robin Yanhong Li	10,800	133.86	February 11, 2009	February 11, 2019
	4,247	1,058.90	January 25, 2011	January 25, 2021
	4,515	1,418.30	February 16, 2012	February 16, 2022
	10,598	1,083.00	January 31, 2013	January 31, 2023
	54 ⁽¹⁾	—	February 16, 2012	N/A
Jennifer Xinzhe Li	*	424.36	January 27, 2010	January 27, 2020
	*	1,058.90	January 25, 2011	January 25, 2021
	*	1,418.30	February 16, 2012	February 16, 2022
	*	1,083.00	January 31, 2013	January 31, 2023
	* ⁽¹⁾	—	February 16, 2012	N/A
William Decker	* ⁽¹⁾	—	February 16, 2012	N/A
James Ding	* ⁽¹⁾	—	February 16, 2012	N/A
Nobuyuki Idei	* ⁽¹⁾	—	February 16, 2012	N/A
Greg Penner	* ⁽¹⁾	—	February 16, 2012	N/A
Dejian Liu	* ⁽¹⁾	—	October 23, 2013	N/A
Other individuals as a group	334,092	—	—	—

* The options and restricted shares in aggregate held by each of these directors and officers represent less than 1% of our total outstanding shares.

(1) Restricted shares.

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The following paragraphs summarize the key terms of our 2000 option plan, which was amended and restated on December 16, 2008, and our 2008 share incentive plan adopted on December 16, 2008.

2000 Option Plan

Types of Awards. We may grant the following types of awards under our 2000 option plan:

- our ordinary shares;
- options to purchase our ordinary shares; and
- any other securities with value derived from the value of our ordinary shares.

Plan Administration. Our board of directors, or a committee designated by our board of directors, administers our 2000 option plan. In each case, our board of directors or the committee, will determine the provisions and terms and conditions of each award. These include, among other things, the option vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment upon settlement of an award, payment contingencies and satisfaction of any performance criteria.

Award Agreement. Awards granted under our 2000 option plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award. In addition, in the case of options, the award agreement also specifies whether the option constitutes an incentive stock option, or ISO, or a non-qualifying stock option.

Eligibility. We may grant awards to employees, directors and consultants of our company or any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest. However, we may grant ISOs only to our employees and employees of our majority-owned subsidiaries.

Acceleration of Awards upon Corporate Transactions. The outstanding awards will accelerate upon occurrence of a change-of-control corporate transaction in which the successor entity does not assume our outstanding awards under our 2000 option plan. In such event, each outstanding award will become fully vested and immediately exercisable, the transfer restrictions on the awards will be released (other than those applicable to ISOs), and the repurchase or forfeiture rights will terminate immediately before the date of the change-of-control transaction. If the successor entity assumes our outstanding awards and later terminates the grantee's employment or service without cause, or if the grantee resigns voluntarily with good cause within 12 months of the change-of-control transaction, the outstanding awards automatically become fully vested and exercisable.

Exercise Price and Term of Awards. If we grant an ISO to an employee, who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of our share capital, the exercise price cannot be less than 110% of the fair market value of our ordinary shares on the date of that grant. To the extent not prohibited by applicable law or exchange rules, a downward adjustment of the exercise price per share subject to an outstanding option may be made in the absolute discretion of the plan administrator without the approval of our shareholders or the affected grantees.

The term of each award is stated in the award agreement. The term may not exceed ten years from the date of the grant, except that five years is the maximum term of an ISO granted to an employee who holds more than 10% of the voting power of our share capital.

Vesting Schedule. In general, the plan administrator determines, or the award agreement specifies, the vesting schedule. Options generally vest over a four-year period beginning from one year after the grant date. The award agreements may provide that grantees may elect at any time during their employment or service to exercise any part or all of the awards prior to full vesting of the awards. But such early exercise may be subject to a repurchase right as determined by the plan administrator. When an optionee's employment or service is terminated, the optionee may exercise his or her options that have vested as of the termination date within three months of termination or as determined by our plan administrator.

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Repurchase Rights. If an award agreement provides for repurchase rights upon termination of a grantee's employment or service, it must (or may, with respect to awards granted to officers, directors or consultants) provide that (i) such repurchase right must be exercised within 90 days of termination of the grantee's employment or service (or, in the case of exercise of awards after termination of the grantee's employment or service, within 90 days following such exercise), (ii) the repurchase price must be equal to the original purchase price paid by the grantee for each such share, and (iii) the right to repurchase will lapse at the rate of at least 20% of the shares subject to the award per year over five years from the date the award is granted (without respect to the date the award was exercised or became exercisable).

Amendment and Termination. Our board of directors may at any time amend, suspend or terminate our 2000 option plan. Amendments to our 2000 option plan are subject to shareholder approval, to the extent required by law, or by stock exchange rules or regulations. Any amendment, suspension or termination of our 2000 option plan must not adversely affect awards already granted without written consent of the recipient of such awards. Our 2000 option plan had a term of ten years from the date of adoption and expired in January 2010.

2008 Share Incentive Plan

Types of Awards. We may grant the following types of awards under our 2008 share incentive plan:

- options;
- restricted shares;
- restricted share units; and
- any other form of award granted to a participant pursuant to the 2008 plan.

Plan Administration. The compensation committee of our board of directors administers our 2008 share incentive plan, but may delegate to a committee of one or more members of our board of directors the authority to grant or amend awards to participants other than independent directors and executive officers. The compensation committee will determine the provisions and terms and conditions of each award grant, including, but not limited to, the exercise price, the grant price or purchase price, any restrictions or limitations on the award, any schedule for lapse of forfeiture restrictions or restrictions on the exercisability of an award, and accelerations or waivers thereof, any provisions related to non-competition and recapture of gain on an award, based in each case on such considerations as the committee in its sole discretion determines. The compensation committee has the sole power and discretion to cancel, forfeit or surrender an outstanding award (whether or not in exchange for another award or combination of awards).

Award Agreement. Awards granted under our 2008 share incentive plan are evidenced by an award agreement that sets forth the terms, conditions and limitations for each award which may include the term of an award, the provisions applicable in the event the participant's employment or service ends, and our authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an award.

Eligibility. We may grant awards to employees, directors and consultants of our company or any of our related entities, which include our subsidiaries or any entities in which we hold a substantial ownership interest. However, we may grant ISOs only to our employees and employees of our majority-owned subsidiaries.

Acceleration of Awards upon Corporate Transactions. The outstanding awards will accelerate (i) upon occurrence of a change-of-control corporate transaction where any person acquires at least 50% of the total combined voting power of our outstanding securities or the incumbent board members no longer constitute at least 50% of our board, or (ii) upon occurrence of any other change-of-control corporate transaction in which the successor entity does not assume our outstanding awards under our 2008 share incentive plan, provided that the plan participant remains an employee, consultant or member of our board of directors on the effective date of the

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corporate transaction. In such event, each outstanding award will become fully exercisable and all forfeiture restrictions on such award will lapse immediately prior to the specified effective date of the corporate transaction.

If the successor entity assumes our outstanding awards and later terminates the grantee's employment or service without cause within 12 months of the corporate transaction, or if the grantee resigns voluntarily with good reason, the outstanding awards automatically will become fully vested and exercisable. The compensation committee may also, in its sole discretion, upon or in anticipation of a corporate transaction, accelerate awards, purchase the awards from the plan participants, replace the awards, or provide for the payment of the awards in cash.

Exercise Price and Term of Awards. The exercise price per share subject to an option may be amended or adjusted in the absolute discretion of the compensation committee, the determination of which shall be final, binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a downward adjustment of the exercise prices of options mentioned in the preceding sentence shall be effective without the approval of our shareholders or the approval of the affected grantees. If we grant an ISO to an employee, who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of our share capital, the exercise price cannot be less than 110% of the fair market value of our ordinary shares on the date of that grant. The compensation committee will determine the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting. The term may not exceed ten years from the date of the grant, except that five years is the maximum term of an ISO granted to an employee who holds more than 10% of the voting power of our share capital.

Restricted Shares and Restricted Share Unites. The compensation committee is also authorized to make awards of restricted shares and restricted share units. Except as otherwise determined by the compensation committee at the time of the grant of an award or thereafter, upon termination of employment or service during the applicable restriction period, restricted shares that are at the time subject to restrictions shall be forfeited or repurchased in accordance with the respective award agreements.

Vesting Schedule. The compensation committee determines, and the award agreement specifies, the vesting schedule of options and other awards granted. The compensation committee determines the time or times at which an option may be exercised in whole or in part, including exercise prior to vesting, and also determines any conditions that must be satisfied before all or part of an option may be exercised. At the time of grant for restricted share units, the compensation committee specifies the date on which the restricted share units become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate.

Amendment and Termination. With the approval of our board of directors, the compensation committee may at any time amend, suspend or terminate our 2008 share incentive plan. Amendments to our 2008 share incentive plan are subject to shareholder approval, to the extent required by law, or by stock exchange rules or regulations. Any amendment, suspension or termination of our 2008 share incentive plan must not adversely affect in any material way awards already granted without written consent of the recipient of such awards. Unless terminated earlier, our 2008 share incentive plan shall continue in effect for a term of ten years from the date of adoption.

C. Board Practices

Board of Directors

Our board of directors has six directors. A director is not required to hold any shares in the company by way of qualification. A director may vote with respect to any contract, proposed contract or arrangement in which he is materially interested. A director may exercise all the powers of the company to borrow money, mortgage its undertakings, property and uncalled capital, and issue debentures or other securities whenever money is borrowed or as security for any obligation of the company or of any third party. The remuneration to be paid to the directors is determined by the board of directors. There is no age limit requirement for directors.

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Committees of the Board of Directors

We have three committees under the board of directors: an audit committee, a compensation committee and a corporate governance and nominating committee. We have adopted a charter for each of the three committees.

Audit Committee

Our audit committee consists of William Decker, James Ding and Greg Penner, all of whom satisfy the “independence” requirements of Rule 5605(a)(2) of the NASDAQ Stock Market Rules and Rule 10A-3 under the Exchange Act. Our board of directors has determined that Mr. Decker is an audit committee financial expert as defined in the instructions to Item 16A of the Form 20-F. The audit committee oversees our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee is responsible for, among other things:

- appointing, retaining and overseeing the work of the independent auditors, including resolving disagreements between the management and the independent auditors relating to financial reporting;
- pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing annually the independence and quality control procedures of the independent auditors;
- reviewing and approving all proposed related party transactions;
- discussing the annual audited financial statements with the management;
- meeting separately with the independent auditors to discuss critical accounting policies, management letters, recommendations on internal controls, the auditor’s engagement letter and independence letter and other material written communications between the independent auditors and the management; and
- attending to such other matters that are specifically delegated to our audit committee by our board of directors from time to time.

In 2013, our audit committee held meetings or passed resolutions by unanimous written consent six times.

Compensation Committee

Our compensation committee consists of James Ding and Greg Penner, both of whom satisfy the “independence” requirements of Rule 5605(a)(2) of the NASDAQ Stock Market Rules. The compensation committee assists the board in reviewing and approving our compensation structure, including all forms of compensation relating to our directors and executive officers. Our chief executive officer may not be present at any committee meeting while his compensation is deliberated. The compensation committee is responsible for, among other things:

- reviewing and approving, or recommending to the board for its approval, the compensation for our chief executive officer and other executive officers;
- reviewing and recommending to the board for determination with respect to the compensation of our non-employee directors;
- reviewing periodically and approving any incentive compensation or equity plans, programs or similar arrangements; and
- selecting compensation consultant, legal counsel or other adviser only after taking into consideration all factors relevant to that person’s independence from management.

In 2013, our compensation committee held meetings or passed resolutions by unanimous written consent five times.

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Corporate Governance and Nominating Committee

Our corporate governance and nominating committee consists of James Ding and Greg Penner, both of whom satisfy the “independence” requirements of Rule 5605(a) (2) of the NASDAQ Stock Market Rules. The corporate governance and nominating committee assists the board of directors in selecting individuals qualified to become our directors and in determining the composition of the board and its committees. The corporate governance and nominating committee is responsible for, among other things:

- recommending to the board nominees for election or re-election to the board or for appointments to fill any vacancies;
- reviewing annually the performance of each incumbent director in determining whether to recommend such director for an additional term;
- overseeing the board in the board’s annual review of its own performance and the performance of the management; and
- considering, preparing and recommending to the board such policies and procedures with respect to corporate governance matters as may be required or required to be disclosed under the applicable laws or otherwise considered to be material.

In 2013, our corporate governance and nominating committee held meetings or passed resolutions by unanimous written consent twice.

Terms of Directors and Executive Officers

All directors hold office until their successors have been duly elected and qualified. None of our directors is subject to a fixed term of office. In addition, the service agreements between us and the directors do not provide benefits upon termination of their services. Director nomination is subject to the approval of our corporate governance and nominating committee. Our shareholders may remove any director by ordinary resolution and may in like manner appoint another person in his stead. A valid ordinary resolution requires a majority of the votes cast at a shareholder meeting that is duly constituted and meets the quorum requirement. Officers are elected by and serve at the discretion of the board of directors.

D. Employees

We had 16,082, 20,877 and 31,676 employees as of December 31, 2011, 2012 and 2013, respectively. As of December 31, 2013, we had 1,674 employees in management and administration, 14,055 employees in research and development, 2,779 employees in operation and service, and 13,168 employees in sales and marketing. As of December 31, 2013, we had 19,869 employees in Beijing, 11,711 employees outside of Beijing but within China, and 96 employees outside of China. We also hire temporary employees and contractors from time to time. Our employees are not covered by any collective bargaining agreement. We consider our relations with our employees to be generally good. However, as our operations and employee base further expand, we cannot assure you that we will always be able to maintain good relations with all of our employees. See “Item 3.D. Key Information—Risk Factors—Risks Related to Our Business—We may not be able to manage our expanding operations effectively.”

E. Share Ownership

The following table sets forth information with respect to the beneficial ownership of our shares as of February 28, 2014 by:

- each of our current directors and executive officers; and
- each person known to us to own beneficially more than 5% of our shares.

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See “—B. Compensation” for more details on options and restricted shares granted to our directors and executive officers.

Directors and Executive Officers:	Shares Beneficially Owned	
	Number ⁽¹⁾	% ⁽²⁾
Robin Yanhong Li ⁽³⁾	5,569,715	15.9%
Jennifer Xinzhe Li ⁽⁴⁾	*	*
William Decker ⁽⁵⁾	*	*
James Ding ⁽⁶⁾	*	*
Nobuyuki Idei ⁽⁷⁾	*	*
Greg Penner ⁽⁸⁾	*	*
Dejian Liu ⁽⁹⁾	—	—
All Directors and Executive Officers as a Group ⁽¹⁰⁾	5,848,829	16.7%
Principal Shareholders:		
Handsome Reward Limited ⁽¹¹⁾	5,490,000	15.7%
Baillie Gifford & Co (Scottish partnership) ⁽¹²⁾	2,563,477	7.3%

* Less than 1% of our total outstanding Class A ordinary shares and Class B ordinary shares.

- (1) The number of shares beneficially owned by each named director and executive officer includes the shares beneficially owned by such person, the shares underlying all options held by such person that have vested or will vest within 60 days after February 28, 2014, and restricted shares held by such person that will vest within 60 days after February 28, 2014. The options and restricted shares were granted under our 2000 option plan or 2008 share incentive plan.
- (2) Percentage of beneficial ownership of each named director and executive officer is based on 35,036,446 ordinary shares (consisting of 27,518,525 Class A ordinary shares and 7,517,921 Class B ordinary shares) of our company outstanding as of February 28, 2014, the number of ordinary shares underlying options that have vested or will vest within 60 days after February 28, 2014, and the number of restricted shares that will vest within 60 days after February 28, 2014, each as held by such person as of that date.
- (3) Includes (i) 37,665 Class A Ordinary Shares directly held by Mr. Li on record; (ii) 20,460 Class A ordinary shares in the form of ADSs held in the brokerage account of the administrator of the issuer’s employee stock option program; (iii) 2,244 restricted Class A Ordinary Shares that have vested as of February 28, 2014; (iv) 19,346 Class A Ordinary Shares issuable upon exercise of options within 60 days after the date of February 28, 2014; and (v) 5,490,000 Class B Ordinary Shares held by Handsome Reward Limited, a British Virgin Islands company wholly owned and controlled by Mr. Li, and excludes 1,576,667 Class B Ordinary Shares held by Melissa Ma, Mr. Li’s wife, of which Mr. Li disclaims beneficial ownership. The business address of Mr. Li is c/o Baidu, Inc., Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC.
- (4) The business address of Ms. Li is c/o Baidu, Inc., Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC.
- (5) The address of Mr. Decker is 24 Nordic Way, Saranac Lake, New York 12983, U.S.A.
- (6) The business address of Mr. Ding is 4/F, Zhongdian Information Tower No. 6 Zhongguancun South Street, Haidian District, Beijing 100086, PRC.
- (7) The business address of Mr. Idei’s address is Tokyo Ginko Kyoukai Building 16F, 1-3-1, Marunouchi, Chiyoda-ku, Tokyo, 100-0005, Japan.
- (8) The business address of Mr. Penner is 3000 Sand Hill Road, Building 1, Suite 150, Menlo Park, California 94025, U.S.A.
- (9) The business address of Mr. Liu is 58 Hot Spring Branch Road, Fuzhou, Fujian 350001, PRC.
- (10) Includes ordinary shares, ordinary shares issuable upon exercise of options and restricted shares, held by all of our directors and executive officers as a group.
- (11) Represents 5,490,000 Class B ordinary shares held by Handsome Reward Limited, a British Virgin Island company wholly owned and controlled by Mr. Robin Yanhong Li. The business address of Handsome Reward Limited is c/o Robin Yanhong Li, Baidu, Inc., Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC.
- (12) Represents 2,563,477 Class A ordinary shares in the form of ADSs held by Baillie Gifford & Co (Scottish partnership), as reported on Schedule 13G filed by Baillie Gifford & Co (Scottish partnership) on January 17, 2014. The percentage of beneficial ownership was calculated based on the total number of our ordinary shares outstanding as of February 28, 2014. The address of Baillie Gifford & Co (Scottish partnership) is Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland, UK.

Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares are entitled to one vote per share, while holders of Class B ordinary shares are entitled to ten votes per share. We issued Class A ordinary shares represented by our ADSs in our initial public offering in 2005. Holders of our Class B ordinary shares may choose to convert their Class B ordinary shares into the same number of Class A ordinary shares at any time. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company. See “Item 3.D. Key Information—Risk Factors—Risks

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Related to Our ADSs—Our dual-class ordinary share structure with different voting rights could discourage others from pursuing any change of control transactions that holders of our Class A ordinary shares and ADSs may view as beneficial.”

As of February 28, 2014, 35,036,446 of our ordinary shares were issued and outstanding. To our knowledge, approximately 79.0% of our total outstanding ordinary shares were held by four record shareholders in the United States, including approximately 78.1% held by The Bank of New York Mellon, the depository of our ADS program. The number of beneficial owners of our ADSs in the United States is likely to be much larger than the number of record holders of our ordinary shares in the United States.

Item 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

Please refer to “Item 6.E. Directors, Senior Management and Employees—Share Ownership.”

B. Related Party Transactions

See “Item 4.C. Information on the Company—Organizational Structure—Contractual Arrangements with Our Consolidated Affiliated Entities and the Nominee Shareholders.”

Our subsidiaries, consolidated affiliated entities, and the subsidiaries of the consolidated affiliated entities have engaged, during the ordinary course of business, in a number of customary transactions with each other. All of these inter-company balances have been eliminated in consolidation.

As of December 31, 2013, we had RMB371.0 million (US\$61.3 million) due from related parties, which primarily represents the borrowings provided by us to one noncontrolling shareholder of an acquired subsidiary, which were unsecured and repayable on contract terms, and arose in the ordinary course of business. The amount outstanding as of March 28, 2014 was RMB0.1 million (US\$17.2 thousand).

As of December 31, 2013, we had RMB373.6 million (US\$61.7 million) due to related parties, which primarily represents unsecured and interest free loans provided by a noncontrolling shareholder of an acquired subsidiary, which arose in the ordinary course of business. The amount outstanding as of March 28, 2014 was RMB0.4 million (US\$65.7 thousand).

Share Options and Restricted Shares Grants

Please refer to “Item 6.B. Directors, Senior Management and Employees—Compensation.”

C. Interests of Experts and Counsel

Not applicable.

Item 8. Financial Information

A. Consolidated Statements and Other Financial Information

We have appended consolidated financial statements filed as part of this annual report.

Legal Proceedings

From time to time, we have been involved in litigation or other disputes regarding, among other things, copyright and trademark infringement, defamation, unfair competition and labor disputes. Our search results

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provide links to materials, and our Baidu WenKu, Baidu Post Bar, Baidu Media Player, Baidu Video Search, iQiyi and certain other products or services may contain materials, in which others may allege to own copyrights, trademarks or image rights or which others may claim to be defamatory or objectionable. We have received notice letters from third parties asserting copyright infringement, unfair competition, defamation, breach of contract and labor-related claims against us.

In September 2011, three Chinese writers filed 16 complaints against us before the Haidian District People's Court in Beijing, alleging that our Baidu WenKu had infringed upon their copyrights to certain literary works. In December 2011, the plaintiffs withdrew their complaints. However, in January 2012, the writers re-filed their complaints for the same claims with the Haidian District People's Court in Beijing, seeking compensation in an aggregate amount of RMB1.9 million (US\$0.3 million). The Haidian District People's Court in Beijing issued rulings for these cases in September 2012. The court held in seven of these cases that we "should have known" the files uploaded by users to Baidu WenKu infringed upon the plaintiffs' copyrights and failed to take necessary actions to remove the infringing content immediately despite the plaintiffs' notification of the infringement and request to remove the infringing content, and ordered us to pay for the plaintiffs' damages in an aggregate amount of approximately RMB0.2 million (US\$28.6 thousand). The court held in these seven cases that we would have been exempted from liabilities if we had removed the infringing content immediately upon the receipt of the warning and removal request from the copyright holders. The court dismissed all plaintiffs' claims in the other cases. None of the parties has filed any appeals.

In 2013, 125 complaints were filed against Baidu Netcom before various courts in China alleging that our Baidu Video Search had infringed various copyrights. The aggregate amount of the damages sought in these 125 complaints totals approximately RMB16.9 million (US\$2.8 million). 37 of these cases are still pending. The other cases are closed, and the aggregate amount of compensation awarded by the courts to the plaintiffs in our lost cases is approximately RMB0.7 million (US\$0.1 million).

As of December 31, 2013, we were involved in 210 cases pending in various PRC and U.S. courts. The aggregate amount of compensation sought under these cases is approximately RMB724.6 million (US\$119.7 million).

For many of these legal proceedings, we are currently unable to estimate the reasonably possible loss or a range of reasonably possible loss as the proceedings are in the early stages, or there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. As a result, there is considerable uncertainty regarding the timing or ultimate resolution of such proceedings, which includes eventual loss, fine, penalty or business impact, if any, and therefore, an estimate for the reasonably possible loss or a range of reasonably possible loss cannot be made. With respect to the limited number of proceedings for which we are able to estimate the reasonably possible loss or the range of reasonably possible loss, such estimates are immaterial. However, we believe that such proceedings, individually and in the aggregate, when finally resolved, are not reasonably likely to have a material and adverse effect on our results of operations, financial position and cash flows.

Dividend Policy

Baidu, Inc, our holding company in the Cayman Islands, has never declared or paid any dividends on our ordinary shares, nor do we have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our board of directors has complete discretion as to whether to distribute dividends. Even if our board of directors decides to pay dividends, the form, frequency and amount of our dividends will depend upon our future operations and earnings, capital requirements and surplus, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. If we pay any dividends, we will pay our ADS holders to

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the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

B. Significant Changes

Except as disclosed elsewhere in this annual report, we have not experienced any significant changes since the date of our audited consolidated financial statements included in this annual report.

Item 9. The Offer and Listing

A. Offering and Listing Details

Our ADSs have been listed on The NASDAQ Global Market since August 5, 2005. Our ADSs currently trade on The NASDAQ Global Select Market under the symbol "BIDU." Prior to May 12, 2010, one ADS represented one Class A ordinary share. On May 12, 2010, we effected a change of the ADS to Class A ordinary share ratio from 1 ADS representing 1 Class A ordinary share to 10 ADSs representing 1 Class A ordinary share. The ratio change has the same effect as a 10-for-1 ADS split.

The following table provides the high and low trading prices for our ADSs on NASDAQ for (i) the years 2009, 2010, 2011, 2012 and 2013, (ii) each of the four quarters of 2012 and 2013, and (iii) each of the past six full months. For ease of comparison, the ADS prices before May 12, 2010 have been retroactively adjusted to reflect the ADS to Class A ordinary share ratio change that took effect on May 12, 2010.

	Trading Price	
	High	Low
Annual Highs and Lows		
2009	44.33	10.50
2010	115.04	38.47
2011	165.96	97.58
2012	154.15	85.96
2013	181.25	82.98
Quarterly Highs and Lows		
First Quarter 2012	154.15	117.17
Second Quarter 2012	152.85	107.50
Third Quarter 2012	134.71	99.71
Fourth Quarter 2012	116.80	85.96
First Quarter 2013	114.88	83.31
Second Quarter 2013	103.61	82.98
Third Quarter 2013	155.80	88.89
Fourth Quarter 2013	181.25	141.52
Monthly Highs and Lows		
September 2013	155.80	132.31
October 2013	169.75	141.52
November 2013	169.55	142.70
December 2013	181.25	163.31
January 2014	185.50	155.21
February 2014	180.48	148.60
March 2014 (through March 27, 2014)	189.34	144.16

B. Plan of Distribution

Not applicable.

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C. Markets

Our ADSs have been listed on NASDAQ since August 5, 2005 under the symbol “BIDU.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

Item 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The following are summaries of material provisions of our third amended and restated memorandum and articles of association, as well as the Companies Law (2013 Revision) insofar as they relate to the material terms of our ordinary shares.

Registered Office and Objects

The Registered Office of our company is at the offices of Maples Corporate Services Limited, PO Box 309, Umland House, Grand Cayman, KY1-1104, Cayman Islands or at such other place as our board of directors may from time to time decide. The objects for which our company is established are unrestricted and we have full power and authority to carry out any object not prohibited by the Companies Law (2013 Revision), as amended from time to time, or any other law of the Cayman Islands.

Board of Directors

See “Item 6.C. Board Practices—Board of Directors.”

Ordinary Shares

General. Our ordinary shares are divided into Class A ordinary shares and Class B ordinary shares. Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. All of our outstanding ordinary shares are fully paid and non-assessable. Certificates representing the ordinary shares are issued in registered form. Our shareholders who are nonresidents of the Cayman Islands may freely hold and vote their shares.

Dividends. The holders of our ordinary shares are entitled to such dividends as may be declared by our board of directors subject to the Companies Law.

Conversion. Each Class B ordinary share is convertible into one Class A ordinary share at any time by the holder thereof. Class A ordinary shares are not convertible into Class B ordinary shares under any circumstances.

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Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity which is not an affiliate of such holder (as defined in our articles of incorporation), such Class B ordinary shares shall be automatically and immediately converted into the equal number of Class A ordinary shares. In addition, if at any time our chairman and chief executive officer, Robin Yanhong Li, and his affiliates collectively own less than 5% of the total number of the issued and outstanding Class B ordinary shares, each issued and outstanding Class B ordinary share shall be automatically and immediately converted into one share of Class A ordinary share, and we shall not issue any Class B ordinary shares thereafter.

Voting Rights. All of our shareholders have the right to receive notice of shareholders' meetings and to attend, speak and vote at such meetings. In respect of matters requiring shareholders' vote, each Class A ordinary share is entitled to one vote, and each Class B ordinary share is entitled to 10 votes. A shareholder may participate at a shareholders' meeting in person, by proxy or by telephone conference or other communications equipment by means of which all the shareholders participating in the meeting can communicate with each other. At any shareholders' meeting, a resolution put to the vote of the meeting shall be decided on a poll conducted by the chairman of the meeting.

A quorum for a shareholders' meeting consists of one or more shareholders holding at least one third of the paid up voting share capital present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. We shall, if required by the Companies Law, hold a general meeting of shareholders as our annual general meeting and shall specify the meeting as such in the notices calling it. Our board of directors may call extraordinary general meetings, and they must on shareholders' requisition convene an extraordinary general meeting. A shareholder requisition is a requisition of shareholders holding at the date of deposit of the requisition not less than a majority of the voting power represented by the issued shares of our company as at that date carries the right of voting at general meetings of our company. Advance notice of at least five days is required for the convening of our annual general meeting and other shareholders' meetings.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes attaching to the ordinary shares cast in a general meeting, while a special resolution requires the affirmative vote of no less than two-thirds of the votes cast attaching to the ordinary shares cast in a general meeting. A special resolution is required for matters such as a change of name. Holders of the ordinary shares may effect certain changes by ordinary resolution, including consolidating and dividing all or any of our share capital into shares of larger amount than our existing share capital and canceling any shares.

Transfer of Shares. Subject to the restrictions of our memorandum and articles of association, as applicable, any of our shareholders may transfer any or all of his or her ordinary shares by an instrument of transfer in the usual or common form or any other form approved by our board of directors.

Our board of directors may, in their absolute discretion (except with respect to a transfer from a shareholder to its affiliate(s)), decline to register any transfer of shares without assigning any reason thereof. If our board of directors refuses to register a transfer they shall notify the transferee within two months of such refusal. Notwithstanding the foregoing, if a transfer complies with the holder's transfer obligations and restrictions set forth under applicable law (including but not limited to U.S. securities law provisions related to insider trading) and our articles of association, our board of directors shall promptly register such transfer. Further, any director is authorized to confirm in writing addressed to the registered office to authorize a share transfer and to instruct that the register of members be updated accordingly, provided that the transfer complies with the holder's transfer obligations and restrictions set forth under applicable law and our articles of association and such holder is not the director who authorizes the transfer or an entity affiliated with such director. Any director is authorized to execute a share certificate in respect of such shares for and on behalf of our company.

The registration of transfers may be suspended at such time and for such periods as our board of directors may from time to time determine, provided, however, that the registration of transfers shall not be suspended for more than 45 days in any year.

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Liquidation. On a return of capital on winding up or otherwise (other than on conversion, redemption or purchase of shares), assets available for distribution among the holders of ordinary shares may be distributed among the holders of the ordinary shares as determined by the liquidator, subject to sanction of a special resolution of our company. If our assets available for distribution are insufficient to repay all of the paid-up capital, the assets will be distributed so that the losses are borne by our shareholders proportionately to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by such shareholders respectively.

Calls on Shares and Forfeiture of Shares. Our board of directors may from time to time make calls upon shareholders for any amounts unpaid on their shares in a notice served to such shareholders at least 14 days prior to the specified time and place of payment. The shares that have been called upon and remain unpaid on the specified time are subject to forfeiture.

Redemption of Shares. Subject to the provisions of the Companies Law and our articles of association, we may issue shares on terms that are subject to redemption, at our option or at the option of the holders, on such terms and in such manner as our board of directors may determine.

Repurchase of Shares. Subject to the provisions of the Companies Law and our articles of association, our board of directors may authorize repurchase of our shares in accordance with the manner of purchase specified in our articles of association without seeking shareholder approval.

Variations of Rights of Shares. All or any of the special rights attached to any class of shares may, subject to the provisions of the Companies Law, be varied either with the written consent of the holders of a majority of the issued shares of that class or with the sanction of a special resolution passed at a general meeting of the holders of the shares of that class.

Inspection of Books and Records. No holders of our ordinary shares who is not a director shall have any right of inspecting any of our accounts, books or documents except as conferred by the Companies Law or authorized by the directors or by us in general meeting. However, we will make this annual report, which contains our audited financial statements, available to shareholders and ADS holders. See “Item 10.H. Additional Information—Documents on Display.”

Preferred Shares

Our board of directors has the authority, without shareholder approval, to issue up to a total of 10,000,000 shares of preferred shares in one or more series. Our board of directors may establish the number of shares to be included in each such series and may set the designations, preferences, powers and other rights of the shares of a series of preferred shares. While the issuance of preferred shares provides us with flexibility in connection with possible acquisitions or other corporate purposes, it could, among other things, have the effect of delaying, deferring or preventing a change of control transaction and could adversely affect the market price of our ADSs. We have no current plan to issue any preferred shares.

C. Material Contracts

We have not entered into any material contracts other than in the ordinary course of business and other than those described in “Item 4. Information on the Company” or elsewhere in this annual report on Form 20-F.

D. Exchange Controls

See “Item 4.B. Information on the Company—Business Overview—Regulation—Regulations on Foreign Exchange.”

E. Taxation

The following summary of the material Cayman Islands, People's Republic of China 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 deal with all possible tax consequences relating to an investment in our ADSs or ordinary shares, such as the tax consequences under state, local and other tax laws.

Cayman Islands Taxation

According to Maples and Calder, our Cayman Islands counsel, 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. There are no other taxes likely to be material to us levied by the Government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or brought within, the jurisdiction of the Cayman Islands. The Cayman Islands is not party to any double tax treaties that are applicable to any payments made to or by our company. There are no exchange control regulations or currency restrictions in the Cayman Islands.

People's Republic of China Taxation

If we are considered a PRC resident enterprise under the EIT Law, our shareholders and ADS holders who are deemed non-resident enterprises may be subject to the 10% EIT on the dividends payable by us or any gains realized from the transfer of our shares or ADSs, if such income is deemed derived from China, provided that (i) such foreign enterprise investor has no establishment or premises in China, or (ii) it has establishment or premises in China but its income derived from China has no real connection with such establishment or premises. Furthermore, if we are considered a PRC resident enterprise and relevant PRC tax authorities consider the dividends we pay with respect to our shares or ADSs and the gains realized from the transfer of our shares or ADSs to be income derived from sources within the PRC, it is also possible that such dividends and gains earned by non-resident individuals may be subject to the 20% PRC individual income tax. It is uncertain whether, if we are considered a PRC resident enterprise, holders of our shares or ADSs would be able to claim the benefit of tax treaties or arrangements entered into between China and other jurisdictions.

If we are required under the PRC tax law to withhold PRC income tax on our dividends payable to our non-PRC resident shareholders and ADS holders, or if any gains realized from the transfer of our shares or ADSs by our non-PRC resident shareholders and ADS holders are subject to the EIT or the individual income tax, your investment in our shares or ADSs could be materially and adversely affected.

United States Federal Income Taxation

The following discussion describes certain U.S. federal income tax considerations under present law of the purchase, ownership and disposition of the ADSs or ordinary shares. This summary applies only to investors that are U.S. Holders (as defined below) and that hold the ADSs or ordinary shares as capital assets. This discussion is based on the tax laws of the United States as in effect on the date of this annual report on Form 20-F and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this annual report on Form 20-F, as well as judicial and administrative interpretations thereof 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 considerations described below.

The following discussion does not deal with the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- financial institutions;

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- insurance companies;
- broker dealers;
- persons that elect to mark their securities to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- regulated investment companies;
- certain expatriates or former long-term residents of the United States;
- governments or agencies or instrumentalities thereof;
- persons holding an ADS or ordinary share as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of our voting shares;
- persons whose functional currency is other than the U.S. dollar; or
- persons who acquired ADSs or ordinary shares pursuant to the exercise of any employee share option or otherwise as consideration.

U.S. Holders are urged to consult their tax advisors about the application of the U.S. federal tax rules to their particular circumstances as well as the state and local and foreign tax consequences to them of the purchase, ownership and disposition of ADSs or ordinary shares.

The discussion below of the U.S. federal income tax consequences will apply if you are a “U.S. Holder.” You are a “U.S. Holder” if you are the beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

- a citizen or individual resident of the United States;
- a corporation (or other entity subject to tax as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States, any State or the District of Columbia;
- an estate whose income is subject to U.S. federal income taxation regardless of its source; or
- a trust that (i) is subject to the supervision of a court within the United States and the control of one or more United States persons or (ii) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a United States person.

This discussion does not consider the tax treatment of partnerships or other pass-through entities that hold the ADSs or ordinary shares, or of persons who hold the ADSs or ordinary shares through such entities. If a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) is the beneficial owner of the ADSs or ordinary shares, the U.S. federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership.

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 will be complied with in accordance with their terms. If you hold ADSs, you will be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

This discussion does not address any aspect of U.S. federal non-income tax laws, such as gift or estate tax laws, or state, local or non-U.S. tax laws. We have not sought, and will not seek, a ruling from the Internal Revenue Service (the “IRS”), or an opinion as to any U.S. federal income tax consequence described herein. The IRS may disagree with the discussion herein, and its determination may be upheld by a court.

Taxation of Dividends and Other Distributions on the ADSs or Ordinary Shares

Subject to the passive foreign investment company rules discussed below, the gross amount of all our distributions to you with respect to the ADSs or ordinary shares will be included in your gross income as dividend income on the date of receipt by the depository, in the case of ADSs, or by you, 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 (computed under U.S. federal income tax principles). Because we do not intend to determine our earnings and profits on the basis of U.S. federal income tax principles, any distribution paid will generally be treated as a “dividend” for U.S. federal income tax purposes. Dividends paid by us will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from U.S. corporations.

With respect to non-corporate U.S. Holders (including individual U.S. Holders), dividends may be taxed at the lower applicable capital gains rate provided that (i) the ADSs or ordinary shares are readily tradable on an established securities market in the United States or we are eligible for the benefit of the income tax treaty between the United States and the PRC, (ii) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year, (iii) certain holding period requirements are met, and (iv) such non-corporate U.S. Holders are not under an obligation to make related payments with respect to positions in substantially similar or related property. For this purpose, ADSs listed on the NASDAQ Global Select Market will generally be considered to be readily tradable on an established securities market in the United States. You should consult your tax advisor regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares.

For U.S. foreign tax credit purposes, dividends paid on the ADSs or ordinary shares generally will be treated as income from foreign sources and generally will constitute passive category income. If PRC withholding taxes apply to dividends paid to you with respect to the ADSs or ordinary shares, you may be able to obtain a reduced rate of PRC withholding taxes under the income tax treaty between the United States and the PRC if certain requirements are met. In addition, subject to certain conditions and limitations, PRC withholding taxes on dividends may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. If you do not elect to claim a foreign tax credit, you may instead claim a deduction for U.S. Holders federal income tax purposes in respect of such withholding, but only for a year in which you elect to do so for all creditable foreign income taxes. You should consult your tax advisor regarding the creditability of any PRC tax.

Sale, Exchange or Other Disposition of the ADSs or ordinary shares

Subject to the passive foreign investment company rules discussed below, you will recognize 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 your tax basis in the ADS or ordinary share. The gain or loss will generally be capital gain or loss. If you are 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, you will generally be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognize will generally be treated as U.S. source income or loss (in the case of losses, subject to certain limitations). However, in the event we are deemed to be a PRC “resident enterprise” under PRC tax law, we may be eligible for the benefits of the income tax treaty between the United States and the PRC. In such event, if PRC tax were to be imposed on any gain from the disposition of the ADSs or ordinary shares, 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 such gain as PRC source income. U.S. Holders should consult their own tax advisors regarding the creditability of any PRC tax.

Passive Foreign Investment Company

Based on the market price of our ADSs and ordinary shares, the value of our assets, and the composition of our assets and income, we believe that we were not a “passive foreign investment company,” or “PFIC,” for our

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taxable year ended December 31, 2013 and we do not expect to be a PFIC for our taxable year ending December 31, 2014 or for the foreseeable future. However, our PFIC status for the current taxable year ending December 31, 2014 will not be determinable until its close, and, accordingly, there is no guarantee that we will not be a PFIC for the current taxable year (or any future 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 (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”).

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, more than 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. In particular, because the total value of our assets for purposes of the asset test will generally be calculated using the market price of the ADSs and ordinary shares, our PFIC status will depend in large part on the market price of the ADSs and ordinary shares, which may fluctuate considerably. Accordingly, fluctuations in the market price of the ADSs and ordinary shares may result in our being a PFIC for any year. If we are a PFIC for any year during which you hold the ADS or ordinary shares, we will generally continue to be treated as a PFIC for all succeeding years during which you hold such ADS or ordinary shares. However, if we cease to be a PFIC, provided that you have not made a mark-to-market election, as described below, you may avoid some of the adverse effects of the PFIC regime by making a deemed sale election with respect to the ADSs or ordinary shares, as applicable.

If we are a PFIC for any taxable year during which you hold ADSs or ordinary shares, you will be subject to special tax rules with respect to any “excess distribution” that you receive and any gain you realize from a sale or other disposition (including a pledge) of the ADSs or ordinary shares, unless you make a “mark-to-market” election as discussed below. Distributions you receive in a taxable year that are greater than 125% of the average annual distributions you received during the shorter of the three preceding taxable years or your holding period for the ADSs or ordinary shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the ADSs or ordinary shares,
- 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 of the other taxable years would be subject to tax at the highest rate of tax in effect for you for such year and would be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to each such other 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 the ADSs or ordinary shares cannot be treated as capital, even if you hold the ADSs or ordinary shares as capital assets.

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. If you make a valid mark-to-market election for the ADSs or ordinary shares, you will 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 your taxable year over your adjusted basis in such ADSs or ordinary shares. You are 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. Such deductions, however, are allowable only to the extent of any net mark-to-

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market gains on the ADSs or ordinary shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the ADSs or ordinary shares, are treated as ordinary income. Ordinary loss treatment also applies 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. Your basis in the ADSs or ordinary shares will be adjusted to reflect any such income or loss amounts. If you make such a mark-to-market election, tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us (except that the lower applicable capital gains rate would not apply).

The mark-to-market election is available only for “marketable stock” which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter, or “regularly traded,” on a qualified exchange or other market, as defined in applicable Treasury regulations. We expect that the ADSs will continue to be listed on the NASDAQ Global Select Market, which is a qualified exchange for these purposes, and, consequently, assuming that the ADSs are regularly traded, if you are a holder of ADSs, it is expected that the mark-to-market election would be available to you were we to become a PFIC.

Because, as a technical matter, a mark-to-market election cannot be made for any lower-tier PFICs that we may own, a U.S. Holder may continue to be subject to the general PFIC rules described above with respect to such U.S. Holder’s indirect interest in any investments held by us that are treated as an equity interest in a PFIC for United States federal income tax purposes.

Alternatively, a U.S. Holder may avoid the PFIC tax consequences described above in respect to its ADSs and ordinary shares by making a timely “qualified electing fund,” or QEF, election. In order to comply with the requirements of a QEF election, a U.S. Holder must receive certain information from us. Because we do not intend to provide such information, however, such election will not be available to you with respect to the ADSs or ordinary shares.

If you hold ADSs or ordinary shares in any year in which we are a PFIC, you will be required to file an annual information report containing such information as the U.S. Treasury may require.

You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in ADSs or ordinary shares.

Medicare Tax

An additional 3.8% tax is imposed on a portion or all of the net investment income of certain individuals with a modified adjusted gross income of over \$200,000 (or \$250,000 in the case of joint filers or \$125,000 in the case of married individuals filing separately) and on the undistributed net investment income of certain estates and trusts. For these purposes, “net investment income” generally includes interest, dividends (including dividends paid with respect to the ADSs or ordinary shares), annuities, royalties, rents, net gain attributable to the disposition of property not held in a trade or business (including net gain from the sale, exchange or other taxable disposition of an ADS or ordinary share) and certain other income, reduced by any deductions properly allocable to such income or net gain. U.S. Holders are urged to consult their tax advisors regarding the applicability of this tax to their income and gains in respect of an investment in the ADSs or ordinary shares.

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 IRS and possible U.S. backup withholding. Backup withholding will not apply to you, however, if you furnish a correct taxpayer identification number and make any other required certification or that are otherwise exempt from backup

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withholding. U.S. Holders that are required to establish their exempt status generally must provide such certification on IRS Form W-9. You should consult your tax advisor regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding can be credited against your U.S. federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

Individual U.S. Holders and certain entities may be required to submit to the IRS certain information with respect to his or her beneficial ownership of the ADSs or ordinary shares, if such ADSs or ordinary shares are not held on his or her behalf by a financial institution. This law also imposes penalties if an individual U.S. Holder is required to submit such information to the IRS and fails to do so.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We previously filed with the SEC our registration statement on Form F-1, as amended and prospectus under the Securities Act of 1933, with respect to our ordinary shares. We have also previously filed with the SEC our registration statement on Form F-3 with respect to the sale of debt securities by our company on a continuous basis, a prospectus under the Securities Act with respect to our issuance of US\$1.5 billion senior unsecured notes in two equal tranches, due in 2017 and 2022 with stated interest rates of 2.25% and 3.50%, respectively, and a prospectus under the Securities Act with respect to our issuance of US\$1.0 billion senior unsecured notes due in 2018 with stated interest rates of 3.25%.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act. Under the Exchange Act, we are required to file reports and other information with the SEC. Specifically, we are required to file annually a Form 20-F within four months after the end of each fiscal year, which is December 31. 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 Commission 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.

We will furnish The Bank of New York Mellon, the depository of our ADSs, with our annual reports, which will include a review of operations and annual audited consolidated financial statements prepared in conformity with U.S. GAAP, and all notices of shareholders' meetings and other reports and communications that are made generally available to our shareholders. The depository will make such notices, reports and communications available to holders of ADSs and, upon our request, will mail to all record holders of ADSs the information contained in any notice of a shareholders' meeting received by the depository from us.

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In accordance with NASDAQ Stock Market Rule 5250(d), we will post this annual report on Form 20-F on our website at <http://ir.baidu.com>. In addition, we will provide hardcopies of our annual report free of charge to shareholders and ADS holders upon request.

I. Subsidiary Information

Not applicable.

Item 11. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to excess cash invested in short-term instruments with original maturities of less than a year. Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we have to sell securities which have declined in market value due to changes in interest rates. We have not been, and do not expect to be, exposed to material interest rate risks, and therefore have not used any derivative financial instruments to manage our interest risk exposure.

We had RMB28.7 billion (US\$4.7 billion) short-term investments as of December 31, 2013, with a weighted average duration of approximately 0.38 years. A hypothetical one percentage point (100 basis-point) increase in interest rates would have resulted in a decrease of approximately RMB106.8 million (US\$17.6 million) in the fair value of these short-term investments as of December 31, 2013.

Foreign Exchange Risk

Most of our revenues and costs are denominated in RMB, while a portion of our cash and cash equivalents and short-term financial assets are denominated in U.S. dollars and held by our Cayman Islands holding company. Our exposure to foreign exchange risk primarily relates to those financial assets denominated in U.S. dollars. Any significant revaluation of RMB against the U.S. dollar may materially affect our earnings and financial position, and the value of, and any dividends payable on, our ADS in U.S. dollars. See “Item 3.D. Key Information—Risk Factors—Risks Related to Doing Business in China—Fluctuation in the value of the RMB may have a material and adverse effect on your investment.” In addition, we commenced operation in Japan in late 2007. To the extent we need to make capital injections into our Japan operation by converting U.S. dollars into Japanese Yen, we will be exposed to the fluctuations in the exchange rate between the U.S. dollar and the Japanese Yen. We have not hedged exposures denominated in foreign currencies using any derivative financial instruments.

The RMB appreciated by 2.9% against the U.S. dollar in 2013. A hypothetical 10% decrease in the exchange rate of the U.S. dollar against the RMB would have resulted in a decrease of RMB489.6 million (US\$80.9 million) in the value of our U.S. dollar-denominated financial assets at December 31, 2013.

Item 12. Description of Securities Other than Equity Securities

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

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C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and Charges Our ADS holders May Have to Pay

The Bank of New York Mellon, the depositary of our ADS program, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deductions from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid. The depositary's corporate trust office at which the ADSs will be administered is located at 101 Barclay Street, New York, New York 10286. The depositary's principal executive office is located at One Wall Street, New York, New York 10286.

Persons depositing or withdrawing shares must pay:

US\$5.00 (or less) per 1,000 ADSs (or portion of 1,000 ADSs)

US\$0.02 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed had been shares and the shares had been deposited for issuance of ADSs

US\$0.02 (or less) per ADS per calendar year (if the depositary has not collected any cash distribution fee during that year)

Expenses of the depositary

Registration or transfer fees

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

Any charges incurred by the depositary or its agents for servicing the deposited securities

For:

- Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property
- Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
- Any cash distribution to registered ADS holders
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to registered ADS holders
- Depositary services
- Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
- Converting foreign currency to U.S. dollars
- 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
- As necessary
- As necessary

Fees and Other Payments Made by the Depositary to Us

The depositary has agreed to reimburse us annually for our expenses incurred in connection with investor relationship programs and any other program related to our ADS facility and the travel expense of our key personnel in connection with such programs. The depositary has also agreed to provide additional payments to us based on the applicable performance indicators relating to our ADS facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to us is not necessarily tied to the amount of fees the depositary collects from investors. In 2014, we expect to receive approximately US\$4.0 million (after tax) reimbursement from the depositary for our expenses incurred in connection with investor relationship programs related to the ADS facility and the travel expense of our key personnel in connection with such programs.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds

None.

Item 15. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, has performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this report, as required by Rule 13a-15(b) under the Exchange Act.

Based upon that evaluation, our management has concluded that, as of December 31, 2013, our disclosure controls and procedures were effective in ensuring that the information required to be disclosed by us in the reports that we file and furnish under the Exchange Act was recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's 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 Rule 13a-15(f) under the Exchange Act. Our management evaluated the effectiveness of our internal control over financial reporting, as required by Rule 13a-15(c) of the Exchange Act, based on criteria established in the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of 91 Wireless Websoft Limited, which is included in the 2013 consolidated financial statements of Baidu, Inc. and constituted RMB11.9 billion (US\$2.0 billion) and RMB11.3 billion (US\$1.9 billion) of total and net assets, respectively, as of December 31, 2013 and RMB259.8 million (US\$42.9 million) and RMB27.8 million (US\$4.6 million) of revenues and net income, respectively. Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2013.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness of our internal control over financial reporting 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 and procedures may deteriorate.

Our independent registered public accounting firm, Ernst & Young Hua Ming LLP, has audited the effectiveness of our internal control over financial reporting as of December 31, 2013, as stated in its report, which appears on page F-3 of this annual report on Form 20-F.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting that occurred during the period covered by this annual report on Form 20-F that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Item 16A. Audit Committee Financial Expert

Our board of directors has determined that Mr. William Decker, an independent director (under the standards set forth in NASDAQ Stock Market Rule 5605(a)(2) and Rule 10A-3 under the Exchange Act) and member of our audit committee, is an audit committee financial expert.

Item 16B. Code of Ethics

Our board of directors adopted a code of business conduct and ethics that applies to our directors, officers, employees and advisors in July 2005. We have posted a copy of our code of business conduct and ethics on our website at <http://ir.baidu.com>.

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 Ernst & Young Hua Ming LLP, our principal external auditors, for the periods indicated.

	2012	2013
Audit fees ⁽¹⁾	US\$ 1,874,270	US\$ 3,444,858
Audit-related fees ⁽²⁾	US\$ 85,688	—
Tax fees ⁽³⁾	US\$ 11,139	US\$ 46,146
All other fees ⁽⁴⁾	—	US\$ 2,153

(1) "Audit fees" means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements and assistance with and review of documents filed with the SEC. In 2012 and 2013, the audit refers to financial audit and audit pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

(2) "Audit-related fees" means fees billed in year 2012 for professional services rendered by our principal auditors associated with certain due diligence projects.

(3) "Tax fees" means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance, tax advice, and tax planning. In 2012 and 2013, the tax fees refer to fees paid to our principal auditors for reviewing the compliance of our tax documentation and providing tax advices.

(4) "All other fees" means the aggregate fees billed in 2013 for our subscription of certain U.S. GAAP reading materials from our principal auditors.

All audit and non-audit services provided by our independent auditors must be pre-approved by our audit committee. Our audit committee has adopted a combination of two approaches in pre-approving proposed services: general pre-approval and specific pre-approval. With general approval, proposed services are pre-approved without consideration of specific case-by-case services; with specific approval, proposed services require the specific pre-approval of the audit committee. Unless a type of service has received general pre-approval, it will require specific pre-approval by our audit committee. Any proposed services exceeding pre-approved cost levels or budgeted amounts will also require specific pre-approval by our audit committee.

All requests or applications for services to be provided by our independent auditors that do not require specific approval by our audit committee will be submitted to our chief financial officer and must include a detailed description of the services to be rendered. The chief financial officer will determine whether such services are included within the list of services that have received the general pre-approval of the audit committee. The audit committee will be informed on a timely basis of any such services. Requests or applications to provide services that require specific approval by our audit committee will be submitted to the audit committee by both our independent auditors and our chief financial officer and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not applicable.

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Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

Item 16F. Change in Registrant's Certifying Accountant

Not applicable.

Item 16G. Corporate Governance

NASDAQ Stock Market Rule 5620 requires each issuer to hold an annual meeting of shareholders no later than one year after the end of the issuer's fiscal year-end. However, NASDAQ Stock Market Rule 5615(a)(3) permits foreign private issuers like us to follow "home country practice" in certain corporate governance matters. Maples and Calder, our Cayman Islands counsel, has provided a letter to the NASDAQ Stock Market certifying that under Cayman Islands law, we are not required to hold annual shareholder meetings every year. We follow home country practice with respect to annual meetings and did not hold an annual meeting of shareholders in 2013. We may, however, hold annual shareholder meetings in the future if there are significant issues that require shareholders' approvals.

Other than the annual meeting practice described above, there are no significant differences between our corporate governance practices and those followed by U.S. domestic companies under NASDAQ Stock Market Rules.

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 Baidu, Inc., its subsidiaries and its consolidated affiliated entities are included at the end of this annual report.

Item 19. Exhibits

Exhibit Number	Description of Document
1.1	Third Amended and Restated Memorandum and Articles of Association of the Registrant (incorporated by reference to Exhibit 99.2 of Form 6-K furnished with the Securities and Exchange Commission on December 17, 2008)
2.1	Registrant's Specimen American Depositary Receipt (incorporated by reference to Exhibit 1 of the prospectus filed with the Securities and Exchange Commission on January 5, 2009 pursuant to Rule 424(b)(3) under the Securities Act)
2.2	Registrant's Specimen Certificate for Class A Ordinary Shares (incorporated by reference to Exhibit 4.2 of Amendment No. 5 to our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on August 2, 2005)
2.3	Form of Deposit Agreement among the Registrant, the depository and holder of the American Depositary Receipts (incorporated by reference to Exhibit 4.3 to our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
2.4	Indenture, dated November 28, 2012 between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.1 to Form 6-K furnished with the Securities and Exchange Commission on November 28, 2012)
2.5	First Supplemental Indenture dated November 28, 2012 between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on November 28, 2012)
2.6	Form of 2.250% Notes due 2017 (incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on November 28, 2012)
2.7	Form of 3.500% Notes due 2022 (incorporated by reference to Exhibit 4.2 to Form 6-K furnished with the Securities and Exchange Commission on November 28, 2012)
2.8	Second Supplemental Indenture dated August 6, 2013 between the Registrant and The Bank of New York Mellon, as trustee (incorporated by reference to Exhibit 4.5 to Form 6-K furnished with the Securities and Exchange Commission on August 6, 2013)
2.9	Form of 3.250% Notes due 2018 (incorporated by reference to Exhibit 4.6 to Form 6-K furnished with the Securities and Exchange Commission on August 6, 2013)
4.1	2000 Option Plan (amended and restated effective December 16, 2008) (incorporated by reference to Exhibit 99.3 of Form 6-K furnished with the Securities and Exchange Commission on December 17, 2008)

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.2	2008 Share Incentive Plan (incorporated by reference to Exhibit 99.4 of Form 6-K furnished with the Securities and Exchange Commission on December 17, 2008)
4.3	Form of Indemnification Agreement between the Registrant and the Registrant's directors (incorporated by reference to Exhibit 10.3 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.4	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant (incorporated by reference to Exhibit 10.4 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.5	Translation of Exclusive Technology Consulting and Services Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.6 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.6	Translation of Operating Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 99.4 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.7	Translation of Software License Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 99.5 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.8	Translation of Web Layout Copyright License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004 (incorporated by reference to Exhibit 99.8 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.9	Translation of Proxy Agreement dated August 9, 2004 among Baidu Online, Baidu Netcom, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.9 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.10	Translation of Equity Pledge Agreement dated March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.10 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.11	Translation of Exclusive Equity Purchase and Transfer Option Agreement dated March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.11 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
4.12	Translation of Loan Agreement dated as of March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 99.12 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005) and the Supplementary Agreement among Baidu Online, Baidu Netcom, Robin Yanhong Li, Eric Yong Xu and Haoyu Shen dated January 11, 2011 (incorporated by reference to Exhibit 4.16 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.13	Translation of Form of Irrevocable Powers of Attorney issued by the shareholders of Baidu Netcom (incorporated by reference to Exhibit 99.13 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.14	Translation of the form of Technology Consulting and Services Agreement between Baidu Online and a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.19 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.15	Translation of the form of Operating Agreement between Baidu Online and a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.20 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.16	Translation of the form of Web Layout Copyright License Agreement between Baidu Online and a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.21 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.17	Translation of the form of Proxy Agreement among Baidu Online, a consolidated affiliated PRC entity and the shareholders of the consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.22 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.18	Translation of the form of Equity Pledge Agreement between Baidu Online and the shareholder of a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.23 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.19	Translation of the form of Exclusive Equity Purchase and Transfer Option Agreement between Baidu Online and the shareholder of a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.24 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.20	Translation of the form of Loan Agreement between Baidu Online and the shareholder of a consolidated affiliated PRC entity (incorporated by reference to Exhibit 4.25 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on June 5, 2008)
4.21	Translation of the Supplementary Agreement to Exclusive Technology Consulting and Services Agreement dated June 23, 2006 between Baidu Online and Beijing Perusal, dated as of April 22, 2010 (incorporated by reference to Exhibit 4.25 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.22	Translation of the Operating Agreement dated June 23, 2006 between Baidu Online, Beijing Perusal, Jiping Liu and Yazhu Zhang and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.26 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.23	Translation of the Web Layout Copyright License Agreement dated June 23, 2006 between Baidu Online and Beijing Perusal (incorporated by reference to Exhibit 4.27 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.24	Translation of the Proxy Agreement dated June 23, 2006 among Jiping Liu, Yazhu Zhang and Baidu Online (incorporated by reference to Exhibit 4.28 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.25	Translation of the Amended and Restated Equity Pledge Agreements between Baidu Online and Yazhu Zhang, and between Baidu Online and Jiping Liu, both dated January 16, 2012 (incorporated by reference to Exhibit 4.29 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.26	Translation of the Amended and Restated Equity Purchase and Transfer Option Agreements between Baidu Online, Jiping Liu and Beijing Perusal, and between Baidu Online, Yazhu Zhang and Beijing Perusal, both dated January 16, 2012 (incorporated by reference to Exhibit 4.30 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.27	Translation of Irrevocable Powers of Attorney issued by Jiping Liu and Yazhu Zhang, the shareholders of Beijing Perusal, both dated June 23, 2006 (incorporated by reference to Exhibit 4.31 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.28	Translation of the Amended and Restated Loan Agreements between Baidu Online and Jiping Liu and between Baidu Online and Yazhu Zhang, both dated January 16, 2012 (incorporated by reference to Exhibit 4.32 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.29	Translation of the Technology Consulting and Services Agreement dated February 28, 2008 between Baidu Online and BaiduPay and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.33 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.30	Translation of the Operating Agreement dated February 28, 2008 between Baidu Online, BaiduPay, Jun Yu and Beijing Netcom and the supplementary agreement dated April 22, 2010 (incorporated by reference to Exhibit 4.34 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.31	Translation of the Web Layout Copyright License Agreement dated February 28, 2008 between Baidu Online and BaiduPay (incorporated by reference to Exhibit 4.35 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.32	Translation of the Proxy Agreement between Zhixiang Liang and Baidu Online, dated April 23, 2012 (incorporated by reference to Exhibit 4.33 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.33	Translation of the Equity Pledge Agreement between Baidu Online and Zhixiang Liang, dated April 23, 2012 (incorporated by reference to Exhibit 4.34 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.34	Translation of the Exclusive Equity Purchase and Transfer Option Agreement between Baidu Online, Zhixiang Liang and BaiduPay, dated April 23, 2012 (incorporated by reference to Exhibit 4.35 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.35	Translation of Irrevocable Power of Attorney issued by Zhixiang Liang, the individual shareholder of BaiduPay, dated April 23, 2012 (incorporated by reference to Exhibit 4.36 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.36	Translation of the Loan Agreement between Baidu Online and Zhixiang Liang, dated April 23, 2012 (incorporated by reference to Exhibit 4.37 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.37	Translation of the supplementary agreements, dated March 11, 2010 and April 22, 2010 to the Software License Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 4.48 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.38	Translation of the supplementary agreement dated March 1, 2010 to the Web Layout Copyright License Agreement dated March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004 (incorporated by reference to Exhibit 4.50 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.39	Translation of the supplementary agreement dated April 22, 2010 to the Operating Agreement dated March 22, 2005 between Baidu Online and Baidu Netcom (incorporated by reference to Exhibit 4.51 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.40	Translations of the supplementary agreement dated April 22, 2010 to the Exclusive Equity Purchase and Transfer Option Agreement dated March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu (incorporated by reference to Exhibit 4.53 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2011)
4.41	Translation of the supplementary agreement by and among Baidu Online, Beijing Perusal, Jiping Liu and Yazhu Zhang dated September 6, 2011 (incorporated by reference to Exhibit 4.55 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.42	Translation of Loan Agreement dated February 10, 2006 between Baidu Online and Robin Yanhong Li (incorporated by reference to Exhibit 4.63 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.43	Translation of Loan Agreement dated March 6, 2008 between Baidu Online and Robin Yanhong Li (incorporated by reference to Exhibit 4.64 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.44	Translation of the supplementary agreement to the Loan Agreement by and among Robin Yanhong Li, Baidu Netcom and Baidu Online dated September 6, 2011 (incorporated by reference to Exhibit 4.65 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.45	Translation of the supplementary agreement to the Software License Agreement between Baidu Online and Baidu Netcom dated January 30, 2011 (incorporated by reference to Exhibit 4.68 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.46	Translation of the supplementary agreement to the Web Layout Copyright License Agreement between Baidu Online and Baidu Netcom dated January 30, 2011 (incorporated by reference to Exhibit 4.69 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.47	Translation of the Supplementary Agreement to the Amended and Restated Loan Agreement by and among Baidu Online, Robin Yanhong Li, Haoyu Shen and Zhan Wang dated August 26, 2011 (incorporated by reference to Exhibit 4.72 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.48	Translation of the Supplementary Agreement to the Amended and Restated Equity Pledge Agreement by and among Baidu Online, Robin Yanhong Li, Haoyu Shen and Zhan Wang dated August 26, 2011 (incorporated by reference to Exhibit 4.73 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.49	Translation of the Equity Pledge Agreement between Baidu Online and Robin Yanhong Li dated December 1, 2011 (incorporated by reference to Exhibit 4.74 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.50	Translation of the Supplementary Agreement by and among Baidu Online, Baidu Netcom, Robin Yanhong Li and Zhan Wang dated September 6, 2011 (incorporated by reference to Exhibit 4.75 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.51	Translation of the Supplementary Agreement to the Amended and Restated Equity Purchase and Transfer Option Agreement and its Supplementary Agreement among Baidu Online, Robin Yanhong Li, Haoyu Shen, Baidu Netcom and Zhan Wang dated August 26, 2011 (incorporated by reference to Exhibit 4.76 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.52	Translation of the Supplementary Agreement to the Operating Agreement and its Supplementary Agreement among Baidu Online, Baidu Netcom, Robin Yanhong Li, Haoyu Shen and Zhan Wang dated August 26, 2011 (incorporated by reference to Exhibit 4.77 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.53	Translation of the Proxy Agreement among Robin Yanhong Li, Zhan Wang and Baidu Online dated August 26, 2011 (incorporated by reference to Exhibit 4.78 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.54	Translation of Supplementary Agreement among Baidu Online, BaiduPay, Baidu Netcom and Hu Cai dated September 6, 2011 (incorporated by reference to Exhibit 4.79 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.55	Translation of the Supplementary Agreement to Exclusive Technology Consulting and Services Agreement between Baidu Online and BaiduPay dated September 6, 2011 (incorporated by reference to Exhibit 4.80 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 29, 2012)
4.56	Translation of the Supplementary Agreement to Web Layout Copyright License Agreement between Baidu Online and BaiduPay dated September 6, 2011 (incorporated by reference to Exhibit 4.74 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.57	Term Loan Facility Agreement between Baidu, Inc. and Australia and New Zealand Banking Group Limited (Hong Kong Branch) dated September 18, 2012 (incorporated by reference to Exhibit 4.77 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.58	Translation of Domain Name License Termination Agreement between Baidu Online and Baidu Netcom dated December 31, 2012 (incorporated by reference to Exhibit 4.78 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.59	Translation of Domain Name License Termination Confirmation between Baidu Online and Beijing Perusal dated December 31, 2012 (incorporated by reference to Exhibit 4.79 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.60	Translation of Trademark License Termination Agreement between Baidu Online and Baidu Netcom dated February 1, 2013 (incorporated by reference to Exhibit 4.80 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.61	Translation of Trademark License Termination Agreement between Baidu Online and Beijing Perusal dated February 1, 2013 (incorporated by reference to Exhibit 4.81 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.62	Translation of Trademark License Termination Agreement between Baidu Online and BaiduPay dated February 1, 2013 (incorporated by reference to Exhibit 4.82 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)
4.63	Translation of Domain Name License Termination Agreement between Baidu Online and BaiduPay dated December 31, 2012 (incorporated by reference to Exhibit 4.83 of our Annual Report on Form 20-F filed with the Securities and Exchange Commission on March 27, 2013)

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<u>Exhibit Number</u>	<u>Description of Document</u>
4.64*	Translation of the supplementary agreement to the Web Layout Copyright License Agreement between Baidu Online and Baidu Netcom dated August 15, 2013
4.65*	Translation of the supplementary agreement to the Software License Agreement between Baidu Online and Baidu Netcom dated August 15, 2013
4.66*	Translation of the supplementary agreement to the Web Layout Copyright License Agreement between Baidu Online and Beijing Perusal dated August 15, 2013
4.67*	Translation of the supplementary agreement to the Web Layout Copyright License Agreement between Baidu Online and BaiduPay dated August 15, 2013
4.68*	Translation of the supplementary agreement to the Amended and Restated Loan Agreement between Baidu Online and Robin Yanhong Li and Zhan Wang dated March 1, 2014
4.69*	Transaction Framework Agreement, dated May 7, 2013, by and among PPStream Inc., Qiyi.com, Inc. and other parties thereto
4.70*	Agreement and Plan of Merger, dated August 14, 2013, between Baidu (Hong Kong) Limited, Baidu (Hong Kong) Sub Limited and 91 Wireless Websoft Limited
4.71*	Term Loan Facility Agreement between Baidu, Inc. and Sumitomo Mitsui Banking Corporation dated July 24, 2013
4.72*	Term Loan Facility Agreement between Baidu, Inc. and Australia and New Zealand Banking Group Limited (Hong Kong Branch) dated August 13, 2013
8.1*	List of Principal Subsidiaries and Consolidated Affiliated Entities
11.1	Code of Business Conduct and Ethics (incorporated by reference to Exhibit 99.14 of our Registration Statement on Form F-1 (file no. 333-126534) filed with the Securities and Exchange Commission on July 12, 2005)
12.1*	Certification by Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2*	Certification by Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification by Principal Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification by Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
15.1*	Consent of Maples and Calder
15.2*	Consent of Han Kun Law Offices
15.3*	Consent of Ernst & Young Hua Ming LLP
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Furnished herewith

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing its annual report on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Baidu, Inc.

By: /s/ Robin Yanhong Li

Name: Robin Yanhong Li

Title: Chairman and Chief Executive Officer

Date: March 28, 2014

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BAIDU, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Baidu, Inc.

We have audited the accompanying consolidated balance sheets of Baidu, Inc. (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baidu, Inc. at December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Baidu, Inc.’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, The People’s Republic of China
March 28, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Baidu, Inc.

We have audited Baidu, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Baidu, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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.

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.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of 91 Wireless Websoft Limited, which is included in the 2013 consolidated financial statements of Baidu, Inc. and constituted RMB11.94 billion and RMB11.25 billion of total and net assets, respectively, as of December 31, 2013 and RMB259.84 million and RMB27.84 million of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of Baidu, Inc. also did not include an evaluation of the internal control over financial reporting of 91 Wireless Websoft Limited.

In our opinion, Baidu, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Baidu, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2013 of Baidu, Inc., and our report dated March 28, 2014 expressed an unqualified opinion thereon.

/s/ Ernst & Young Hua Ming LLP

Beijing, The People's Republic of China
March 28, 2014

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BAIDU, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except for number of shares and per share data)

	Notes	December 31,		
		2012 RMB	2013 RMB	2013 US\$
ASSETS				
Current assets:				
Cash and cash equivalents		11,880,632	9,691,797	1,600,971
Restricted cash		395,029	259,533	42,872
Short-term investments	4	20,604,223	28,734,761	4,746,644
Accounts receivable, net of allowance of RMB5,768 and RMB43,814 (US\$7,237) for 2012 and 2013, respectively	5	1,253,483	2,220,846	366,858
Deferred tax assets, net	12	160,315	286,844	47,383
Amounts due from related parties	19	—	104	17
Other current assets	6	380,407	1,835,265	303,163
Total current assets		34,674,089	43,029,150	7,107,908
Non-current assets:				
Fixed assets, net	7	3,887,877	5,370,268	887,105
Intangible assets, net	8	1,587,665	3,630,315	599,685
Goodwill	8	3,877,564	16,864,350	2,785,792
Long-term investments, net	4	803,499	634,777	104,858
Deferred tax assets, net	12	53,303	97,940	16,179
Amounts due from related parties	19	—	370,916	61,271
Other non-current assets		784,893	988,072	163,218
Total non-current assets		10,994,801	27,956,638	4,618,108
Total assets		45,668,890	70,985,788	11,726,016
LIABILITIES AND EQUITY				
Current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB1,914,531 and RMB4,031,176 (US\$665,903) as of December 31, 2012 and 2013, respectively):				
Accounts payable and accrued liabilities	1	—	—	—
Customer advances and deposits	9	3,806,836	7,362,138	1,216,139
Deferred revenue		2,067,586	2,977,872	491,909
Deferred income		94,121	226,599	37,431
Deferred income		64,506	77,287	12,767
Long-term loans, current portion	10	2,170,978	343,625	56,763
Amounts due to related parties	19	—	398	66
Capital lease obligation		32,502	44,907	7,418
Total current liabilities		8,236,529	11,032,826	1,822,493
Non-current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB258,319 and RMB975,793 (US\$161,190) as of December 31, 2012 and 2013, respectively):				
Deferred income	1	—	—	—
Long-term loans	10	190,000	376,491	62,192
Notes payable	11	356,589	2,112,359	348,937
Deferred tax liabilities	12	9,336,686	15,116,990	2,497,149
Amounts due to related parties	19	289,482	1,200,270	198,270
Capital lease obligation		—	373,227	61,653
Other non-current liabilities		44,479	40,999	6,773
		—	67,376	11,129
Total non-current liabilities		10,217,236	19,287,712	3,186,103
Total liabilities		18,453,765	30,320,538	5,008,596
Commitments and contingencies				
Redeemable noncontrolling interests	14	—	—	—
Equity	15	1,033,283	—	—
Class A ordinary shares, par value US\$0.00005 per share, 825,000,000 shares authorized, and 27,202,710 shares and 27,492,452 shares issued and outstanding as at December 31, 2012 and 2013	16	12	12	2
Class B ordinary shares, par value US\$0.00005 per share, 35,400,000 shares authorized, and 7,763,000 shares and 7,537,921 shares issued and outstanding as at December 31, 2012 and 2013	16	3	3	—
Additional paid-in capital		2,095,273	3,056,418	504,884
Retained earnings	16	24,038,219	34,525,386	5,703,187
Accumulated other comprehensive income (loss)	16	(78,278)	843,096	139,270
Total Baidu, Inc. shareholders' equity		26,055,229	38,424,915	6,347,343
Noncontrolling interests		126,613	2,240,335	370,077
Total equity		26,181,842	40,665,250	6,717,420
Total liabilities, redeemable noncontrolling interests and equity		45,668,890	70,985,788	11,726,016

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

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BAIDU, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except for number of shares and per share (or ADS) data)

	Notes	For the Years Ended December 31,			
		2011 RMB	2012 RMB	2013 RMB	2013 US\$
Revenues:					
Online marketing services		14,489,767	22,245,643	31,802,219	5,253,352
Others		11,019	60,383	141,705	23,408
Total revenues		14,500,786	22,306,026	31,943,924	5,276,760
Operating costs and expenses:					
Cost of revenues		(3,896,883)	(6,448,545)	(11,471,839)	(1,895,013)
Selling, general and administrative		(1,692,810)	(2,501,336)	(5,173,533)	(854,607)
Research and development		(1,334,434)	(2,304,825)	(4,106,832)	(678,400)
Total operating costs and expenses		(6,924,127)	(11,254,706)	(20,752,204)	(3,428,020)
Operating profit		7,576,659	11,051,320	11,191,720	1,848,740
Other income:					
Interest income		418,201	866,465	1,308,542	216,156
Interest expense		(82,551)	(107,857)	(447,084)	(73,853)
Foreign exchange loss, net		(1,959)	(4,533)	(48,379)	(7,992)
Loss from equity method investments		(179,408)	(294,229)	(5,806)	(959)
Others, net		78,237	454,271	186,023	30,729
Total other income, net		232,520	914,117	993,296	164,081
Income before income taxes		7,809,179	11,965,437	12,185,016	2,012,821
Income taxes	12	(1,188,861)	(1,574,159)	(1,828,930)	(302,118)
Net income		6,620,318	10,391,278	10,356,086	1,710,703
Net loss attributable to noncontrolling interests		18,319	64,750	162,880	26,906
Net income attributable to Baidu, Inc.		6,638,637	10,456,028	10,518,966	1,737,609
Earnings per share for Class A and Class B ordinary shares:					
	17				
Basic		190.27	298.62	299.75	49.52
Diluted		189.88	298.29	299.32	49.44
Earnings per ADS (1 Class A ordinary share equals 10 ADSs):					
	17				
Basic		19.03	29.86	29.98	4.95
Diluted		18.99	29.83	29.93	4.94
Weighted average number of Class A and Class B ordinary shares outstanding					
Basic		34,890,050	34,939,838	34,986,228	34,986,228
Diluted		34,962,831	34,979,459	35,036,346	35,036,346
Other comprehensive income (loss):					
	16				
Foreign currency translation adjustment		32,930	(6,100)	190,322	31,439
Unrealized gains on available-for-sale investments		45	11,391	668,372	110,407
Other comprehensive income, net of tax		32,975	5,291	858,694	141,846
Comprehensive income		6,653,293	10,396,569	11,214,780	1,852,549
Comprehensive loss attributable to noncontrolling interests		19,314	65,584	225,560	37,260
Comprehensive income attributable to Baidu, Inc.		6,672,607	10,462,153	11,440,340	1,889,809

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

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BAIDU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”))

	For the Years Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Cash flows from operating activities:				
Net income	6,620,318	10,391,278	10,356,086	1,710,703
Adjustments to reconcile net income to net cash generated from operating activities:				
Depreciation of fixed assets and computer parts	819,239	1,281,336	1,702,140	281,173
Loss (gain) on disposal of fixed assets	31	(2,783)	(16,051)	(2,651)
Amortization of intangible assets	65,673	234,001	949,850	156,904
Deferred income tax, net	(64,701)	(59,030)	330,636	54,617
Share-based compensation	152,028	212,309	514,727	85,027
Provision for (reversal of) doubtful accounts	3,500	(847)	39,137	6,465
Investment income	(200,209)	(745,526)	(1,100,054)	(181,716)
Net gain from step-acquisition and settlement of pre-existing relationship	—	(486,339)	—	—
Assets impairment	47,886	169,180	24,197	3,997
Loss from equity method investments	179,408	294,229	5,806	959
Gain on disposal of a subsidiary	—	(15,238)	—	—
Other noncash (income) expense	(36,813)	(57,544)	19,186	3,171
Changes in operating assets and liabilities, net of effects of acquisitions:				
Restricted cash	(156,219)	85,429	(151,435)	(25,015)
Accounts receivable	(282,467)	(338,602)	(773,787)	(127,821)
Other assets	(211,719)	(10,664)	(1,303,334)	(215,294)
Amounts due from related parties	(151,068)	(794,508)	(54)	(9)
Customer advances and deposits	519,716	489,769	866,620	143,155
Accounts payable and accrued liabilities	817,649	778,003	2,005,559	331,295
Deferred revenue	(46,327)	31,416	122,347	20,210
Deferred income	49,721	199,785	199,272	32,917
Amounts due to related parties	53,173	340,340	2,123	351
Net cash generated from operating activities	8,178,819	11,995,994	13,792,971	2,278,438
Cash flows from investing activities:				
Acquisition of fixed assets	(1,762,114)	(2,310,860)	(2,756,629)	(455,363)
Acquisition of computer parts	(104,064)	(28,901)	(12,194)	(2,014)
Disposal of fixed assets	2,461	6,785	18,476	3,052
Acquisition of businesses, net of cash acquired (Note 3)	(1,945,870)	(820,526)	(13,201,126)	(2,180,671)
Acquisition of intangible assets	(433,591)	(190,303)	(909,717)	(150,275)
Capitalization of software costs	(42,687)	(36,315)	(2,448)	(404)
Purchases of held-to-maturity investments	(10,872,774)	(26,368,017)	(30,441,279)	(5,028,541)
Sales and maturities of held-to-maturity investments	1,484,968	19,351,949	29,562,045	4,883,302
Purchases of available-for-sale investments	(100,000)	(6,774,500)	(53,921,661)	(8,907,224)
Sales and maturities of available-for-sale investments	—	3,477,463	48,947,811	8,085,602
Purchases of other long-term investments	(488,905)	(58,666)	(350,361)	(57,876)
Proceeds from disposal of long-term investments	12,047	—	—	—
Cash distribution of long-term investments	—	2,811	4,143	684
Payments to acquire subsidiaries’ shares from noncontrolling interests	—	(1,020)	(259,879)	(42,929)
Net cash used in investing activities	(14,250,529)	(13,750,100)	(23,322,819)	(3,852,657)

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

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BAIDU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”))

	For the Years Ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Cash flows from financing activities:				
Proceeds from issuance of subsidiaries' shares	43,970	100,460	1,397,283	230,815
Proceeds from short-term loans	125,878	—	—	—
Repayment of short-term loans	—	(124,602)	(47,200)	(7,797)
Proceeds from long-term loans	2,232,778	355,499	2,144,450	354,238
Repayment of long-term loans	—	(140,000)	(2,144,450)	(354,238)
Proceeds from issuance of notes payable	—	9,334,777	6,111,200	1,009,498
Payment of capital lease obligation	—	(27,124)	(36,629)	(6,051)
Payment of debt issuance costs	—	(37,099)	(39,400)	(6,508)
Proceeds from exercise of share options	23,184	56,974	156,307	25,820
Net cash generated from financing activities	2,425,810	9,518,885	7,541,561	1,245,777
Effect of exchange rate changes on cash and cash equivalents	(8,594)	(11,629)	(200,548)	(33,128)
Net increase (decrease) in cash and cash equivalents	(3,654,494)	7,753,150	(2,188,835)	(361,570)
Cash and cash equivalents at beginning of the year	7,781,976	4,127,482	11,880,632	1,962,541
Cash and cash equivalents at end of the year	4,127,482	11,880,632	9,691,797	1,600,971
Supplemental disclosures:				
Interests paid	17,521	38,027	302,055	49,896
Income taxes paid	1,165,218	1,641,853	1,656,513	273,636
Non-cash investing and financing activities:				
Capital lease obligation	47,885	56,220	45,554	7,525
Acquisition of fixed assets included in accounts payable and accrued liabilities	245,794	332,473	787,154	130,029
Acquisition of other non-current assets included in accounts payable and accrued liabilities	30,938	39,165	40,303	6,658
Non-cash acquisitions of investments	194,286	705,281	—	—
Non-cash acquisitions of subsidiaries	—	338,447	—	—

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

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BAIDU, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in thousands of Renminbi ("RMB"), and in thousands of U.S. Dollars ("US\$"), except for number of shares)

	Attributable to Baidu, Inc.						Total shareholders' equity RMB
	Ordinary shares		Additional paid-in capital RMB	Retained earnings RMB	Accumulated other comprehensive income (loss) RMB	Noncontrolling interests RMB	
	Number of shares	Amount RMB					
Balances at December 31, 2010	34,849,672	15	1,557,258	6,965,697	(117,378)	—	8,405,592
Net income	—	—	—	6,638,637	—	(8,035)	6,630,602
Other comprehensive income	—	—	—	—	32,975	—	32,975
Exercise of share-based awards	64,445	—	25,553	—	—	—	25,553
Share-based compensation	—	—	148,575	—	—	—	148,575
Business combination	—	—	—	—	—	104,832	104,832
Issuance of subsidiary shares	—	—	40,384	—	—	1,022	41,406
Balances at December 31, 2011	34,914,117	15	1,771,770	13,604,334	(84,403)	97,819	15,389,535
Net income	—	—	—	10,456,028	—	(8,946)	10,447,082
Other comprehensive income	—	—	—	—	6,125	(144)	5,981
Business combination	—	—	—	—	—	32,507	32,507
Change of a subsidiary's noncontrolling interests	—	—	—	—	—	(1,259)	(1,259)
Acquisition of a subsidiary's shares from noncontrolling shareholders	—	—	(1,499)	—	—	478	(1,021)
Disposal of a subsidiary	—	—	—	—	—	5,253	5,253
Accretion of redeemable noncontrolling interests	—	—	—	(22,143)	—	—	(22,143)
Exercise of share-based awards	51,593	—	54,171	—	—	—	54,171
Share-based compensation	—	—	196,360	—	—	905	197,265
Issuance of subsidiary shares	—	—	74,471	—	—	—	74,471
Balances at December 31, 2012	34,965,710	15	2,095,273	24,038,219	(78,278)	126,613	26,181,842
Net income	—	—	—	10,518,966	—	(101,023)	10,417,943
Other comprehensive income	—	—	—	—	921,374	(7,260)	914,114
Business combination	—	—	—	—	—	427,813	427,813
Acquisition of subsidiaries' redeemable shares from noncontrolling shareholders	—	—	(138,439)	—	—	—	(138,439)
Accretion of redeemable noncontrolling interests	—	—	—	(31,799)	—	—	(31,799)
Reclassification of redeemable noncontrolling interests	—	—	—	—	—	888,934	888,934
Exercise of share-based awards	64,663	—	165,403	—	—	850	166,253
Share-based compensation	—	—	485,185	—	—	20,468	505,653
Issuance of subsidiary shares	—	—	448,996	—	—	883,940	1,332,936
Balances at December 31, 2013	35,030,373	15	3,056,418	34,525,386	843,096	2,240,335	40,665,250
Balances at December 31, 2013, in US\$		2	504,884	5,703,187	139,270	370,077	6,717,420

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

BAIDU, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 and 2013

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS

Baidu, Inc. (“Baidu” or the “Company”) was incorporated under the laws of the Cayman Islands on January 18, 2000.

As of December 31, 2013, the Company has wholly-owned and majority-owned subsidiaries incorporated in countries and jurisdictions including the People’s Republic of China (“PRC”), Hong Kong, Japan, the United States of America (“USA”), Cayman Islands and British Virgin Islands (“BVI”). As of December 31, 2013, the Company also effectively controls a number of variable interest entities (“VIE”) through the Primary Beneficiaries, as defined below. The VIEs include:

- Beijing Baidu Netcom Science Technology Co., Ltd. (“Baidu Netcom”), controlled through Baidu Online Network Technology (Beijing) Co., Ltd. (“Baidu Online”), one of the Company’s wholly-owned subsidiaries;
- Beijing Perusal Technology Co., Ltd. (“Beijing Perusal”), controlled through Baidu Online; and
- Beijing BaiduPay Science and Technology Co., Ltd. (“BaiduPay”), controlled through Baidu Online; and
- Other VIEs controlled through Primary Beneficiaries other than Baidu Online.

The Company, its wholly-owned and majority-owned subsidiaries, VIEs and wholly-owned subsidiaries of the VIEs are hereinafter collectively referred to as the “Group.” The Group offers internet search solutions and online marketing solutions, operates an online payment platform which enables users to make payments online, develops and markets scalable web/mobile application software and provides related services, conducts online advertising business in connection with online video contents broadcasting, provides mobile application distribution services and provides group buying services. The Group’s principal geographic market is in the PRC. The Company does not conduct any substantive operations of its own but conducts its primary business operations through its wholly-owned and majority-owned subsidiaries and VIEs in the PRC.

PRC laws and regulations prohibit or restrict foreign ownership of internet content, advertising, and audio and video services. To comply with these foreign ownership restrictions, the Group operates its websites and primarily provides services subject to such restriction in the PRC through the VIEs, the PRC legal entities that were established or whose equity shares were held by the individuals authorized by the Group. The paid-in capital of the VIEs was mainly funded by the Group through loans extended to the authorized individuals who were the shareholders of the VIEs. The Group has entered into proxy agreements or power of attorney and exclusive equity purchase option agreement with the VIEs and nominee shareholders of the VIEs through the Group’s subsidiaries (“Primary Beneficiaries”), which give the Primary Beneficiaries the rights to direct the activities that most significantly affect the economic performance of the VIEs and to acquire the equity interests in the VIEs when permitted by the PRC laws, respectively. Certain exclusive agreements have been entered into with the VIEs through the Primary Beneficiaries or their wholly-owned subsidiaries in the PRC, which obligate the Primary Beneficiaries to absorb a majority of the risk of loss from the VIEs’ activities and entitle the Primary Beneficiaries to receive a majority of their residual returns. In addition, the Group has entered into certain agreements with the shareholders of the VIEs through the Primary Beneficiaries or their wholly-owned subsidiaries in the PRC, including loan agreements for the paid-in capital of the VIEs and share pledge agreements for the equity interests in the VIEs held by the shareholders of the VIEs.

Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between the Primary Beneficiaries and the VIEs through the aforementioned agreements with the shareholders of the VIEs. The shareholders of the VIEs effectively assigned all of their voting rights underlying their equity interest in the VIEs to the Primary Beneficiaries. In addition, through the other exclusive agreements, which

BAIDU, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 and 2013

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

consist of operating agreements, technology consulting and services agreements and license agreements, the Primary Beneficiaries, by themselves or their wholly-owned subsidiaries in the PRC, demonstrate their ability and intention to continue to exercise the ability to absorb substantially all of the profits and all of the expected losses of the VIEs. The VIEs are subject to operating risks, which determine the variability of the Company's interest in those entities. Based on these contractual arrangements, the Company consolidates the VIEs as required by SEC Regulation SX-3A-02 and Accounting Standards Codification ("ASC") topic 810 ("ASC 810"), *Consolidation*, because the Company holds all the variable interests of the VIEs through the Primary Beneficiaries.

The principal terms of the agreements entered into amongst the VIEs, their respective shareholders and the Primary Beneficiaries are further described below.

Loan Agreements

Pursuant to loan agreements amongst the shareholders of Baidu Netcom and Baidu Online, Baidu Online provided interest-free loans with an aggregate amount of RMB100.0 million to the shareholders of Baidu Netcom solely for the latter to fund the capitalization of Baidu Netcom. The loans can be repaid only with the proceeds from sale of the shareholders' equity interest in Baidu Netcom to Baidu Online or its designated person. The terms of the loan agreements will expire on April 26, 2014 at the earliest and can be extended with the written consent of both parties before its expiration.

Each of the loan agreements amongst Baidu Online and the respective shareholders of Beijing Perusal and BaiduPay contains the same terms as those described above, except that the amount of the loans extended to the respective shareholders is RMB10.0 million and RMB9.0 million, respectively. The term of the loan agreements will expire on January 15, 2022 and April 22, 2022, respectively, and can be extended with the written consent of both parties before its expiration.

Exclusive Equity Purchase and Transfer Option Agreement

Pursuant to the exclusive equity purchase and transfer option agreement amongst the shareholders of Baidu Netcom, Baidu Netcom and Baidu Online, the shareholders of Baidu Netcom irrevocably granted Baidu Online or its designated person(s) an exclusive option to purchase, to the extent permitted under PRC law, all or part of the equity interests in Baidu Netcom for the cost of the initial contributions to the registered capital or the minimum amount of consideration permitted by applicable PRC law. The shareholders should remit to Baidu Online any amount that is paid by Baidu Online or its designated person(s) in connection with the purchased equity interest. Baidu Online or its designated person(s) have sole discretion to decide when to exercise the option, whether in part or in full. Any and all dividends and other capital distributions from Baidu Netcom to its shareholders should be paid to Baidu Online in full amount. Baidu Online would provide unlimited financial support to Baidu Netcom if, in the normal operation of business, Baidu Netcom would become in need of any form of reasonable financial support. If Baidu Netcom were to incur any loss and as a result cannot repay any loans from Baidu Online, Baidu Online should unconditionally forgive any such loans to Baidu Netcom given that Baidu Netcom provides sufficient proof for its loss and incapacity to repay. The agreement will terminate when the shareholders of Baidu Netcom have transferred all their equity interests in Baidu Netcom to Baidu Online or its designated person(s) or upon expiration of the term of business of Baidu Online or Baidu Netcom.

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Exclusive Equity Purchase and Transfer Option Agreement (Continued)

Each of the exclusive equity purchase and transfer option agreements amongst Baidu Online and Beijing Perusal, BaiduPay and their respective shareholders contains the same terms as those described above. Each of the agreements will terminate upon the shareholders of Beijing Perusal or BaiduPay have transferred all their equity interests in Beijing Perusal or BaiduPay, as the case may be, to Baidu Online or its designated person(s) or upon expiration of the term of business of Baidu Online, Beijing Perusal or BaiduPay.

Proxy Agreement/Power of Attorney

Pursuant to the proxy agreement between Baidu Online and the shareholders of Baidu Netcom, the shareholders of Baidu Netcom agreed to entrust all the rights to exercise their voting power to the person(s) designated by Baidu Online. The shareholders of Baidu Netcom have each executed an irrevocable power of attorney to appoint the person(s) designated by Baidu Online as their attorney-in-fact to vote on their behalf on all matters requiring shareholder approval. The proxy agreement would be in effect for an unlimited term unless terminated in writing by Baidu Online earlier. The power of attorney would be in effect for as long as the shareholders of Baidu Netcom hold any equity interests in Baidu Netcom.

Each of the proxy agreements amongst Baidu Online and the shareholders of Beijing Perusal and BaiduPay contains the same terms as those described above. Each of the proxy agreements will be in effect for an unlimited term unless terminated in writing by Baidu Online. Each of the powers of attorney will be in effect for as long as the shareholder of Beijing Perusal or BaiduPay holds any equity interests in Beijing Perusal or BaiduPay, as the case may be.

Operating Agreement

Pursuant to the operating agreement amongst Baidu Online, Baidu Netcom and the shareholders of Baidu Netcom, Baidu Online provides guidance and instructions on Baidu Netcom's daily operations and financial affairs. Baidu Online has the right to appoint senior executives of Baidu Netcom. The shareholders of Baidu Netcom must appoint the candidates recommended by Baidu Online as their representatives on Baidu Netcom's board of directors. In addition, Baidu Online agrees to guarantee Baidu Netcom's performance under any agreements or arrangements relating to Baidu Netcom's business arrangements with any third party. In return, Baidu Netcom agrees that without the prior consent of Baidu Online, Baidu Netcom will not engage in any transactions that could materially affect the assets, liabilities, rights or operations of Baidu Netcom, including, without limitation, incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, incurrence of any encumbrance on any of its assets or intellectual property rights in favor of a third party or transfer of any agreements relating to its business operation to any third party. The agreement will be in effect for an unlimited term, until the term of business of Baidu Online or Baidu Netcom expires and extension is denied by the relevant approval authorities.

Each of the operating agreements amongst Baidu Online and Beijing Perusal, BaiduPay and their respective shareholders contains the same terms as those described above. Each of the agreements will be in effect for an unlimited term, until the term of business of Baidu Online, Beijing Perusal or BaiduPay expires and extension is denied by the relevant approval authorities.

Exclusive Technology Consulting and Services Agreement

Pursuant to the exclusive technology consulting and services agreement between Baidu Online and Baidu Netcom, Baidu Online has the exclusive right to provide to Baidu Netcom technology consulting and

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Exclusive Technology Consulting and Services Agreement (Continued)

services related to, among other things, the maintenance of servers, software development, design of advertisements, and e-commerce technical services. Baidu Online owns the intellectual property rights resulting from the performance of this agreement. Baidu Netcom pays a monthly service fee to Baidu Online based upon a pre-agreed formula as defined in the agreement. Baidu Online has the right to adjust the service fees at its sole discretion without the consent of Baidu Netcom. The agreement will be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

Each of the exclusive technology consulting and services agreements between Baidu Online and Beijing Perusal and between Baidu Online and BaiduPay contains the same terms as those described above, except for the formula calculating the service fees. Baidu Netcom and Beijing Perusal should pay Baidu Online a monthly service fee equal to the product of the standard monthly fee for page view per thousand times multiplied by the actual times of page view for the month divided by 1,000; and the agreement between Baidu Online and BaiduPay does not provide a formula to calculate the quarterly fee, as BaiduPay has yet to achieve profitability. Each of the agreements will be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

License Agreements

Baidu Online and Baidu Netcom entered into a software license agreement, a trademark license agreement, a domain name license agreement and a web layout copyright license agreement (collectively, the "License Agreements"). Pursuant to the License Agreements between Baidu Online and Baidu Netcom, Baidu Online has granted to Baidu Netcom the right to use (including but not limited to) a software license, a web layout copyright license, a trademark license and a domain name. Baidu Netcom may only use the licenses in its own business operations. Baidu Online has the right to adjust the service fees at its sole discretion. The original term of the software license agreement expired in March 2010 and was renewed then. The software license agreement was renewed and would be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities. The original terms of the domain name license agreement, trademark license agreement, and web layout copyright license agreement expired on March 1, 2009 and were renewed then. The domain name license agreement was terminated in 2012 as Baidu Online finished transferring the relevant domain names to Baidu Netcom. The trademark license agreement was terminated in February 2013 after Baidu Online transferred its trademarks (including pending trademark applications) to Baidu Netcom. The web layout copyright license agreement was renewed and would be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

Baidu Online entered into a trademark license agreement, a domain name license agreement and a web layout copyright license agreement with both Beijing Perusal and BaiduPay. Each of the license agreements between Baidu Online and Beijing Perusal and between Baidu Online and BaiduPay contains the same terms as those described above. The term of each agreement is 5 years from the execution date of the agreement on June 23, 2006 and February 28, 2008, respectively. Each of the domain name license agreement was terminated in 2012 as Baidu Online finished transferring the relevant domain names to Beijing Perusal and BaiduPay. Each of the trademark license agreement was terminated in February 2013 after Baidu Online transferred its trademarks (including pending trademark applications) to Beijing Perusal and BaiduPay. Each of the web layout copyright license agreements was renewed and would be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Equity Pledge Agreement

Pursuant to the equity pledge agreement between Baidu Online and the shareholders of Baidu Netcom, the shareholders of Baidu Netcom pledged all of their equity interests in Baidu Netcom to Baidu Online to guarantee their obligations under the loan agreement and Baidu Netcom's performance of its obligations under the exclusive technology consulting and services agreement. If Baidu Netcom or its shareholders breach their respective contractual obligations, Baidu Online, as the pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The shareholders of Baidu Netcom agreed not to dispose of the pledged equity interests or take any actions that would prejudice Baidu Online's interest. The equity pledge agreement will expire two years after expiration of the term or the fulfillment by Baidu Netcom and its shareholders of their respective obligations under the exclusive technology consulting and services agreement and the loan agreement.

Each of the equity pledge agreements amongst Baidu Online and the respective shareholders of Beijing Perusal and BaiduPay contains the same terms, including term period, as those described above. Each equity pledge is perfected by registration with relevant local administration for industry and commerce which is required for a property right under the PRC Property Rights Law.

Through the design of the aforementioned agreements, the shareholders of the VIEs effectively assigned their full voting rights to Baidu Online, which gives Baidu Online the power to direct the activities that most significantly impact the VIEs' economic performance. Baidu Online obtains the ability to approve decisions made by the VIEs and the ability to acquire the equity interests in the VIEs when permitted by PRC law. Baidu Online is obligated to absorb a majority of the expected losses from the VIEs' activities through providing unlimited financial support to the VIEs and is entitled to receive a majority of residual returns from the VIEs through the exclusive technology consulting and service fees. As a result of these contractual agreements, Baidu Online is determined to be the primary beneficiary of the VIEs. Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between the Company and the VIEs through these contractual agreements, and the Company consolidates the VIEs through Baidu Online.

There are similar agreements entered into by Primary Beneficiaries other than Baidu Online with their VIEs and the respective shareholders, which resulted in a parent-subsidiary relationship between the Company and these VIEs.

In the opinion of the Company's legal counsel, (i) the ownership structure of the Company and its VIEs is in compliance with existing PRC laws and regulations; (ii) the contractual arrangements with the VIEs and their shareholders are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the Group's business operations are in compliance with existing PRC laws and regulations in all material respects.

However, uncertainties in the PRC legal system could cause the Company's current ownership structure to be found in violation of any existing and/or future PRC laws or regulations and could limit the Company's ability, through the Primary Beneficiaries, to enforce its rights under these contractual arrangements. Furthermore, shareholders of the VIEs may have interests that are different than those of the Company, which could potentially increase the risk that they would seek to act contrary to the terms of the aforementioned agreements.

In addition, if the current structure or any of the contractual arrangements were found to be in violation of any existing or future PRC law, the Company may be subject to penalties, which may include but not be limited to, the cancellation or revocation of the Company's business and operating licenses, being required

BAIDU, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 and 2013

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Equity Pledge Agreement (Continued)

to restructure the Company's operations or discontinue the Company's operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Company's ability to conduct its operations. In such case, the Company may not be able to operate or control the VIEs, which may result in deconsolidation of the VIEs.

The following tables set forth the assets, liabilities and results of operations of the VIEs and their subsidiaries included in the Company's consolidated balance sheets and statements of comprehensive income:

	As of December 31,			
	2012 RMB	2013 RMB (In thousands)	2013 US\$	
Assets				
Current				
Cash and cash equivalents	863,998	1,510,320	249,487	
Accounts receivable, net	1,200,950	1,373,443	226,877	
Others	651,334	1,607,462	265,534	
	2,716,282	4,491,225	741,898	
Non-current				
Fixed assets, net	1,043,729	1,350,852	223,145	
Others	472,178	1,301,383	214,973	
	1,515,907	2,652,235	438,118	
Total	4,232,189	7,143,460	1,180,016	
Third-party liabilities				
Current				
Accounts payable and accrued liabilities	1,176,724	2,944,821	486,450	
Customer advances and deposits	582,033	801,626	132,419	
Others	155,774	284,729	47,034	
	1,914,531	4,031,176	665,903	
Non-current				
	258,319	975,793	161,190	
Total	2,172,850	5,006,969	827,093	
Inter-company liabilities				
Inter-company payable to subsidiaries for technology consulting and service fees	1,229,919	1,578,759	260,792	
Others	217,080	510,821	84,382	
Total	1,446,999	2,089,580	345,174	
For the years ended December 31,				
	2011 RMB	2012 RMB (In thousands)	2013 RMB	2013 US\$
Total revenues	4,205,327	6,429,099	9,040,058	1,493,311
Net income (loss)	119,294	143,626	(248,664)	(41,076)

BAIDU, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 and 2013

1. ORGANIZATION, CONSOLIDATION AND PRESENTATION OF FINANCIAL STATEMENTS (CONTINUED)

Equity Pledge Agreement (Continued)

As of December 31, 2013, there was no pledge or collateralization of the VIEs' assets. The amount of the net assets of the VIEs, which are restricted under PRC laws and regulations (Note 16), was RMB46.91 million (US\$7.75 million) as of December 31, 2013. The creditors of the VIEs' third-party liabilities did not have recourse to the general credit of the Primary Beneficiaries in normal course of business. The Company did not provide or intend to provide financial or other supports not previously contractually required during the years presented.

Basis of Accounting

The consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP").

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its wholly-owned and majority-owned subsidiaries, VIEs and subsidiaries of the VIEs. All inter-company transactions and balances between the Company, its wholly-owned and majority-owned subsidiaries, VIEs and subsidiaries of the VIEs are eliminated upon consolidation. The Company has included the results of operations of acquired businesses from the respective dates of acquisition.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management evaluates estimates, including those related to the accounts receivable allowances, fair values of options to purchase the Company's or its subsidiaries' ordinary shares, fair values of certain equity investments, the purchase price allocation and fair value of noncontrolling interests with respect to business combinations, and deferred tax valuation allowance, among others. Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

Comparative Information

Certain items in the consolidated financial statements have been reclassified to conform to the current year's presentation to facilitate comparison.

Currency Translation for Financial Statements Presentation

Translations of amounts from RMB into US\$ for the convenience of the reader have been calculated at the exchange rate of RMB6.0537 per US\$1.00 on December 31, 2013, the last business day in fiscal year 2013, as published on the website of the United States Federal Reserve Board. No representation is made that the RMB amounts could have been, or could be, converted into U.S. dollars at such rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency

The Company's functional currency is the US\$. The Company's wholly-owned and majority-owned subsidiaries, VIEs and subsidiaries of the VIEs determine their functional currencies based on the criteria of ASC topic 830 ("ASC 830"), *Foreign Currency Matters*. The Company uses the RMB as its reporting currency. The Company uses the average exchange rate for the year and the exchange rate at the balance sheet date to translate its operating results and financial position, respectively. Any translation gains (losses) are recorded in other comprehensive income (loss). Transactions denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included in earnings as a component of other income.

Segment Reporting

In accordance with ASC topic 280 ("ASC 280"), *Segment Reporting: Overall*, the Company's chief operating decision makers rely upon consolidated results of operations when making decisions about allocating resources and assessing performance of the Company; hence, the Company has only one single operating segment. The Company does not distinguish between markets or segments for the purpose of internal reporting.

Business Combinations

The Company accounts for its business combinations using the purchase method of accounting in accordance with ASC topic 805 ("ASC 805"): *Business Combinations*. The purchase method of accounting requires that the consideration transferred to be allocated to the assets, including separately identifiable assets and liabilities the Company acquired, based on their estimated fair values. The consideration transferred of an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations and all contractual contingencies as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interest in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

In a business combination achieved in stages, the Company remeasures its previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in earnings.

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and noncontrolling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, terminal values, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Company determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons. Terminal values are based on the expected life of assets, forecasted life cycle and forecasted cash flows over that period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash and cash equivalents

Cash and cash equivalents are stated at cost, which approximates fair value, and primarily consist of cash and investments in interest bearing demand deposit accounts, time deposits, highly liquid investments and money market funds. All time deposits, money market funds and other highly liquid investments with original maturities of three months or less from the date of purchase are classified as cash equivalents.

Restricted cash

Restricted cash mainly consists of the cash reserved in escrow accounts for the remaining payments in relation to certain business acquisitions and compensation for postcombination services by the selling shareholders, as well as the cash balances deposited by users or customers of the Group that were held for designated purposes.

The cash balances deposited by users or customers of the Group for certain businesses are considered restricted because they cannot be used for the operations of the Group or any other purposes not designated by the users or customers. The deposited balance is included in the Group's bank account until being used for the designated purpose or withdrawn by the users or customers.

Accounts Receivable

Accounts receivable are recognized and carried at original invoiced amount less an allowance for any potential uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred. The Company generally does not require collateral from its customers.

The Company maintains allowances for doubtful accounts for estimated losses resulting from the failure of customers to make payments on time. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectability of individual balances. In evaluating the collectability of individual receivable balances, the Company considers many factors, including the age of the balance, the customer's payment history, its current credit-worthiness and current economic trends.

Receivables from Online Payment Agencies

Receivables from online payment agencies are cash due from the third-party online payment service providers for clearing transactions. The cash was paid or deposited by customers or users through these online payment agencies for services provided by the Company. The Company carefully considers and monitors the credit worthiness of the third-party payment service providers used. An allowance for doubtful accounts is recorded in the period in which a loss is determined to be probable. Receivable balances are written off after all collection efforts have been exhausted. As of December 31, 2012 and 2013, no allowance for doubtful accounts was provided for the receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

Short-term investments

All highly liquid investments with original maturities of greater than three months, but less than 12 months, are classified as short-term investments. Investments that are expected to be realized in cash during the next 12 months are also included in short-term investments. The Company accounts for short-term investments in accordance with ASC subtopic 320 (“ASC 320”), *Investments - Debt and Equity Securities*. The Company classifies the short-term investments in debt and equity securities as “held-to-maturity”, “trading” or “available-for-sale”, whose classification determines the respective accounting methods stipulated by ASC 320. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains or losses are realized.

The securities that the Company has positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost. For individual securities classified as held-to-maturity securities, the Company evaluates whether a decline in fair value below the amortized cost basis is other-than-temporary in accordance with the Company’s policy and ASC 320. When the Company intends to sell an impaired debt security or it is more-likely-than-not that it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary impairment is deemed to have occurred. In these instances, the other-than-temporary impairment loss is recognized in earnings equal to the entire excess of the debt security’s amortized cost basis over its fair value at the balance sheet date of the reporting period for which the assessment is made. When the Company does not intend to sell an impaired debt security and it is more-likely-than-not that it will not be required to sell prior to recovery of its amortized cost basis, the Company must determine whether or not it will recover its amortized cost basis. If the Company concludes that it will not, an other-than-temporary impairment exists and that portion of the credit loss is recognized in earnings, while the portion of loss related to all other factors is recognized in other comprehensive income.

The securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities. Unrealized holding gains and losses for trading securities are included in earnings.

Investments not classified as trading or as held-to-maturity are classified as available-for-sale securities. Available-for-sale investment is reported at fair value, with unrealized gains and losses recorded in accumulated other comprehensive income (loss). Realized gains or losses are included in earnings during the period in which the gain or loss is realized. An impairment loss on the available-for-sale securities would be recognized in the consolidated statements of comprehensive income when the decline in value is determined to be other-than-temporary.

Long-term investments

The Company’s long-term investments consist of cost method investments, equity method investments and held-to-maturity investments with original and remaining maturities of greater than 12 months.

In accordance with ASC subtopic 325-20 (“ASC 325-20”), *Investments-Other: Cost Method Investments*, for investments in an investee over which the Company does not have significant influence and which do not have readily determinable fair value, the Company carries the investment at cost and only adjusts for other-than-temporary declines in fair value and distributions of earnings that exceed the Company’s share of

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments (Continued)

earnings since its investment. Management regularly evaluates the impairment of the cost method investments based on performance and financial position of the investee as well as other evidence of market value. Such evaluation includes, but is not limited to, reviewing the investee's cash position, recent financing, projected and historical financial performance, cash flow forecasts and financing needs. An impairment loss is recognized in earnings equal to the excess of the investment's cost over its fair value at the balance sheet date of the reporting period for which the assessment is made. The fair value would then become the new cost basis of investment.

Investments in entities in which the Company can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC topic 323 ("ASC 323"), *Investments-Equity Method and Joint Ventures*. Under the equity method, the Company initially records its investment at cost and the difference between the cost of the equity investee and the fair value of the underlying equity in the net assets of the equity investee is recognized as equity method goodwill, which is included in the equity method investment on the consolidated balance sheets. The Company subsequently adjusts the carrying amount of the investment to recognize the Company's proportionate share of each equity investee's net income or loss into earnings after the date of investment. The Company will discontinue applying the equity method if an investment (and additional financial supports to the investee, if any) has been reduced to zero. Under the conditions that the Company is not required to advance additional funds to an investee and the equity-method investment in ordinary shares is reduced to zero, if further investments are made that have a higher liquidation preference than ordinary shares, the Company would recognize the loss based on its percentage of the investment with the same liquidation preference, and the loss would be applied to those investments of a lower liquidation preference first before being further applied to the investments of a higher liquidation preference. The Company evaluates the equity method investments for impairment under ASC 323. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary.

Long-term held-to-maturity investments are measured in the same manner as short-term held-to-maturity investments.

Fair Value Measurements of Financial Instruments

Financial instruments are in the form of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, amounts due to and due from related parties, long-term investments, accounts payable and accrued liabilities, customer advances and deposits, derivative instruments, notes payable and long-term loans. The carrying amounts of these financial instruments, except for long-term cost method investments, long-term equity method investments, long-term held-to-maturity investments, derivative instruments, notes payable and long-term loans, approximate their fair values because of their generally short maturities. The derivative instruments were adjusted to fair value at each reporting date. The carrying amounts of long-term held-to-maturity investments and long-term loans approximate their fair values due to the fact that the related interest rates approximate rates currently offered by financial institutions for similar debt instruments of comparable maturities. Based on the quoted market price as of December 31, 2013, the fair value of the notes payable was RMB14.80 billion (US\$2.44 billion) (Note 21).

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Research, Development and Computer Software

Capitalization of software developed for internal use

The Company has capitalized certain internal use software development costs in accordance with ASC subtopic 350-40 (“ASC 350-40”), *Intangibles-Goodwill and Other: Internal-Use Software*, amounting to RMB44.26 million, RMB38.13 million and RMB2.68 million (US\$0.44 million) for the years ended December 31, 2011, 2012 and 2013, respectively. The Company capitalizes certain costs relating to software acquired, developed, or modified solely to meet the Company’s internal requirements and for which there are no substantive plans to market the software. These costs mainly include payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal-use software projects during the application development stage. Capitalized internal-use software costs are included in “intangible assets, net”. The amortization expense for capitalized software costs amounted to RMB7.51 million, RMB19.72 million and RMB31.65 million (US\$5.23 million) for the years ended December 31, 2011, 2012 and 2013, respectively. The unamortized amount of capitalized internal use software development costs was RMB70.45 million and RMB41.48 million (US\$6.85 million) as of December 31, 2012 and 2013, respectively.

Research and development expenses

Research and development expenses consist primarily of personnel-related costs. The Company has expensed substantially all development costs incurred in the research and development of new products and new functionality added to the existing products except for certain internal use software development costs.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the shorter of the estimated useful lives of the assets or the term of the related lease, as follows:

Office building	- 45 years
Office building related facility, machinery and equipment	- 15 years
Computer equipment	- 3 or 5 years
Office equipment	- 3 or 5 years
Vehicles	- 5 years
Leasehold improvements	- over the shorter of lease terms or estimated useful lives of the assets

Fixed assets have no estimated residual value except for the office building and its related facility, machinery and equipment, which have an estimated residual value of 4% of the cost.

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterments that extend the useful life of fixed assets are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in earnings.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended use are capitalized as construction in progress. Construction in progress is transferred to specific fixed assets items and depreciation of these assets commences when they are ready for their intended use.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets (Continued)

Interest costs are capitalized if they are incurred during the acquisition, construction or production of a qualifying asset and such costs could have been avoided if expenditures for the assets have not been made. Capitalization of interest costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Interest costs are capitalized until the assets are ready for their intended use. Interest costs capitalized for the years ended December 31, 2011, 2012 and 2013 were insignificant.

Goodwill and Intangible Assets

Goodwill

The Company assesses goodwill for impairment in accordance with ASC subtopic 350-20 (“ASC 350-20”), *Intangibles - Goodwill and Other: Goodwill*, which requires that goodwill be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20.

Subsequent to the acquisitions in 2011 and thereafter, there were segment managers who regularly review operating results of certain acquired entities and the rest of the Group, which constitute three separate reporting units as of December 31, 2012 and 2013.

Goodwill was tested for impairment in the annual impairment tests on December 31 in each year using the two-step process required by ASC 350-20. First, the Company compared the carrying amount of the reporting unit to the fair value of the reporting unit based on either quoted market prices of the ordinary shares or estimated fair value using a combination of the income approach and the market approach. If the fair value of the reporting unit exceeds the carrying value of the reporting unit, goodwill is not impaired and the Company is not required to perform further testing. If the carrying value of the reporting unit exceeds the fair value of the reporting unit, then the Company must perform the second step of the impairment test in order to determine the implied fair value of the reporting unit’s goodwill. The fair value of the reporting unit is allocated to its assets and liabilities in a manner similar to a purchase price allocation in order to determine the implied fair value of the reporting unit goodwill. If the carrying amount of the goodwill is greater than its implied fair value, the excess is recognized as an impairment loss. In accordance with Accounting Standards Update (“ASU”) No. 2011-08 (“ASU 2011-08”), *Testing Goodwill for Impairment*, the Company has the option to first assess qualitative factors to determine whether it is necessary to perform the two-step test. If the Company believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required.

In 2013, the Company elected to assess goodwill for impairment at two reporting units, representing acquired entities, using the two-step process. The fair value of the two reporting units exceeded their respective carrying amount, and therefore goodwill related to these two reporting units were not impaired and the Company was not required to perform further testing. The Company performed a qualitative assessment for the remaining reporting unit. Based on the requirements of ASU 2011-08, the Company evaluated all relevant factors, weighed all factors in their totality and concluded that it was not more-likely-than-not the fair value was less than the carrying amount of the third reporting unit, and further impairment testing on goodwill was unnecessary as of December 31, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and Intangible Assets (Continued)

Intangible assets

Intangible assets with finite lives are carried at cost less accumulated amortization. Land use rights are amortized using a straight-line method over the shorter of their estimated economic lives or the terms of related land use right contracts. Licensed copyrights of video contents are amortized using an accelerated method, which results in a pattern of amortization that is more reflective of the consumption of the assets. All other intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives.

Intangible assets have weighted average economic lives from the date of purchase as follows:

Land use rights	- 50 years
Customer relationships	- 5.5 years
Software	- 4.3 years
Trademarks	- 10.0 years
User list	- 3.4 years
Licensed copyrights of video contents	- 2.7 years
Others	- 5.9 years

Intangible assets with an indefinite useful life are not amortized and are tested for impairment annually or more frequently if events or changes in circumstances indicate that they might be impaired in accordance with ASC subtopic 350-30 ("ASC 350-30"), *Intangibles-Goodwill and Other: General Intangibles Other than Goodwill*.

Impairment of Long-Lived Assets Other Than Goodwill

The Company evaluates long-lived assets, such as fixed assets and purchased or internally developed intangible assets with finite lives, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC topic 360 ("ASC 360"), *Property, Plant and Equipment*. When such events occur, the Company assesses the recoverability of the assets group based on the undiscounted future cash flow the assets group is expected to generate and recognizes an impairment loss when estimated undiscounted future cash flow expected to result from the use of the assets group plus net proceeds expected from disposition of the assets group, if any, is less than the carrying value of the assets group. If the Company identifies an impairment, the Company reduces the carrying amount of the assets group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values. The Company uses estimates and judgments in its impairment tests and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. Asset groups to be disposed of would be reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

The Company recognizes revenue based on the following principles:

(1) Click-through based online marketing services

The Company's auction-based pay-for-performance ("P4P") platform enables a customer to place its website link and related description on the Company's search result list on the website which could be accessed through personal computer or mobile devices. Customers make bids on keywords based on how much they are willing to pay for each click to their listings in the search results listed on the Company's website and the relevance between the keywords and the customer's businesses. Internet users' search of the keyword will trigger the display of the listings. The ranking of the customer's listing depends on both the bidding price and the listing's relevance to the keyword searched. Customer pays the Company only when a user clicks on one of its website links. Other than the auction-based P4P platform, the Company has certain vertical platforms from which it generates revenue through pre-determined prices per click. Revenue is recognized when a user clicks on one of the customer-sponsored website links, as there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection is reasonably assured, as prescribed by ASC topic 605 ("ASC 605"), *Revenue Recognition*.

For certain customers engaged through direct sales, the Company may provide certain value-added consultative support services to help its customers to better utilize its online marketing system. Fees for such services are recognized as revenue on a pro-rata basis over the contracted service period.

(2) Other performance-based online marketing services

To the extent the Company provides online marketing services based on performance criteria other than click-throughs, such as the number of telephone calls brought to its customers, the number of users registered with its customers, the number of minimum click-throughs, the number of successful reservation of hotels or issuance of air tickets, the number of downloads (and user registration) of mobile applications, the number of incremental end users and the total incremental revenue generated, revenue is recognized when the specified performance criteria are met together with satisfaction of other applicable revenue recognition criteria as prescribed by ASC 605.

(3) Time-based online advertising services

For time-based online advertising services such as text links, banners, icons or other forms of graphical advertisements in the websites or mobile applications, the Company recognizes revenue in accordance with ASC 605, on a pro-rata basis over the contractual term commencing on the date the customer's advertisement is displayed on a specified webpage or mobile applications. For certain time-based contractual agreements, the Company may also provide certain performance guarantees, in which cases revenue is recognized at the later of the completion of the time commitment or performance guarantee.

(4) Online game services and other revenue sharing services

The Company operates online game platforms on which registered users can access games provided by third-party game developers. The Company also operates mobile platforms on which users can access smartphone related products such as themes, wallpapers and e-books developed and owned by third-party content providers. The rights and obligations of each party to the arrangement indicate that the Company is

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

acting as an agent whereas the game developer or the content provider is the principal as a result of being the primary obligor in the arrangement in accordance with subtopic ASC 605-45 (“ASC 605-45”), *Revenue Recognition: Principal Agent Consideration*. The Company recognizes the shared revenue from these online promotional services, on a net basis, based on the ratios pre-determined with the online game developers or content providers when all the revenue recognition criteria set forth in ASC 605 are met, which is generally when the user purchases virtual currencies issued by the game developers or purchases contents developed by the content providers.

(5) Online marketing services involving Baidu Union

Baidu Union is the program through which the Company expands distribution of its customers’ sponsored links or advertisements by leveraging traffic of the Baidu Union members’ internet properties. The Company makes payments to Baidu Union members for acquisition of traffic. The Company recognizes gross revenue for the amount of fees it receives from its customers. Payments made to Baidu Union members are included in cost of revenues as traffic acquisition costs.

(6) Group buying services

The Company generates revenue from group buying services as a marketing agent by offering goods and services provided by third-party merchant partners at a discount through the website or mobile application that connects merchants to consumers. The Company presents revenue on a net basis, representing the amount billed to registered users less the amount paid to merchants, in accordance with ASC 605-45. The Company acts as an agent rather than as the principal in the delivery of the products or services as it does not assume the risks and rewards of ownership of products nor is it responsible for the actual fulfillment of services. Both of these are the responsibilities of the merchants. The Company recognizes revenue when all of the criteria prescribed in ASC 605 are met, which is generally when the merchants provide the services or when the products are delivered to the customers, or upon the end of the redemption period. Since the Company’s paying users have the ability to request for full refund before redemption for the products or services offered by the merchants, the underlying sale from which the Company earns the related commission revenue as an agent is not culminated until its paying users actually redeem.

(7) Barter transactions

The Company engages in barter transactions from time to time and in such situations follows the guidance set forth in ASC topic 845 (“ASC 845”), *Nonmonetary Transactions*. While nonmonetary transactions are generally recorded at fair value, if such value is not determinable within reasonable limits, the transaction is recognized based on the carrying value of the product or services provided. The Company also engages in certain advertising barter transactions and follows the guidance set forth in ASC subtopic 605-20 (“ASC 605-20”), *Revenue Recognition: Services*. The advertising barter transactions generally are recorded at fair value. If the fair value of the advertising surrendered in the barter transaction is not determinable within required limits, the barter transaction is recorded based on the carrying amount of the advertising surrendered, which likely to be zero. The amount of revenues recognized for barter transactions was insignificant for each of the years presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (Continued)

In certain instances, the Company is granted equity instruments in exchange for services and accounts for such transactions in accordance with ASC 845, *Nonmonetary Transactions*. With respect to the measurement date, in accordance with ASC subtopic 505-50 (“ASC 505-50”), *Equity: Equity-based Payments to Non-Employees*, the Company measures the fair value of those equity instruments for revenue recognition purposes as of the earlier of either of the following dates:

- The date the parties come to a mutual understanding of the terms of the equity-based compensation arrangement and a commitment for performance by the Company to earn the equity instruments is reached;
- The date at which the Company’s performance necessary to earn the equity instruments is completed.

If, as of the measurement date, the fair value of the equity instruments received is not determinable within reasonable limits, the transaction is recognized based on the fair value of the services provided. If the fair value of both the equity instruments received and the services provided cannot be determined, no revenue is recognized for the services provided and the equity instrument received is recorded at zero carrying value. The amount of revenues recognized for such transactions was insignificant for each of the years presented.

(8) Other revenue recognition related policies

In accordance with ASC subtopic 605-25 (“ASC 605-25”), *Multiple-Deliverable Revenue Arrangements*, for deliverables in multiple-element arrangements, the total consideration of the arrangements is allocated based on their relative selling price, with the selling price of each deliverable determined using vendor-specific objective evidence (“VSOE”) of selling price, third-party evidence (“TPE”) of selling price, or management’s best estimate of the selling price (“BESP”). The Company considers all reasonably available information in determining the BESP, including both market and entity-specific factors.

The Company delivers some of its online marketing services to end customers through engaging third-party distributors. In this context, the Company may provide cash incentives to distributors. The cash incentives are accounted for as reduction of revenue in accordance with ASC subtopic 605-50 (“ASC 605-50”), *Revenue Recognition: Customer Payments and Incentives*.

The Company provides sales incentives to customers to entitle customers to receive reductions in the price of the online marketing services by meeting certain cumulative consumption requirements. The Company accounts for these award credits granted to members in conjunction with a current sale of products or services as a multiple-element arrangement by analogizing to ASC 605-25. The consideration allocated to the award credits, as deferred revenue is based on an assumption that the customer will purchase the minimum amount of future service necessary to obtain the maximum award credits available. The deferred revenue is recognized as revenue proportionately as the future services are delivered to the customer or when the award credits expire.

Cash received in advance from customers is recorded as customer advances and deposits. The unused cash balances remaining in the customers’ accounts are included as liabilities of the Company. Deferred revenue is recorded when services are provided before the other revenue recognition criteria set forth in ASC 605 are fulfilled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost of Revenues

Cost of revenues consists primarily of sales taxes (including business tax and output value-added tax) and surcharges, traffic acquisition costs, bandwidth costs, depreciation, content costs, payroll and related costs of operations.

The Company incurs sales taxes and surcharges in connection with the provision of online marketing services, technical and consultative service fees charged by its subsidiaries to VIEs and other taxable services in the PRC. In accordance with ASC 605-45, the Company includes the sales tax and surcharges incurred on its online marketing revenues in cost of revenues. The sales tax and surcharges in cost of revenues for the years ended December 31, 2011, 2012 and 2013 were RMB1.02 billion, RMB1.57 billion and RMB2.33 billion (US\$384.82 million), respectively. Traffic acquisition costs represent the amounts paid or payable to Baidu Union members who direct search queries to the Company's websites or distribute the Company's customers' paid links through their properties. These payments are primarily based on revenue sharing arrangements under which the Company pays its Baidu Union members and other business partners a percentage of the fees it earns from its online marketing customers.

Advertising Expenses

Advertising expenses, primarily advertisements through various forms of media, are included in "Selling, general and administrative expense" in the consolidated statements of comprehensive income and are expensed when incurred. Advertising expenses for the years ended December 31, 2011, 2012 and 2013 were RMB157.10 million, RMB326.83 million and RMB191.61 million (US\$31.65 million), respectively.

Government Subsidies

Government subsidies primarily consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. There are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. For the government subsidies with non-operating nature and with no further conditions to be met, the amounts are recorded as non-operating income in "Other income, net" when received; whereas for the government subsidies with certain operating conditions, the amounts are recorded as liabilities when received and will be recorded as operating income when the conditions are met.

Leases

Leases have been classified as either capital or operating leases. Leases that transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for as capital leases as if there was an acquisition of an asset and incurrence of an obligation at the inception of the lease. All other leases are accounted for as operating leases wherein rental payments are expensed as incurred.

Income Taxes

The Company recognizes income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted tax rates in effect for the years in which the differences are expected to reverse. The Company records a valuation

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (Continued)

allowance against the amount of deferred tax assets that it determines is not more-likely-than-not to be realized. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date.

The Company applies the provisions of ASC topic 740 (“ASC 740”), *Income Taxes*, in accounting for uncertainty in income taxes. ASC 740 clarified the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company has elected to classify interest and penalties related to an uncertain tax position (if and when required) as part of income tax expense in the consolidated statements of comprehensive income. As of and for the years ended December 31, 2011, 2012 and 2013, the amounts of unrecognized tax benefits as well as interest and penalties associated with uncertainty in income taxes were insignificant.

Share-based Compensation

The Company accounts for share-based compensation in accordance with ASC topic 718 (“ASC 718”), *Compensation-Stock Compensation*. The Company has elected to recognize share-based compensation using the straight-line method for all share-based awards issued with no performance conditions. For awards with performance conditions, compensation cost is recognized on an accelerated basis if it is probable that the performance condition will be achieved.

Forfeitures have been estimated based on historical experience and are periodically reviewed. Cancellation of an award accompanied by the concurrent grant of a replacement award is accounted for as a modification of the terms of the cancelled award (“modification awards”). The compensation costs associated with the modification awards are recognized if either the original vesting condition or the new vesting condition has been achieved. Such compensation costs will not be less than the grant-date fair value of the original award. The incremental compensation cost is measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date. Therefore, in relation to the modification awards, the Company recognizes share-based compensation over the vesting periods of the new options, which comprises, (i) the amortization of the incremental portion of share-based compensation over the remaining vesting term and (ii) any unrecognized compensation cost of original award, using either the original term or the new term, whichever results in higher expenses for each reporting period.

The Company accounts for share awards issued to non-employees in accordance with the provisions of ASC 505-50. The Company uses the Black-Scholes-Merton option pricing model method to measure the value of options granted to non-employees at each vesting date to determine the appropriate charge to share-based compensation. ASC 718 requires share-based compensation to be presented in the same manner as cash compensation rather than as a separate line item.

Earnings Per Share (“EPS”)

The Company computes earnings per Class A and Class B ordinary shares in accordance with ASC topic 260 (“ASC 260”), *Earnings Per Share*, using the two-class method. Under the provisions of ASC 260, basic net income per share is computed using the weighted average number of ordinary shares outstanding during the period except that it does not include unvested ordinary shares subject to repurchase or cancellation. Diluted net income per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potentially dilutive securities have been

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings Per Share (“EPS”) (Continued)

excluded from the computation of diluted net income per share if their inclusion is anti-dilutive. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of stock options, restricted shares subject to forfeiture, and contracts that may be settled in the Company’s stock or cash. The dilutive effect of outstanding stock options and restricted shares is reflected in diluted earnings per share by application of the treasury stock method. Securities issued by a subsidiary that enable their holders to obtain the subsidiary’s ordinary shares are included in the consolidated earnings per share computations based on the Company’s holding of the subsidiary’s securities. The computation of the diluted net income per share of Class A ordinary shares assumes the conversion of Class B ordinary shares, while the diluted net income per share of Class B ordinary shares does not assume the conversion of those shares.

The liquidation and dividend rights of the holders of the Company’s Class A and Class B ordinary shares are identical, except with respect to voting. As a result, and in accordance with ASC 260, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B ordinary shares as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the conversion of Class B ordinary shares is assumed in the computation of the diluted net income per share of Class A ordinary shares, the undistributed earnings are equal to net income for that computation.

The Company elects to account for the entire periodic adjustment for accretion of the redeemable noncontrolling interests in the calculation of income available to ordinary shareholders of the Company used in the earnings per share calculation.

For the purposes of calculating the Company’s basic and diluted earnings per Class A and Class B ordinary shares, the ordinary shares relating to the options that were exercised are assumed to have been outstanding from the date of exercise of such options.

Contingencies

The Company records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Company discloses the amount of the accrual if it is material.

When a loss contingency is not both probable and estimable, the Company does not record an accrued liability but discloses the nature and the amount of the claim, if material. However, if the loss (or an additional loss in excess of the accrual) is at least reasonably possible, then the Company discloses an estimate of the loss or range of loss, if such estimate can be made and material, or states that such estimate is immaterial if it can be estimated but immaterial, or discloses that an estimate cannot be made. The assessments of whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involve complex judgments about future events. Management is often unable to estimate the loss or a range of loss, particularly where (i) the damages sought are indeterminate, (ii) the proceedings are in the early stages, or (iii) there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including eventual loss, fine, penalty or business impact, if any.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Risks

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable and amounts due from related parties. As of December 31, 2013, the Company has RMB38.69 billion (US\$6.39 billion) in cash and cash equivalents, restricted cash and short-term investments, 89.16% and 10.84% of which are held by financial institutions in the PRC and international financial institutions outside of the PRC, respectively, without a single bank or financial institution holding a substantial amount of the balances. The Company's total cash and cash equivalents, restricted cash and short-term investments held at Bank of China and J.P. Morgan, the largest percentage held at one single PRC financial institution and international financial institution, represent 22.97% and 3.36% of the Company's total cash and cash equivalents, restricted cash and short-term investments as of December 31, 2013, respectively.

PRC state-owned banks, such as Bank of China, are subject to a series of risk control regulatory standards, and PRC bank regulatory authorities are empowered to take over the operation and management when any of those faces a material credit crisis. The Company does not foresee substantial credit risk with respect to cash and cash equivalents, restricted cash and short-term investments held at the PRC state-owned banks. Meanwhile, China does not have an official deposit insurance program, nor does it have an agency similar to what was The Federal Deposit Insurance Corporation (FDIC) in the U.S. In the event of bankruptcy of one of the financial institutions in which the Company has deposits or investments, it may be unlikely to claim its deposits or investments back in full. The Company selected reputable international financial institutions with high rating rates to place its foreign currencies. The Company regularly monitors the rating of the international financial institutions in case of any defaults. There has been no recent history of default in relation to these financial institutions.

Accounts receivable are typically unsecured and derived from revenue earned from customers and agents in China, which are exposed to credit risk. The risk is mitigated by credit evaluations the Company performs on its customers and its ongoing monitoring process of outstanding balances. The Company maintains reserves for estimated credit losses and these losses have generally been within its expectations.

Amounts due from related parties are typically unsecured, interest-free and repayable on demand. In evaluating the collectability of the amounts due from related parties balance, the Company considers many factors, including the related parties' repayment history and their credit-worthiness. An allowance for doubtful accounts is made when collection of the full amount is no longer probable.

Business and economic risks

The Company participates in a dynamic high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations or cash flows: changes in the overall demand for services and products; changes in business offerings; competitive pressures due to new entrants; advances and new trends in new technologies and industry standards; changes in bandwidth suppliers; changes in certain strategic relationships or customer relationships; regulatory considerations; copyright regulations; and risks associated with the Company's ability to attract and retain employees necessary to support its growth.

No customer or any Baidu Union member generated greater than 10% of total revenues in any of the periods presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Risks (Continued)

The Company's operations could be adversely affected by significant political, economic and social uncertainties in the PRC.

Currency convertibility risk

Substantially all of the Company's businesses are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through the Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other regulatory institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

Foreign currency exchange rate risk

The functional currency and the reporting currency of the Company are the US\$ and RMB, respectively. The Company's exposure to foreign currency exchange rate risk primarily relates to cash and cash equivalents, short-term investments and notes payable denominated in the US\$. On June 19, 2010, the People's Bank of China announced the end of the RMB's de facto peg to the US\$, a policy which was instituted in late 2008 in the face of the global financial crisis, to further reform the RMB exchange rate regime and to enhance the RMB's exchange rate flexibility. The exchange rate floating bands will remain the same as previously announced in the inter-bank foreign exchange market. The depreciation of the US\$ against RMB was approximately 2.83% in 2013. Any significant revaluation of RMB may materially and adversely affect the Company's cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, the ADS in US\$. As a result, an appreciation of RMB against the US\$ would result in foreign currency translation losses when translating the net assets of the Company from the US\$ into RMB.

Derivative Instruments

ASC topic 815 ("ASC 815"), *Derivatives and Hedging*, requires all contracts which meet the definition of a derivative to be recognized on the balance sheet as either assets or liabilities and recorded at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in earnings or in other comprehensive income depending on the use of the derivative and whether it qualifies for hedge accounting. Changes in fair values of derivatives not qualified as hedges are reported in earnings. The estimated fair values of derivative instruments are determined at discrete points in time based on the relevant market information. These estimates are calculated with reference to the market rates using industry standard valuation techniques. The fair value of the derivative instruments held by the Company was insignificant for all years presented.

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3. BUSINESS COMBINATIONS

Business Combinations in 2013:

Acquisition of 91 Wireless

On October 1, 2013, the Company acquired 100% of the outstanding ordinary shares of 91 Wireless Websoft Limited (“91 Wireless”), a leading Chinese mobile application marketplaces and mobile games operator, with which the Company expects to enhance its ability and market share in mobile online marketing business. The results of 91 Wireless’s operations have been included in the Company’s consolidated financial statements since October 1, 2013.

Among the total purchase consideration, US\$1.83 billion was paid upon the consummation of the acquisition and US\$10.00 million was deposited in an escrow account in case of any breach of the representations and warranties made upon the acquisition or indemnifiable loss incurred, if any, such as claims, damages or penalties. The escrowed amount will be released and transferred to the original shareholders after a period of 18 months from the acquisition date. The remaining of the consideration represents the settlement of the pre-existing relationships between the Company and 91 Wireless, which was insignificant.

The Company has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed, resulting from which the amount of goodwill was determined and recognized as of the acquisition date. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of October 1, 2013, the date of acquisition:

	RMB	US\$
	(In thousands)	
Purchase consideration	11,196,235	1,849,486
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	483,341	79,842
Intangible assets, net	1,146,300	189,355
Deferred tax liabilities, noncurrent	(278,346)	(45,979)
Goodwill	9,844,940	1,626,268

The Company has evaluated the fair value of the acquired intangible assets and has assigned the following value and estimated useful life to those intangible assets: a user list of RMB359.80 million (US\$59.43 million) with a useful life of 3.3 years, customer relationships of RMB302.00 million (US\$49.89 million) with a useful life of 3.3 years, trademarks of RMB289.00 million (US\$47.74 million) with a useful life of 10.0 years, software of RMB114.10 million (US\$18.85 million) with a useful life of 5.3 years, and developer relationships of RMB81.4 million (US\$13.45 million) with a useful life of 2.3 years.

Goodwill, which is not tax deductible, is primarily attributable to synergies expected to be achieved from the acquisition. The synergies mainly come from the enhancement of the Company’s leading position on the rapidly emerging mobile area, especially the distribution of applications for mobile devices, which could better promote the Company’s products, reduce costs and expenses by sharing the infrastructure, distribution channel and common research and development results, and further foster an ecosystem with better user experience for mobile products, stronger user loyalty, and greater value for both customers and developers that enhance the Company’s monetization ability on the emerging mobile markets.

The Company recognized RMB16.70 million (US\$2.76 million) of acquisition related costs which were included in general and administrative expenses in the year ended December 31, 2013.

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BAIDU, INC.
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3. BUSINESS COMBINATIONS (CONTINUED)

Business Combinations in 2013: (Continued)

The amount of revenue and net income of 91 Wireless included in the Company's consolidated statements of comprehensive income from the acquisition date to December 31, 2013 were RMB259.84 million (US\$42.92 million) and RMB27.84 million (US\$4.60 million), respectively.

The following unaudited pro forma consolidated financial information for the years ended December 31, 2012 and 2013 are presented as if the acquisition had occurred at the beginning of the periods presented. These pro forma results have been prepared for comparative purpose only and do not purport to be indicative of what operating results would have been had the acquisition actually taken place on the date indicated.

Pro forma consolidated statements of comprehensive income

	For the years ended December 31,		
	2012 RMB	2013 RMB (In thousands)	2013 US\$
Revenue	22,611,444	32,578,828	5,381,639
Net income attributable to Baidu, Inc.	10,285,828	10,557,846	1,744,032

These amounts have been derived after applying the Company's accounting policies and adjusting the results of 91 Wireless to reflect the additional amortization that would have been charged assuming the fair value adjustments to intangible assets had been applied on January 1, 2012.

Other acquisitions

The Company also completed other business combinations during 2013, which the Company expects to complement its existing business and achieve significant synergies. The results of the acquired entities' operations have been included in the Company's consolidated financial statements since their respective dates of acquisition.

The Company has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the fair value of noncontrolling interests, resulting from which the amount of goodwill was determined and recognized as of the respective acquisition dates. The following table summarizes the estimated aggregate fair values of the assets acquired, liabilities assumed and the noncontrolling interests as of the respective dates of acquisition:

	RMB	US\$
	(In thousands)	
Purchase consideration	3,865,378	638,514
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	467,159	77,169
Intangible assets, net	796,415	131,558
Deferred tax liabilities, noncurrent	(112,233)	(18,540)
Noncontrolling interests	(427,813)	(70,670)
Goodwill	3,141,850	518,997

Goodwill, which is not tax deductible, is primarily attributable to the synergies expected to be achieved from the acquisitions.

BAIDU, INC.
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3. BUSINESS COMBINATIONS (CONTINUED)

Business Combinations in 2013: (Continued)

The Company is unable to ascertain the acquisition date fair value of certain assets acquired and liabilities assumed and the associated adjustments necessary to complete the purchase price allocation disclosures for one of the acquisitions. As a result, the accounting for the business combination is incomplete as of the date when the financial statements are issued. The financial statements reflected provisional amounts used to record the transaction. As information subsequently becomes available, such provisional amounts shall be retrospectively adjusted.

Either the results of operations since the respective acquisition dates or pro forma results of operations of these acquirees were not presented because the effects of these business combinations, individually and in the aggregate, were not material to the Company's consolidated results of operations.

The valuations used in the purchase price allocation for the acquisitions in 2013 were determined by the Company with the assistance of an independent third party valuation firm. The valuation reports considered generally accepted valuation methodologies such as the income, market and cost approaches. As the acquirees are all private companies, the fair value estimates of noncontrolling interests are based on significant inputs that market participants would consider, which mainly include (a) discount rates, (b) a projected terminal values based on EBITDA, (c) financial multiples of companies in the same industries and (d) adjustments for lack of control or lack of marketability.

Business Combinations in 2012:

During the year ended December 31, 2012, the Company completed several business combinations, which the Company expects to complement its existing business and achieve significant synergies. The acquired entities were considered immaterial, both individually and in aggregate. The results of the acquired entities' operations have been included in the Company's consolidated financial statements since their respective dates of acquisition.

The Company has completed the valuations necessary to assess the fair values of the tangible and intangible assets acquired and liabilities assumed and the fair value of noncontrolling interests, resulting from which the amount of goodwill was determined and recognized as of the respective acquisition dates. The following table summarizes the estimated aggregate fair values of the assets acquired, liabilities assumed and the noncontrolling interests as of the respective date of acquisition:

	<u>RMB</u> <u>(In thousands)</u>
Purchase consideration	1,190,717
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	91,095
Intangible assets, net	664,380
Deferred tax liabilities, noncurrent	(72,222)
Noncontrolling interests	(32,507)
Redeemable noncontrolling interests	(100,101)
Pre-existing equity method investments	(817,951)
Goodwill	1,458,023

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3. BUSINESS COMBINATIONS (CONTINUED)

Business Combinations in 2012: (Continued)

The aggregate purchase price allocation included the acquisitions of Qiyi.com Inc (“Qiyi”) and certain other acquirees. Qiyi and one of the other acquirees were equity method investees of the Company prior to their respective acquisitions. The Company applied the equity method of accounting by recognizing its share of the profit or loss in these equity method investees up to their respective dates of acquisition.

The valuations used in the purchase price allocation described above were determined by the Company with the assistance of independent third party valuation firms. The valuation reports considered generally accepted valuation methodologies such as the income, market and cost approaches. As the acquirees are all private companies, the fair value estimates of pre-existing equity method investments or noncontrolling interests are based on significant inputs that market participants would consider, which mainly include (a) discount rates, (b) a projected terminal values based on EBITDA, (c) financial multiples of companies in the same industries and (d) adjustments for lack of control or lack of marketability.

Goodwill, which is not tax deductible, is primarily attributable to the synergies expected to be achieved from the acquisitions.

Either the results of operations since the acquisition dates or pro forma results of operations of the acquirees were not presented because the effects of these business combinations, individually and in the aggregate, were not material to the Company’s consolidated results of operations.

Business Combinations in 2011:

Acquisition of Qunar

On July 20, 2011, the Company acquired 62.01% of the equity interest of Qunar Cayman Islands Limited (“Qunar”), a leading provider of travel search products in China, with which the Company expects to achieve significant synergies. The results of Qunar’s operations have been included in the Company’s consolidated financial statements since July 20, 2011.

The total purchase consideration of US\$300.28 million was paid in cash. The following table summarizes the estimated fair values of the assets acquired, liabilities assumed and the noncontrolling interests as of July 20, 2011, the date of acquisition:

	<u>RMB</u> <u>(In thousands)</u>
Purchase consideration	1,939,569
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	115,515
Intangible assets, net	711,570
Deferred tax liabilities, noncurrent	(136,856)
Noncontrolling interests	(102,922)
Redeemable noncontrolling interests	(942,004)
Goodwill	2,294,266

The redeemable noncontrolling interests were reclassified to permanent noncontrolling interests on November 1, 2013 when Qunar completed its initial public offering (“Qunar IPO”) in National Association of Securities Dealers Automated Quotations (“NASDAQ”) in the U.S. and the holders’ redemption rights terminated (Note 15).

3. BUSINESS COMBINATIONS (CONTINUED)

Business Combinations in 2011: (Continued)

Other acquisitions

The Company also completed other acquisitions during 2011, including an acquisition of a subsidiary and acquisitions of groups of operating assets, each of which met the definition of a business combination in accordance with ASC topic 805 (“ASC 805”), *Business Combinations*. These acquisitions were insignificant both individually and in aggregate.

4. INVESTMENTS

Short-term Investments

As of December 31, 2013, all of the held-to-maturity investments were time deposits in commercial banks with a maturity of less than one year. The available-for-sale investments are debt securities with a maturity of less than one year purchased from commercial banks and other financial institutions as well as equity securities in a listed entity.

During the years ended December 31, 2011, 2012 and 2013, the Company recorded interest income from its short-term investments, of RMB149.35 million, RMB726.40 million and RMB1.07 billion (US\$176.98 million) in the consolidated statements of comprehensive income, respectively.

Long-term Investments

The Company’s long-term investments consist of cost method investments, equity method investments and held-to-maturity investments with original and remaining maturities of greater than 12 months.

Cost method investments

The carrying amount of Company’s cost method investments was RMB269.42 million and RMB415.20 million (US\$68.59 million) as of December 31, 2012 and 2013, respectively. The increase is primarily due to additional investments in 2013, in which the Company does not have significant influence.

Equity method investments

As of December 31, 2013, the Company holds several equity investments through its subsidiaries or VIEs, all of which were accounted for under the equity method since the Company can exercise significant influence but does not own a majority equity interest in or control them. These investments were not significant either individually or in aggregate. The carrying amount of Company’s equity method investments was RMB20.35 million and RMB219.58 million (US\$36.27 million) as of December 31, 2012 and 2013, respectively.

The total impairment charges on long-term investments were RMB47.89 million, RMB169.18 million and RMB17.52 million (US\$2.89 million) for the years ended December 31, 2011, 2012 and 2013, respectively.

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4. INVESTMENTS (CONTINUED)

Investments classified as held-to-maturity investments and available-for-sale investments as of December 31, 2012 and 2013 were as follows:

	As of December 31, 2012				Fair value RMB
	Amortized cost RMB	Gross un- recognized holding gains RMB	Gross unrecognized holding losses RMB (In thousands)	Gross unrealized gains RMB	
Short-term investments:					
Held-to-maturity investments					
Fixed-rate investments	17,072,751	30,886	(17,385)		17,086,252
Available-for-sale investments					
Fixed-rate debt investments	3,500,945			13,454	3,514,399
Adjustable-rate debt investments	17,073			—	17,073
Long-term investments:					
Fixed-rate held-to-maturity investments	513,728	886	—		514,614

	As of December 31, 2013				Fair value RMB	Fair value US\$
	Amortized cost RMB	Gross un- recognized holding gains RMB	Gross unrecognized holding losses RMB (In thousands)	Gross unrealized gains RMB		
Short-term investments:						
Held-to-maturity investments						
Fixed-rate investments	19,339,250	51,897	(21,080)		19,370,067	3,199,707
Available-for-sale investments						
Fixed-rate debt investments	7,603,087			24,871	7,627,958	1,260,049
Adjustable-rate debt investments	514,433			—	514,433	84,978
Equity investment	604,878			648,242	1,253,120	207,001

Held-to-maturity investments are stated at amortized cost. Available-for-sale equity investment represents an investment in the equity securities of a publicly listed company. As the Company does not have significant influence over the investee, the investment was classified as available-for-sale and reported at fair value. The methodology used in the determination of fair values for held-to-maturity investments and available-for-sale investments were summarized in Note 21.

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5. ACCOUNTS RECEIVABLE

	As of December 31,		
	2012 RMB	2013 RMB (In thousands)	2013 US\$
Accounts receivable	1,259,251	2,264,660	374,095
Allowance for doubtful accounts	(5,768)	(43,814)	(7,237)
	<u>1,253,483</u>	<u>2,220,846</u>	<u>366,858</u>

The movements in the allowance for doubtful accounts were as follows:

	2011 RMB	2012 RMB	2013 RMB	2013 US\$
	(In thousands)			
Balance as of January 1	2,223	5,806	5,768	953
Amounts charged to (credited against) costs and expenses	3,583	(38)	38,046	6,284
Balance as of December 31	<u>5,806</u>	<u>5,768</u>	<u>43,814</u>	<u>7,237</u>

6. OTHER CURRENT ASSETS

	As of December 31,		
	2012 RMB	2013 RMB (In thousands)	2013 US\$
Prepaid expenses	143,180	217,918	35,997
Advances to suppliers	107,024	539,608	89,137
Tax prepayments	727	266,630	44,044
Receivables from online payment agencies and others	129,476	811,109	133,985
	<u>380,407</u>	<u>1,835,265</u>	<u>303,163</u>

7. FIXED ASSETS

	As of December 31,		
	2012 RMB	2013 RMB (In thousands)	2013 US\$
Computer equipment	4,973,104	6,562,127	1,083,986
Office building	911,482	911,482	150,566
Office building related facility, machinery and equipment	156,240	158,174	26,128
Vehicles	7,519	14,996	2,477
Office equipment	212,368	242,065	39,986
Leasehold improvements	193,751	234,180	38,684
Construction in progress	148,717	1,199,086	198,076
	<u>6,603,181</u>	<u>9,322,110</u>	<u>1,539,903</u>
Accumulated depreciation	<u>(2,715,304)</u>	<u>(3,951,842)</u>	<u>(652,798)</u>
	<u>3,887,877</u>	<u>5,370,268</u>	<u>887,105</u>

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7. FIXED ASSETS (CONTINUED)

The Company obtained certain computer servers and equipment by entering into capital leases. The gross amount and the accumulated depreciation of these servers and equipment are RMB104.11 million and RMB23.54 million, respectively, as of December 31, 2012 and RMB149.67 million (US\$24.72 million) and RMB59.46 million (US\$9.82 million), respectively, as of December 31, 2013. Future minimum lease payments of RMB92.06 million are payable in the amounts of RMB49.16 million, RMB30.40 million, RMB12.46 million, RMB0.04 million and nil in 2014, 2015, 2016, 2017 and 2018, respectively.

Depreciation expense of the fixed assets, including assets under capital leases, was RMB747.74 million, RMB1.20 billion and RMB1.64 billion (US\$270.68 million) for the years ended December 31, 2011, 2012 and 2013, respectively. The Company recognized impairment loss on fixed assets of nil, nil and RMB2.06 million (US\$0.34 million) for the years ended December 31, 2011, 2012 and 2013, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The changes in the carrying amount of goodwill were as follows:

	<u>2011</u> RMB	<u>2012</u> RMB	<u>2013</u> RMB	<u>2013</u> US\$
			(In thousands)	
Balance as of January 1	63,686	2,419,542	3,877,564	640,528
Goodwill acquired	2,468,874	1,458,023	12,986,790	2,145,265
Impairment losses	(113,011)	—	—	—
Foreign currency translation adjustment	(7)	(1)	(4)	(1)
Balance as of December 31	<u>2,419,542</u>	<u>3,877,564</u>	<u>16,864,350</u>	<u>2,785,792</u>

Intangible Assets

Finite-lived intangible assets

	<u>As of December 31, 2012</u>		
	<u>Gross carrying value</u> RMB	<u>Accumulated amortization</u> RMB	<u>Net carrying value</u> RMB
		(In thousands)	
Land use right	298,600	(16,498)	282,102
Customer relationships	307,104	(64,420)	242,684
Software	212,848	(75,131)	137,717
Trademarks	320,527	(46,639)	273,888
User list	233,570	(78,205)	155,365
Licensed copyrights of video contents	411,666	(79,842)	331,824
Others	181,250	(27,575)	153,675
	<u>1,965,565</u>	<u>(388,310)</u>	<u>1,577,255</u>

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8. GOODWILL AND INTANGIBLE ASSETS (CONTINUED)

Intangible Assets (Continued)

	As of December 31, 2013			
	Gross carrying value	Accumulated amortization	Net carrying value	Net carrying value
	RMB	RMB	RMB	US\$
	(In thousands)			
Land use right	519,474	(26,968)	492,506	81,356
Customer relationships	682,715	(144,451)	538,264	88,915
Software	478,909	(152,711)	326,198	53,884
Trademarks	821,338	(97,122)	724,216	119,632
User list	789,975	(219,377)	570,598	94,256
Licensed copyrights of video contents	1,012,534	(469,787)	542,747	89,655
Others	496,439	(71,063)	425,376	70,267
	<u>4,801,384</u>	<u>(1,181,479)</u>	<u>3,619,905</u>	<u>597,965</u>

The Company recognized impairment loss on intangible assets of RMB8.04 million, nil and RMB4.62 million (US\$0.76 million) for the years ended December 31, 2011, 2012 and 2013, respectively. Amortization expense of intangible assets for the years ended December 31, 2011, 2012 and 2013 was RMB65.67 million, RMB234.00 million and RMB949.85 million (US\$156.90 million), respectively. Estimated amortization expense relating to the existing intangible assets with finite lives for each of the next five years is as follows:

	RMB	US\$
	(In thousands)	
For the years ending December 31,		
2014	1,058,658	174,878
2015	733,064	121,094
2016	512,956	84,734
2017	240,070	39,657
2018	194,715	32,165

Indefinite-lived intangible assets

	As of December 31,		
	2012	2013	2013
	RMB	RMB	US\$
	(In thousands)		
Domain names	9,360	9,360	1,546
Trademarks	1,050	1,050	174
	<u>10,410</u>	<u>10,410</u>	<u>1,720</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 and 2013**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	As of December 31,		
	2012	2013	2013
	RMB	RMB	US\$
		(In thousands)	
Accrued payroll and welfare	407,681	759,952	125,535
Accrued operating expenses	973,039	2,279,812	376,598
Tax payable	425,320	428,801	70,833
Interest payable	32,273	108,554	17,932
Distributors' deposits	68,917	76,925	12,707
Purchase of fixed assets and spare parts	429,520	966,585	159,668
Traffic acquisition costs	366,993	640,643	105,827
Bandwidth costs	180,053	433,647	71,633
Content acquisition costs	236,232	481,461	79,532
Fund collected on behalf of service providers	132,320	370,548	61,210
Payable for business acquisitions	318,050	29,902	4,939
Payable to group-buying merchants	—	229,693	37,943
Others	236,438	555,615	91,782
	<u>3,806,836</u>	<u>7,362,138</u>	<u>1,216,139</u>

Payable for business acquisitions mainly represents the amount to be paid to the original shareholders at the end of the escrow periods or considerations to be paid for other acquisitions based on their respective payment schedules.

10. LOANS PAYABLE***Long-term Loans***

On July 19, 2011, the Company borrowed a two-year unsecured loan from Goldman Sachs Lending Partners LLC of RMB2.12 billion (US\$350.00 million), at an annual interest rate of 1.30%. The loan was used to finance the acquisition of Qunar, and was fully repaid on July 14, 2013 when it became due.

On September 18, 2012, the Company entered into a loan agreement with Australia and New Zealand Banking Group Limited (Hong Kong Branch), pursuant to which the Company is committed to borrow an unsecured Australian Dollars ("AU\$") denominated loan with a floating interest rate. The loan commitment amounting to RMB567.56 million (AU\$105.00 million) is intended for the general working capital of the Company. On October 17, 2012, the Company drew down RMB297.29 million (AU\$55.00 million) with a term of two years under the loan commitment and the remaining commitment of AU\$50.00 million was cancelled by both parties. In connection with the drawn down of the loan commitment, the Company entered into a currency swap agreement, pursuant to which the loan will be settled in a fixed US\$ amount of US\$56.76 million with a fixed annual interest rate of 2.75% during the term of the loan.

On July 24, 2013, the Company entered into a loan agreement with Sumitomo Mitsui Banking Corporation, pursuant to which the Company is committed to borrow an unsecured US\$ denominated loan of RMB908.06 million (US\$150.00 million) with a floating interest rate. The loan is intended for the general working capital of the Company. On July 29, 2013, the Company drew down RMB908.06 million (US\$150.00 million) with a term of two years under the facility commitment. In connection with the loan agreement, the Company entered into an interest swap agreement, pursuant to which the loan will be settled with a fixed annual interest rate of 1.17% during the term of the loan.

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10. LOANS PAYABLE (CONTINUED)

Long-term Loans (Continued)

On August 13, 2013, the Company entered into a loan agreement with Australia and New Zealand Banking Group Limited (Hong Kong Branch), pursuant to which the Company is committed to borrow an unsecured AU\$ denominated loan of RMB1.27 billion (AU\$235.00 million) with a floating interest rate. The loan is intended for the general working capital of the Company. On August 19, 2013, the Company drew down RMB1.27 billion (AU\$235.00 million) with a term of two years under the facility commitment. In connection with the loan agreement, the Company entered into a currency swap agreement, pursuant to which the loan will be settled in a fixed US\$ amount of US\$200.00 million with a fixed annual interest rate of 1.65% during the term of the loan.

The interest swap agreement and currency swap agreements met the definition of a derivative in accordance with ASC 815. The fair value of the derivatives related to the interest swap agreement and currency swap agreements was insignificant for the years ended December 31, 2012 and 2013.

11. NOTES PAYABLE

On November 28, 2012, the Company issued and sold publicly two tranches of unsecured senior notes: (i) an aggregate principal amount of US\$750.00 million which will mature on November 28, 2017 (the "2017 Notes"), and (ii) an aggregate principal amount of US\$750.00 million which will mature on November 28, 2022 (the "2022 Notes"). On August 6, 2013, the Company issued and sold publicly another tranche of unsecured senior notes with an aggregate principal amount of US\$1.00 billion which will mature on August 6, 2018 (the "2018 Notes"). The 2017 Notes, 2018 Notes and 2022 Notes are collectively referred to as the "Notes".

The 2017 Notes bear interest at the rate of 2.25% per annum and the 2022 Notes bear interest at the rate of 3.50% per annum. Interests are payable semi-annually in arrears on and of each year, beginning on May 28, 2013. The 2018 Notes bear interest at the rate of 3.25% per annum. Interests are payable semi-annually in arrears on and of each year, beginning on February 6, 2014. At maturity, the Notes are payable at their principal amount plus accrued and unpaid interest thereon.

The net proceeds from the Notes, after deducting offering expenses, were RMB9.30 billion and RMB6.07 billion (US\$1.00 billion) for the years ended December 31, 2012 and 2013, respectively, which will be used for general corporate purposes.

The Notes do not contain any financial covenants or other significant restrictions. In addition, the Notes are unsecured and rank lower than any secured obligation of the Group and have the same liquidation priority as any other unsecured liabilities of the Group, but senior to those expressly subordinated obligations, if any. The Company may, at its discretion, redeem all or any portion of the Notes at any time, at the principal amount plus any unpaid interest. As of December 31, 2013, the Company does not intend to redeem any portion of the Notes prior to the stated maturity dates. The Company has the obligation to redeem the Notes if a change in control occurs as defined in the indenture of the Notes.

The Notes were issued at a discount amounting to RMB20.47 million (US\$3.38 million). The issuance costs of RMB79.85 million (US\$13.19 million) were capitalized in other non-current assets on the consolidated balance sheets. Both the discount and the issuance costs are amortized as interest expense using the effective interest rate method through the maturity dates of the Notes. The effective interest rate was 2.36%, 3.39% and 3.59% for the 2017 Notes, the 2018 Notes and the 2022 Notes, respectively.

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11. NOTES PAYABLE (CONTINUED)

The following table summarizes the aggregate required repayments of the principal amounts of the Company's long-term debts, including the notes payable and loans payable (Note 10), in the succeeding five years and thereafter:

	RMB	US\$
	(In thousands)	
For the years ending December 31,		
2014	343,608	56,760
2015	2,118,795	350,000
2016	—	—
2017	4,540,275	750,000
2018	6,053,700	1,000,000
Thereafter	4,540,275	750,000

12. INCOME TAXES

The Company is incorporated in the Cayman Islands and conducts its primary business operations through the subsidiaries and VIEs in the PRC. It also has intermediate holding companies in the British Virgin Islands ("BVI") and Hong Kong. Under the current laws of the Cayman Islands and BVI, the Company is not subject to tax on income or capital gains. Additionally, upon payments of dividends by the Company to its shareholders, no Cayman Islands and BVI withholding tax will be imposed. Under the Hong Kong tax laws, subsidiaries in Hong Kong are exempted from income tax on their foreign-derived income and there are no withholding taxes in Hong Kong on remittance of dividends.

China

Under the Enterprise Income Tax ("EIT") Law, which has been effective since January 1, 2008, domestic enterprises and Foreign Investment Enterprises (the "FIE") are subject to a unified 25% enterprise income tax rate, except for certain entities that are entitled to tax holidays. Tax holidays mainly include preferential EIT rate for the PRC subsidiaries and VIEs which were recognized as a qualified "High and New Technology Enterprise" ("HNTE") or "Key Software Enterprise" ("KSE").

The HNTE certificate is effective for a period of 3 years, during which the entity is entitled to a preferential tax rate of 15%. The KSE certificate is effective for a period of 2 years, during which the entity is entitled to a preferential tax rate of 10%. Baidu Online obtained the KSE certificate and the related tax holiday will expire on January 1, 2015; certain other PRC subsidiaries and VIEs, including Baidu Netcom, obtained the HNTE certificate which will expire on January 1, 2014, 2015 and 2016. An entity could re-apply for the HNTE or KSE certificate when the prior certificate expires. Historically, all of the Company's subsidiaries and VIEs successfully re-applied for the certificates when the prior ones expired.

A certificate for the current year might be obtained in the following year as a result of the stringent inspection and approval process by the governmental authorities. The Company would record an income tax reversal in the year when the certificate is obtained for the over-paid or over-accrued provisional tax in connection with the grant of a more favorable tax rate for the prior year.

Under the current EIT Law, dividends paid by an FIE to any of its foreign non-resident enterprise investors are subject to a 10% withholding tax. Thus, the dividends, if and when payable by the Company's PRC subsidiaries to their offshore parent entities, would be subject to 10% withholding tax. A lower tax rate will be applied if such foreign non-resident enterprise investor's jurisdiction of incorporation has signed a tax

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12. INCOME TAXES (CONTINUED)

China (Continued)

treaty or arrangement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income with China. There is such a tax arrangement between PRC and Hong Kong. Thus, the dividends, if and when payable by the Company's PRC subsidiaries to the offshore parent entities located in Hong Kong, would be subject to 5% withholding tax rather than statutory rate of 10% provided that the offshore entities located in Hong Kong meet the requirements stipulated by relevant PRC tax regulations. Furthermore, pursuant to the applicable circular and interpretations of the current EIT Law, dividends from earnings created prior to 2008 but distributed after 2008 are not subject to withholding income tax.

Moreover, the current EIT Law treats enterprises established outside of China with "effective management and control" located in China as PRC resident enterprises for tax purposes. The term "effective management and control" is generally defined as exercising overall management and control over the business, personnel, accounting, properties, etc. of an enterprise. The Company, if considered a PRC resident enterprise for tax purposes, would be subject to the PRC Enterprise Income Tax at the rate of 25% on its worldwide income for the period after January 1, 2008. As of December 31, 2013, the Company has not accrued for PRC tax on such basis. The Company will continue to monitor its tax status.

Japan

Baidu Japan Inc. ("Baidu Japan") with a paid-in capital in excess of JPY100.00 million is subject to national income tax of 30%. Baidu Japan is also subject to inhabitant tax, assessed by both prefectures and municipalities. Inhabitant tax is computed as a percentage of national income tax. The per capita tax is based on the Company's capitalization and the number of employees. In addition, Baidu Japan is subject to a corporate enterprise tax on a pro forma basis based on the amount of taxable profit subject to the corporate tax, added-value components, (e.g., labor costs, net interest and rental payments, income/loss for current year) and a capital component. Baidu Japan has been in a cumulative loss position since its inception.

The Company had minimal operations in jurisdictions other than the PRC. Income (loss) before income taxes consists of:

	For the years ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
				(In thousands)
PRC	8,217,522	12,537,331	13,815,469	2,282,153
Non-PRC	(408,343)	(571,894)	(1,630,453)	(269,332)
	<u>7,809,179</u>	<u>11,965,437</u>	<u>12,185,016</u>	<u>2,012,821</u>

The pre-tax losses from non-PRC operations consist primarily of operating costs, administration expenses, interest expenses and share-based compensation expenses.

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12. INCOME TAXES (CONTINUED)

Income taxes consist of:

	For the years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
	(In thousands)			
Current income tax	1,337,469	1,888,378	2,006,980	331,530
Income tax refund due to reduced tax rate	(83,907)	(255,189)	(508,686)	(84,029)
Adjustments of deferred tax assets due to reduced tax rates	18,216	—	21,573	3,564
Deferred income tax (benefit) expense	(82,917)	(59,030)	309,063	51,053
	<u>1,188,861</u>	<u>1,574,159</u>	<u>1,828,930</u>	<u>302,118</u>

The reconciliation of tax computed by applying aforementioned respective statutory income tax rate to pre-tax income is as follows:

	For the years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
	(In thousands, except for per share data)			
Expected taxation at PRC EIT statutory rate	1,952,295	2,991,359	3,046,254	503,205
Effect of differing tax rates in different jurisdictions	43,260	138,931	312,938	51,694
Permanent differences - non-taxable income	(2,804)	(58,157)	(69,673)	(11,509)
Permanent differences - non-deductible expenses	9,989	58,201	168,735	27,872
Tax incentives relating to research and development expenditures	(105,966)	(154,977)	(318,652)	(52,638)
Effect of tax holidays inside PRC	(715,897)	(1,489,331)	(2,131,233)	(352,054)
Over-accrued EIT for previous years	(66,960)	(15,084)	(32,982)	(5,448)
Withholding tax on PRC subsidiaries' undistributed earnings	—	—	560,243	92,546
Addition to valuation allowance	74,944	103,217	293,300	48,450
Taxation for the year	<u>1,188,861</u>	<u>1,574,159</u>	<u>1,828,930</u>	<u>302,118</u>
Effective tax rate	15.22%	13.16%	15.01%	15.01%
Effect of tax holidays inside PRC on basic earnings per Class A and Class B ordinary share	<u>20.52</u>	<u>42.63</u>	<u>60.92</u>	<u>10.06</u>

The Company's effective tax rate increased in year 2013 as compared with year 2012 which was primarily due to the withholding tax accrued by the Company for the potential remittance of earnings from the PRC subsidiaries to their offshore parent companies in the form of dividend distribution.

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12. INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to the deferred tax balances at December 31, 2012 and 2013 are as follows:

	As of December 31,		
	2012 RMB	2013 RMB (In thousands)	2013 US\$
Provision for doubtful receivables	1,655	10,877	1,797
Fixed assets depreciation	13,367	28,785	4,755
Net operating loss carry-forward	333,397	580,963	95,968
Accrued expenses, payroll and others	214,211	479,446	79,199
Deferred tax assets	562,630	1,100,071	181,719
Valuation allowance	(349,012)	(715,287)	(118,157)
Deferred tax assets, net	<u>213,618</u>	<u>384,784</u>	<u>63,562</u>

	As of December 31,		
	2012 RMB	2013 RMB (In thousands)	2013 US\$
Long-lived assets arising from acquisitions	289,482	619,550	102,342
Withholding tax on PRC subsidiaries' undistributed earnings	—	580,720	95,928
Deferred tax liabilities	<u>289,482</u>	<u>1,200,270</u>	<u>198,270</u>

As of December 31, 2013, the Company had net operating losses of approximately RMB2.22 billion (US\$365.89 million) deriving from entities in the PRC, Hong Kong and Japan, which can be carried forward after certain reconciliation per tax regulation to offset future net profit for income tax purposes. The Japan net operating loss will expire beginning January 1, 2015; the PRC net operating loss will expire beginning January 1, 2017; and the Hong Kong net operating loss can be carried forward without an expiration date.

For those entities that were in an accumulated loss position, the Company does not believe there exists sufficient objective positive evidence that the recoverability of their net deferred tax assets is more-likely-than-not to be realized. Consequently, the Company has provided full valuation allowances on the related net deferred tax assets.

The Company has evaluated its income tax uncertainty under ASC 740. ASC 740 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company has elected to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the consolidated statements of comprehensive income. As of and for the years ended December 31, 2012 and 2013, there was no significant tax uncertainty impact on the Company's financial position and result of operations.

12. INCOME TAXES (CONTINUED)

The Company did not provide for deferred income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2012 on the basis of its intent to permanently reinvest foreign subsidiaries' earnings. As of December 31, 2013, the Company accrued withholding tax of RMB580.72 million for the potential remittance of earnings from the PRC subsidiaries to their offshore parent companies in the form of dividend distribution, because the Company believes that the underlying dividends will be distributed in the future considering future merger and acquisition activities. The Company believes that it has the ability and intent to indefinitely reinvest the remaining undistributed earnings as of December 31, 2013. If these foreign earnings were to be repatriated in the future, the related tax liability may be reduced by any foreign income taxes previously paid on these earnings. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. In the case of its VIEs, undistributed earnings were insignificant as of each of the balance sheet dates.

In general, the PRC and Japanese tax authorities have up to five and seven years, respectively, to conduct examinations of the Company's tax filings. Accordingly, the PRC subsidiaries' tax years 2009 through 2013 and the Japanese subsidiary's tax years 2007 through 2013 remain open to examination by the respective taxing jurisdictions.

13. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Company has no legal obligation for the benefits beyond the contributions. The total amounts for such employee benefits, which were expensed as incurred, were RMB381.74 million, RMB631.25 million and RMB1.05 billion (US\$172.80 million) for the years ended December 31, 2011, 2012 and 2013, respectively.

14. COMMITMENTS AND CONTINGENCIES

Capital Commitments

The Company's capital commitments relate primarily to commitments in connection with the expansion and improvement of its network infrastructure and its plan to acquire or build additional office buildings and cloud computing based data centers. Total capital commitments contracted but not yet reflected in the financial statements amounted to RMB1.56 billion (US\$257.69 million) as of December 31, 2013. All of the commitments relating to the network infrastructure are to be fulfilled within the next year and the commitments relating to the office building and cloud computing based data centers will be settled in installments as various stages of the construction plan are completed in the next four years.

Operating Lease Commitments

The Company leases facilities in the PRC under non-cancelable operating leases expiring on different dates. Payments under operating leases are expensed on a straight-line basis over the periods of the respective leases. Total rental expense for offices was RMB137.08 million, RMB196.59 million and

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14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Operating Lease Commitments (Continued)

RMB284.58 million (US\$47.01 million) for the years ended December 31, 2011, 2012 and 2013, respectively. Total operating lease expense for Internet Data Centre (“IDC”) facilities was RMB626.44 million, RMB1.07 billion and RMB1.94 billion (US\$320.47 million) for the years ended December 31, 2011, 2012 and 2013, respectively.

Future minimum payments under non-cancelable operating leases with initial terms of one-year or more consist of the following as of December 31, 2013:

	<u>RMB</u>	<u>US\$</u>
	(In thousands)	
2014	2,208,713	364,853
2015	1,134,126	187,344
2016	676,188	111,698
2017	450,928	74,488
2018	326,855	53,993
Thereafter	185,272	30,605
	<u>4,982,082</u>	<u>822,981</u>

The Group’s lease arrangements have no renewal options, rent escalation clauses, restriction or contingent rents and are all conducted with third parties.

Commitments for Licensed Copyrights

The Company enters into non-cancelable licensing agreements with third-party vendors to acquire licensed copyrights of video contents for its online video platform. Payments for licensed copyrights of video contents are recorded in “Intangible assets, net” on the consolidated balance sheets (Note 8).

Future minimum payments under non-cancelable licensing agreements consist of the following as of December 31, 2013:

	<u>RMB</u>	<u>US\$</u>
	(In thousands)	
2014	476,789	78,760
2015	55,841	9,224
2016 and thereafter	—	—
	<u>532,630</u>	<u>87,984</u>

Guarantees

The Company accounts for guarantees in accordance with ASC topic 460 (“ASC 460”), *Guarantees*. Accordingly, the Company evaluates its guarantees to determine whether (a) the guarantee is specifically excluded from the scope of ASC 460, (b) the guarantee is subject to ASC 460 disclosure requirements only, but not subject to the initial recognition and measurement provisions, or (c) the guarantee is required to be recorded in the financial statements at fair value.

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Guarantees (Continued)

The corporate by-laws require that the Company indemnify its officers and directors, as well as those who act as directors and officers of other entities at the Company's request, against expenses, judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceedings arising out of their services to the Company. In addition, the Company has entered into separate indemnification agreements with each director and each executive officer of the Company that provide for indemnification of these directors and officers under similar circumstances and under additional circumstances. The indemnification obligations are more fully described in the by-laws and the indemnification agreements. The Company purchases standard directors and officers insurance to cover claims or a portion of the claims made against its directors and officers. Since a maximum obligation is not explicitly stated in the Company's by-laws or in the indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated.

Historically, the Company has not been required to make payments related to these obligations, and the fair value for these obligations is zero on the consolidated balance sheets as of December 31, 2012 and 2013.

Litigation

The Group was involved in certain cases pending in various PRC and U.S. courts and arbitration as of December 31, 2013. These cases include copyright infringement cases, unfair competition cases, and defamation cases, among others. Adverse results in these lawsuits may include awards of damages and may also result in, or even compel, a change in the Company's business practices, which could result in a loss of revenue or otherwise harm the business of the Company.

For many proceedings, the Company is currently unable to estimate the reasonably possible loss or a range of reasonably possible losses as the proceedings are in the early stages, and/or there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. As a result, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, which includes eventual loss, fine, penalty or business impact, if any, and therefore, an estimate for the reasonably possible loss or a range of reasonably possible losses cannot be made. However, the Company believes that such matters, individually and in the aggregate, when finally resolved, are not reasonably likely to have a material adverse effect on the Company's consolidated results of operations, financial position and cash flows. With respect to the limited number of proceedings for which the Company was able to estimate the reasonably possible losses or the range of reasonably possible losses, such estimated loss amounts were insignificant.

[Table of Contents](#)BAIDU, INC.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 and 2013**15. REDEEMABLE NONCONTROLLING INTERESTS**

	2011	2012	2013	
	RMB	RMB	RMB	US\$
			(In thousands)	
Balance as of January 1	—	935,978	1,033,283	170,686
Business combination	942,004	100,101	—	—
Net losses	(10,284)	(55,804)	(61,857)	(10,218)
Other comprehensive losses	(995)	(690)	(55,420)	(9,155)
Exercise of share-based awards	—	—	464	77
Share-based compensation	1,992	5,566	11,259	1,860
Issuance of subsidiary shares	3,261	25,989	51,368	8,485
Accretion of redeemable noncontrolling interests	—	22,143	31,799	5,253
Acquisition of subsidiaries' redeemable shares from noncontrolling shareholders (1)	—	—	(121,962)	(20,147)
Reclassification of redeemable noncontrolling interests (2)	—	—	(888,934)	(146,841)
Balance as of December 31	<u>935,978</u>	<u>1,033,283</u>	<u>—</u>	<u>—</u>

- (1) The Company purchased the redeemable noncontrolling interests of Qiyi and B.D. Mobile Telecommunication Limited in the year ended December 31, 2013. The difference between the consideration paid by the Company to the noncontrolling interest holders of RMB260.40 million (US\$43.02 million), and the carrying amount of the redeemable noncontrolling interests of RMB121.96 million (US\$20.15 million), which amounted to RMB138.44 million (US\$22.87 million) was recognized in additional paid-in capital in accordance with ASC 810.
- (2) The carrying amount of the redeemable noncontrolling interests of Qunar amounting to RMB888.93 million (US\$146.84 million) was reclassified from mezzanine equity to permanent equity without reversing any prior accretions on November 1, 2013 when Qunar completed its IPO in NASDAQ and the underlying redemption rights terminated accordingly.

16. SHAREHOLDERS' EQUITY**Ordinary Shares**

Upon completion of the Company's initial public offering ("IPO") in August 2005, 16,648,877 Class B Ordinary shares were issued upon conversion of all convertible preferred shares. In addition, immediately following the closing of the IPO, the Memorandum and Articles of Association were amended and restated such that the authorized share capital consisted of 870,400,000 ordinary shares at a par value of US\$0.00005 per share, of which 825,000,000 shares were designated as Class A ordinary shares, 35,400,000 as Class B ordinary shares, and 10,000,000 shares designated as preferred shares. The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each share of Class A ordinary shares is entitled to one vote per share and is not convertible into Class B ordinary shares under any circumstances. Each share of Class B ordinary shares is entitled to ten votes per share and is convertible into one Class A ordinary share at any time by the holder thereof. Upon any transfer of Class B ordinary shares by the holder thereof to any person or entity that is not an affiliate of such holder, such Class B ordinary shares would be automatically converted into an equal number of Class A ordinary shares. There were 1,332, 40,000 and 225,079 Class B ordinary shares transferred to Class A ordinary shares in the years ended December 31, 2011, 2012 and 2013, respectively.

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16. SHAREHOLDERS' EQUITY (CONTINUED)

Ordinary Shares (Continued)

As of December 31, 2013, there were 27,492,452 and 7,537,921 Class A and Class B ordinary shares outstanding, respectively. As of December 31, 2012 and 2013, there were no preferred shares issued and outstanding.

Retained Earnings

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Company's PRC subsidiaries, being foreign invested enterprises established in China, are required to make appropriations to certain statutory reserves, namely a general reserve fund, an enterprise expansion fund, a staff welfare fund and a bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. Each of the Company's PRC subsidiaries is required to allocate at least 10% of its after-tax profits to a general reserve fund until such fund has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus funds are at the discretion of the Company's subsidiaries.

In accordance with the China Company Laws, the Company's VIEs must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely a statutory surplus fund, a statutory public welfare fund and a discretionary surplus fund. Each of the Company's VIEs is required to allocate at least 10% of its after-tax profits to the statutory surplus fund until such fund has reached 50% of its respective registered capital. Appropriations to the statutory public welfare fund and the discretionary surplus fund are made at the discretion of the Company's VIEs.

General reserve and statutory surplus funds are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. Staff welfare and bonus fund and statutory public welfare funds are restricted to capital expenditures for the collective welfare of employees. The reserves are not allowed to be transferred to the Company in terms of cash dividends, loans or advances, nor are they allowed for distribution except under liquidation.

	As of December 31,		
	2012 RMB	2013 RMB (In thousands)	2013 US\$
PRC statutory reserve funds	277,812	321,206	53,059
Unreserved retained earnings	23,760,407	34,204,180	5,650,128
Total retained earnings	24,038,219	34,525,386	5,703,187

Under PRC laws and regulations, there are restrictions on the Company's PRC subsidiaries and VIEs with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts of net assets restricted include paid in capital and statutory reserve funds of the Company's PRC subsidiaries and the net assets of the VIEs in which the Company has no legal ownership, totaling RMB2.80 billion and RMB3.72 billion (US\$0.61 billion) as of December 31, 2012 and 2013, respectively.

Furthermore, cash transfers from the Company's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

BAIDU, INC.
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16. SHAREHOLDERS' EQUITY (CONTINUED)

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component, net of tax, are as follows:

	Foreign currency translation adjustment RMB	Unrealized gains on available- for-sale investments RMB (In thousands)	Total RMB
Balance at December 31, 2012	(89,714)	11,436	(78,278)
Other comprehensive income before reclassification	190,322	730,504	920,826
Amounts reclassified from accumulated other comprehensive income	—	(62,132)	(62,132)
Net current-period other comprehensive income	190,322	668,372	858,694
Other comprehensive loss attribute to noncontrolling interests	62,680	—	62,680
Balance at December 31, 2013	163,288	679,808	843,096
Balance at December 31, 2013, in US\$	26,973	112,296	139,270

The amounts reclassified out of accumulated other comprehensive income represent realized gains on the available-for-sale investments upon their sales, which were then recorded in "Other income, net" in the consolidated statements of comprehensive income. The changes in accumulated other comprehensive income (loss) by component for the year ended December 31, 2012 were insignificant.

The following table sets forth the tax effect allocated to each component of other comprehensive income for the year ended December 31, 2013:

	Tax effect	
	RMB	US\$
	(In thousands)	
Unrealized gains on available-for-sale investments		
Unrealized holding gains during the year	(1,157)	(191)
Reclassified for gains realized	—	—
Net unrealized gains	(1,157)	(191)
Foreign currency translation adjustment	—	—
Other comprehensive income (loss)	(1,157)	(191)

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17. EARNINGS PER SHARE (“EPS”)

A reconciliation of net income attributable to Baidu, Inc. in the consolidated statements of comprehensive income to the numerator for the computation of basic and diluted per share for the years ended December 31, 2011, 2012 and 2013 is as follows:

	For the years ended December 31,			
	2011	2012	2013	2013
	RMB	RMB	RMB	US\$
Net income attributable to Baidu, Inc.	6,638,637	10,456,028	10,518,966	1,737,609
Adjustments to the carrying amount of redeemable noncontrolling interests	—	(22,143)	(31,799)	(5,253)
Numerator for EPS computation	6,638,637	10,433,885	10,487,167	1,732,356

The following table sets forth the computation of basic and diluted net income attributable to Baidu, Inc. per share for Class A and Class B ordinary shares.

	For the years ended December 31,							
	2011		2012		2013			
	Class A RMB	Class B RMB	Class A RMB	Class B RMB	Class A RMB	Class A US\$	Class B RMB	Class B US\$
(In thousands, except for number of shares, per share and per ADS data)								
Earnings per share – basic:								
Numerator								
Allocation of net income attributable to Baidu, Inc.	5,153,755	1,484,882	8,106,219	2,327,666	8,175,647	1,350,520	2,311,520	381,836
Denominator								
Weighted average ordinary shares outstanding	27,086,098	7,803,952	27,145,208	7,794,630	27,274,769	27,274,769	7,711,459	7,711,459
Denominator used for earnings per share	27,086,098	7,803,952	27,145,208	7,794,630	27,274,769	27,274,769	7,711,459	7,711,459
Earnings per share – basic	190.27	190.27	298.62	298.62	299.75	49.52	299.75	49.52
Earnings per share – diluted:								
Numerator								
Allocation of net income attributable to Baidu, Inc. for diluted computation	5,156,846	1,481,791	8,108,856	2,325,029	8,178,954	1,351,066	2,308,213	381,290
Reallocation of net income attributable to Baidu, Inc. as a result of conversion of Class B to Class A shares	1,481,791	—	2,325,029	—	2,308,213	381,290	—	—
Allocation of net income attributable to Baidu, Inc.	6,638,637	1,481,791	10,433,885	2,325,029	10,487,167	1,732,356	2,308,213	381,290
Denominator								
Weighted average ordinary shares outstanding	27,086,098	7,803,952	27,145,208	7,794,630	27,274,769	27,274,769	7,711,459	7,711,459
Conversion of Class B to Class A ordinary shares	7,803,952	—	7,794,630	—	7,711,459	7,711,459	—	—
Share-based awards	72,781	—	39,621	—	50,118	50,118	—	—
Denominator used for earnings per share	34,962,831	7,803,952	34,979,459	7,794,630	35,036,346	35,036,346	7,711,459	7,711,459
Earnings per share – diluted	189.88	189.88	298.29	298.29	299.32	49.44	299.32	49.44
Earnings per ADS:								
Denominator used for earnings per ADS – basic	270,860,980		271,452,080		272,747,690	272,747,690		
Denominator used for earnings per ADS – diluted	349,628,310		349,794,590		350,363,460	350,363,460		
Earnings per ADS – basic	19.03		29.86		29.98	4.95		
Earnings per ADS – diluted	18.99		29.83		29.93	4.94		

BAIDU, INC.
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17. EARNINGS PER SHARE (“EPS”) (CONTINUED)

The Company did not include certain stock options and restricted shares in the computation of diluted earnings per share for the years ended December 31, 2011, 2012 and 2013 because those stock options and restricted shares were anti-dilutive for earnings per share for the respective years.

18. SHARE-BASED AWARDS PLAN

Baidu, Inc.

Incentive compensation plans

In December 2008, the Company adopted a share incentive plan (the “2008 Plan”), which provides for the granting of share incentives, including incentive share option (“ISO”), restricted shares and any other form of award pursuant to the 2008 Plan, to members of the board, employees and consultants of the Company. However, the Company may grant ISOs only to its employees. The Company has reserved 3,428,777 ordinary shares for issuance under the 2008 Plan, which will expire in the year 2018. The vesting schedule, time and condition to exercise options will be determined by the compensation committee. The term of the options may not exceed ten years from the date of the grant, except that five years is the maximum term of an ISO granted to an employee who holds more than 10% of the voting power of the Company’s share capital.

Under the 2008 Plan, the exercise price per share subject to an option may be amended or adjusted at the discretion of the compensation committee, the determination of which would be final, binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a downward adjustment of the exercise prices would be effective without the approval of the Company’s shareholders or the approval of the affected grantees. If the Company grants an ISO to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of the Company’s share capital, the exercise price cannot be less than 110% of the fair market value of the Company’s ordinary shares on the date of that grant.

Starting from February 15, 2006, the Company has granted restricted Class A ordinary shares of the Company (“Restricted Shares”). Terms for the Restricted Shares are the same as share options except that Restricted Shares do not require exercise and have a two to four years vesting term.

Share options

The following table summarizes the option activity for the year ended December 31, 2013:

	<u>Number of shares</u>	<u>Weighted average exercise price (US\$)</u>	<u>Weighted average remaining contractual life (Years)</u>	<u>Aggregate intrinsic value (US\$ in thousands)</u>
Share options				
Outstanding, December 31, 2012	209,338	1,013.10	4.29	16,264
Granted	93,079	950.60		
Exercised	(29,658)	913.40		
Forfeited/Cancelled	(40,187)	769.62		
Outstanding, December 31, 2013	232,572	1042.90	8.62	171,156
Vested and expected to vest at December 31, 2013	199,093	1036.60	8.58	147,764
Exercisable at December 31, 2013	44,699	859.40	7.48	41,095

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18. SHARE-BASED AWARDS PLAN (CONTINUED)

Baidu, Inc. (Continued)

The aggregate intrinsic value in the table above represents the difference between the Company's closing stock price on the last trading day in 2013 and the exercise price.

Total intrinsic value of options exercised for the years ended December 31, 2011, 2012 and 2013 was RMB275.86 million, RMB200.91 million and RMB114.21 million (US\$18.87 million), respectively.

As of December 31, 2013, there was RMB357.31 million (US\$59.02 million) unrecognized share-based compensation cost related to share options. That deferred cost is expected to be recognized over a weighted-average vesting period of 2.90 years. To the extent the actual forfeiture rate is different from the original estimate, actual share-based compensation costs related to these awards may be different from expectation.

The fair value of each option award was estimated on the date of grant using the Black-Scholes-Merton valuation model. The volatility assumption was estimated based on implied volatility and historical volatility of the Company's share price applying the guidance provided by ASC 718. The Company begins to estimate the volatility assumption solely based on its historical information since year 2009. Assumptions about the expected term were based on the vesting and contractual terms and employee demographics. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following table presents the assumptions used to estimate the fair values of the share options granted in the years presented:

	2011	2012	2013
Risk-free interest rate	0.31%~1.03%	0.35%~0.43%	0.40%~1.35%
Dividend yield	—	—	—
Expected volatility range	48.20%~61.58%	43.60%~44.72%	42.33%~44.17%
Weighted average expected volatility	58.27%	43.75%	43.33%
Expected life (in years)	2.66~3.00	2.67~3.08	3.08~4.57

In addition, the Company recognizes share-based compensation expense net of an estimated forfeiture rate and therefore only recognizes compensation cost for those shares expected to vest over the service period of the award. The estimation of the forfeiture rate is based primarily upon historical experience of employee turnover. To the extent the Company revises this estimate in the future, the share-based payments could be materially impacted in the year of revision, as well as in the following years.

The exercise price of options granted during the years 2011, 2012 and 2013 equaled the market price of the ordinary shares on the grant date. The weighted-average grant-date fair value of options granted during the years 2011, 2012, and 2013 was US\$432.68, US\$323.00, and US\$419.80, respectively.

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18. SHARE-BASED AWARDS PLAN (CONTINUED)

Baidu, Inc. (Continued)

Restricted shares

Restricted shares activity for the year ended December 31, 2013 was as follows:

	<u>Number of shares</u>	<u>Weighted average grant date fair value (US\$)</u>
Restricted shares		
Unvested, December 31, 2012	114,816	1,164.10
Granted	87,123	1,137.00
Vested	(35,005)	1,166.70
Forfeited	(20,424)	1,134.80
Unvested, December 31, 2013	146,510	1,151.40

The total fair value of the restricted shares vested during the years ended December 31, 2011, 2012 and 2013 was RMB198.77 million, RMB128.70 million, RMB247.24 million (US\$40.84 million), respectively.

As of December 31, 2013, there was RMB652.94 million (US\$107.86 million) unrecognized share-based compensation cost related to restricted shares. That deferred cost will be recognized over a weighted-average vesting period of 2.83 years. To the extent the actual forfeiture rate is different from the original estimate, actual share-based compensation costs related to these awards may be different from expectation.

Subsidiaries

Certain subsidiaries also have equity incentive plans granting share-based awards. Total share-based compensation expenses recognized and unrecognized were insignificant, both individually and in aggregate, for all years presented.

The following table summarizes the total compensation cost recognized by the Group:

	<u>For the years ended December 31,</u>			
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
	RMB	RMB	RMB	US\$
	(In thousands)			
Expensed as cost of revenues	7,527	10,105	23,976	3,961
Expensed as selling, general and administrative	50,012	54,512	164,704	27,207
Expensed as research and development	94,489	147,692	326,047	53,859
Capitalized as part of internal-used software	1,700	1,944	229	38

19. RELATED PARTY TRANSACTIONS

The current portion of amounts due from/to related parties mainly represents amounts in connection with services provided by the Group to its equity method investees, which arose in the ordinary course of business.

The non-current portion of amounts due from related parties mainly represents the borrowings provided by the Group to a noncontrolling shareholder of an acquired subsidiary, which were unsecured and repayable on contract terms, and arose in the ordinary course of business.

The non-current portion of amounts due to related parties mainly represents unsecured and interest free loans provided by a noncontrolling shareholder of an acquired subsidiary to the Group, which arose in the ordinary course of business.

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20. SEGMENT REPORTING

The Company has only one single operating segment. Substantially all of the Company's revenue and long-lived assets are derived from and located in the PRC. The Company has only minimal operations in Japan and other countries.

The following table sets forth revenues by geographic area:

	For the years ended December 31,			
	2011 RMB	2012 RMB	2013 RMB	2013 US\$
Revenues:				
PRC	14,444,636	22,198,685	31,875,202	5,265,408
Non-PRC	56,150	107,341	68,722	11,352

The following table sets forth long-lived assets by geographic area:

	As of December 31,		
	2012 RMB	2013 RMB	2013 US\$
Long-lived assets:			
PRC	3,862,045	5,355,157	884,609
Non-PRC	117,989	56,143	9,274

21. FAIR VALUE MEASUREMENT

ASC topic 820 ("ASC 820"), *Fair Value Measurements and Disclosures*, establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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 marketplace

Level 3 - Unobservable inputs which are supported by little or no market activity

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Assets and Liabilities Measured or Disclosed at Fair Value

In accordance with ASC 820, the Company measures available-for-sale investments at fair value on a recurring basis. The fair values of the Company's available-for-sale debt investments as measured and held-to-maturity investments as disclosed are determined based on the discounted cash flow model using the discount curve of market interest rates. The fair value of the Company's available-for-sale equity investments in the equity securities of a publicly listed company is measured using quoted market prices.

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21. FAIR VALUE MEASUREMENT (CONTINUED)

Assets and Liabilities Measured or Disclosed at Fair Value (Continued)

The Company measures certain financial assets, including equity method investments and cost method investments, at fair value on a nonrecurring basis only if an impairment charge were to be recognized. The Company's non-financial assets, such as intangible assets, goodwill and fixed assets, would be measured at fair value only if they were determined to be impaired on an other-than-temporary basis.

The fair value of the long-term notes payable is disclosed using quoted market prices.

Assets and liabilities measured or disclosed at fair value are summarized below:

	Total fair value at December 31, 2012 RMB	Fair value measurement or disclosure at December 31, 2012 using			Total losses RMB
		Quoted prices in active markets for identical assets (Level 1) RMB	Significant other observable inputs (Level 2) RMB	Significant unobservable inputs (Level 3) RMB	
<i>Fair value disclosure (Notes 2 and 4).</i>					
Cash equivalents					
Time deposits	3,034,443		3,034,443		
Money market fund	4,854,278	4,854,278			
Short-term investments					
Held-to-maturity investments					
Fixed-rate investments	17,086,252		17,086,252		
Long-term investments					
Fixed-rate held-to-maturity investments	514,614		514,614		
Long-term notes payable	9,420,285	9,420,285			
<i>Fair value measurement</i>					
<i>Recurring</i>					
Short-term investments					
Available-for-sale investments					
Fixed-rate debt investments	3,514,399		3,514,399		
Adjustable-rate debt investments	17,073		17,073		
<i>Non-recurring</i>					
Long-term investments	—				(169,180)
Total assets measured at fair value	3,531,472	—	3,531,472	—	(169,180)

The Company has no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2012.

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21. FAIR VALUE MEASUREMENT (CONTINUED)

Assets and Liabilities Measured or Disclosed at Fair Value (Continued)

As of December 31, 2012, certain cost method investments (Note 4) were measured using significant unobservable inputs (Level 3) and written down from their respective carrying value to fair value of nil, with impairment charges incurred and recorded in earnings for the year then ended.

	Total fair value at December 31, 2013		Fair value measurement or disclosure at December 31, 2013 using			Total losses	
			Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)		
	RMB	US\$	RMB	RMB	RMB	RMB	US\$
(In thousands)							
<i>Fair value disclosure (Notes 2 and 4)</i>							
Cash equivalents							
Time deposits	2,955,924	488,284		2,955,924			
Money market fund	689,254	113,857	689,254				
Short-term investments							
Held-to-maturity investments							
Fixed-rate investments	19,370,067	3,199,707		19,370,067			
Long-term notes payable	14,797,937	2,444,445	14,797,937				
<i>Fair value measurement</i>							
<i>Recurring</i>							
Short-term investments							
Available-for-sale investments							
Fixed-rate debt investments	7,627,958	1,260,049		7,627,958			
Adjustable-rate debt investments	514,433	84,978		514,433			
Equity investment	1,253,120	207,001	1,253,120				
<i>Non-recurring</i>							
Long-term investments	—	—				(17,521)	(2,894)
Fixed assets	—	—				(2,057)	(340)
Intangible assets	—	—				(4,619)	(763)
Total assets measured at fair value	9,395,511	1,552,028	1,253,120	8,142,391	—	(24,197)	(3,997)

The Company has no assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2013.

As of December 31, 2013, certain fixed assets (Note 7), intangible assets (Note 8), cost method investments (Note 4) and equity method investments (Note 4) were measured using significant unobservable inputs (Level 3) and written down from their respective carrying value to fair value of nil, with impairment charges incurred and recorded in earnings for the year then ended.

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FOR THE YEARS ENDED DECEMBER 31, 2011, 2012 and 2013

22. SUBSEQUENT EVENTS

The Company completed several acquisitions with a total cash consideration of RMB388.58 million (US\$64.19 million) subsequent to December 31, 2013. The acquired businesses are related to various vertical websites and mobile applications services. These acquisitions will provide more attractive services to users and are considered supplementary to the existing online marketing services. These acquisitions are immaterial, both individually and in aggregate.

**Second Supplementary Agreement to the
Web Layout Copyright License Agreement**

This second supplementary agreement to the web layout copyright license agreement (this “**Supplementary Agreement**”) is entered into in Beijing on August 15, 2013 by and between:

Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Address: 3/F, Baidu Campus, No.10, Shangdi 10th Street, Haidian District, Beijing (“**Party A**”)

Licensee: Beijing Baidu Netcom Science Technology Co., Ltd.

Address: 2/F, Baidu Campus, No.10 Shangdi 10th Street, Haidian District, Beijing (“**Party B**”)

(Collectively, the “**Parties**”)

WHEREAS,

1. Licensor and Licensee have made a certain Web Layout Copyright License Agreement dated March 1, 2004 (the “**Original Agreement**”). Through friendly negotiation, the Parties amend the Original Agreement on August 15, 2013 with respect to the following:
 - (a) Amend Section 6.1 to: this Agreement shall be executed and effective at the same time at the date first written above. Unless otherwise expressly stated in the Agreement, this Agreement shall be valid permanently.
 - (b) Delete Section 6.2.
 - (c) The Parties agree and confirm: this Supplementary Agreement is an integral part of the Original Agreement. In the event of any discrepancy between this Supplementary Agreement and the Original Agreement, this Supplementary Agreement shall prevail. For the parts not stated in this Supplementary Agreement shall be in accordance with the Original Agreement.
- 2 This Supplementary Agreement shall be effective upon execution by both Parties.
- 3 This Supplementary Agreement shall be executed in two originals, with each party holding one original. Each original has the same legal effect.

[Signature page follows]

Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

/s/ Baidu Online Network Technology (Beijing) Co., Ltd.

Licensee: Beijing Baidu Netcom Science Technology Co., Ltd.

/s/ Beijing Baidu Netcom Science Technology Co., Ltd.

Third Supplementary Agreement to the Software License Agreement

This third supplementary agreement to the software license agreement (this “**Supplementary Agreement**”) is entered into in Beijing on August 15, 2013 by and between:

Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Address: 3/F, Baidu Campus, No.10, Shangdi 10th Street, Haidian District, Beijing (“**Party A**”)

Licensee: Beijing Baidu Netcom Science Technology Co., Ltd.

Address: 2/F, Baidu Campus, No.10 Shangdi 10th Street, Haidian District, Beijing (“**Party B**”)

(Collectively, the “**Parties**”)

WHEREAS,

1. Licensor and Licensee have made a software license agreement (the “**Original Agreement**”). Through friendly negotiation, the Parties amend the Original Agreement on August 15, 2013 with respect to the following:
 - (a) Amend Section 6.1 to: this Agreement shall be executed and effective at the same time at the date first written above. Unless otherwise expressly stated in the Agreement, this Agreement shall be valid permanently.
 - (b) Delete Section 6.2.
 - (c) The Parties agree and confirm: this Supplementary Agreement is an integral part of the Original Agreement. In the event of any discrepancy between this Supplementary Agreement and the Original Agreement, this Supplementary Agreement shall prevail. For the parts not stated in this Supplementary Agreement shall be in accordance with the Original Agreement.
- 2 This Supplementary Agreement shall be effective upon execution by both Parties.
- 3 This Supplementary Agreement shall be executed in two originals, with each party holding one original. Each original has the same legal effect.

[Signature page follows]

Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

/s/ Baidu Online Network Technology (Beijing) Co., Ltd.

Licensee: Beijing Baidu Netcom Science Technology Co., Ltd.

/s/ Beijing Baidu Netcom Science Technology Co., Ltd.

**Second Supplementary Agreement to the
Web Layout Copyright License Agreement**

This second supplementary agreement to the web layout copyright license agreement (this “**Supplementary Agreement**”) is entered into in Beijing on August 15, 2013 by and between:

Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Address: 3/F, Baidu Campus, No.10, Shangdi 10th Street, Haidian District, Beijing (“**Party A**”)

Licensee: Beijing Perusal Technology Co., Ltd.

Address: No. 402, No. 18 Danling Street, Haidian District, Beijing (“**Party B**”)

(Collectively, the “**Parties**”)

WHEREAS,

1. Licensor and Licensee have made a certain Web Layout Copyright License Agreement (the “**Original Agreement**”). Through friendly negotiation, the Parties amend the Original Agreement on August 15, 2013 with respect to the following:
 - (a) Amend Section 6.1 to: this Agreement shall be executed and effective at the same time at the date first written above. Unless otherwise expressly stated in the Agreement, this Agreement shall be valid permanently.
 - (b) Delete Section 6.2.
 - (c) The Parties agree and confirm: this Supplementary Agreement is an integral part of the Original Agreement. In the event of any discrepancy between this Supplementary Agreement and the Original Agreement, this Supplementary Agreement shall prevail. For the parts not stated in this Supplementary Agreement shall be in accordance with the Original Agreement.
- 2 This Supplementary Agreement shall be effective upon execution by both Parties.
- 3 This Supplementary Agreement shall be executed in two originals, with each party holding one original. Each original has the same legal effect.

[Signature page follows]

Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

/s/ Baidu Online Network Technology (Beijing) Co., Ltd.

Licensee: Beijing Perusal Technology Co., Ltd.

/s/ Beijing Perusal Technology Co., Ltd.

**Supplementary Agreement to the
Web Layout Copyright License Agreement**

This second supplementary agreement to the web layout copyright license agreement (this “**Supplementary Agreement**”) is entered into in Beijing on August 15, 2013 by and between:

Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Address: 3/F, Baidu Campus, No.10, Shangdi 10th Street, Haidian District, Beijing (“**Party A**”)

Licensee: Beijing BaiduPay Science and Technology Co., Ltd.

Address: Room 301, 3/F, Building D, No.18 South Zhongguancun Street, Haidian District, Beijing (“**Party B**”)

(Collectively, the “**Parties**”)

WHEREAS,

1. Licensor and Licensee have made a certain Web Layout Copyright License Agreement dated March 1, 2004 (the “**Original Agreement**”). Through friendly negotiation, the Parties amend the Original Agreement on August 15, 2013 with respect to the following:
 - (a) Amend Section 6.1 to: this Agreement shall be executed and effective at the same time at the date first written above. Unless otherwise expressly stated in the Agreement, this Agreement shall be valid permanently.
 - (b) Delete Section 6.2.
 - (c) The Parties agree and confirm: this Supplementary Agreement is an integral part of the Original Agreement. In the event of any discrepancy between this Supplementary Agreement and the Original Agreement, this Supplementary Agreement shall prevail. For the parts not stated in this Supplementary Agreement shall be in accordance with the Original Agreement.
- 2 This Supplementary Agreement shall be effective upon execution by both Parties.
- 3 This Supplementary Agreement shall be executed in two originals, with each party holding one original. Each original has the same legal effect.

[Signature page follows]

Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

/s/ Baidu Online Network Technology (Beijing) Co., Ltd.

Licensee: Beijing BaiduPay Science and Technology Co., Ltd.

/s/ Beijing BaiduPay Science and Technology Co., Ltd.

Supplementary Agreement to the Amended and Restated Loan Agreement

This Supplementary Agreement to the Amended and Restated Loan Agreement (the “Agreement”) is entered into as of March 1, 2014 in Beijing by the following parties:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Address: 3/F, Baidu Campus, No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, The People’s Republic of China

Party B: Robin Yanhong Li

ID number: ***

Party C: Zhan Wang

ID number: ***

(each a “Party” and collectively, the “Parties”)

Whereas:

Pursuant to an Amended and Restated Loan Agreement (the “**Original Agreement**”) entered into as of March 22, 2005 by Party A, Party B and Eric Yong Xu (the “**Original Party C**”), Party A provides a RMB1,500,000 and a RMB500,000 interest-free loan to Party B and the Original Party C respectively for their investment to Baidu Netcom Science Technology Co., Ltd. (“**Baidu Netcom**”) and the term of loans ended after ten (10) years commencing from the date the borrowers receive the loans. The term of loans may be extended by a written consent of the parties to the Original Agreement.

Party A and Party B entered into an Additional Loan Agreement in May 2008, pursuant to which the interest-free loan provided by Party A to Party B for his investment to Baidu Netcom be increased to RMB 99,500,000.

Party A, Party B and Party C entered into a Renewal Agreement to the Amended and Restated Loan Agreement, pursuant to which, Party C replaces the Original Party C as a Party to the Original Agreement and undertakes all the rights and obligations of the Original Party C under the Original Agreement (including but not limited to the obligation of repayment of the Original Party C’s loan under the Original Agreement) and shall be referred to as “Party C” going forward.

The Parties intend to extend the term of loans under the Original Agreement.

As a consensus reached by the Parties, the Parties agree:

Upon the expiry of the term of loans under the Original Agreement, the term of loans shall be extended for additional ten (10) years.

This Agreement shall be executed in three originals, each party holding one original. This Agreement is an integral part of the Original Agreement. All the originals shall have the same legal effect.

[Signature page follows]

(No content on this page)

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal representative/Authorized Signatory: /s/ Zhan Wang

Party B: /s/ Robin Yanhong Li

Party C: /s/ Zhan Wang

TRANSACTION FRAMEWORK AGREEMENT

dated as of

May 7, 2013

by and among

PPSTREAM INC.

Chuan Ju Hu Dong (Beijing) Technology Co., Ltd. (传聚互动（北京）科技有限公司)

and

Qiyi.com, Inc.

Beijing Qiyi Century Science & Technology Co., Ltd. (北京奇艺世纪科技有限公司)

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-
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TRANSACTION FRAMEWORK AGREEMENT

This Transaction Framework Agreement (this “**Agreement**”) is dated as of May 7, 2013, by and among Qiyi.com, Inc., a company incorporated under the laws of the Cayman Islands (“**Buyer**”), Beijing Qiyi Century Science & Technology Co., Ltd. (北京奇艺世纪科技有限公司), a limited liability company organized under the laws of the PRC (“**Buyer WFOE**”, together with Buyer, “**Buyer Group**”), PPSTREAM INC., an exempted limited liability company organized under the laws of the Cayman Islands (“**Seller**” or the “**Company**”), Chuan Ju Hu Dong (Beijing) Technology Co., Ltd. (传聚互动(北京)科技有限公司), a limited liability company organized under the laws of the PRC (“**Beijing WFOE**”).

WITNESSETH:

WHEREAS, as of the date hereof, Seller (through Beijing WFOE and Zhong Yuan, each as hereinafter defined) conducts a business which provides content over the Internet through Seller’s peer-based cloud streaming network and software (the “**Business**”);

WHEREAS, Buyer desires to purchase, or cause to be purchased by its Affiliates (as hereinafter defined), the Business from Seller or its Affiliates, and Seller desires to sell, or caused to be sold by its Affiliates, the Business to Buyer or its Affiliates;

WHEREAS, Buyer and Seller are entering into the Offshore Asset Transfer Agreement (as hereinafter defined) on the date hereof, pursuant to which Buyer will purchase from Seller, and Seller will sell to Buyer, the Offshore Assets (as hereinafter defined);

WHEREAS, Buyer WFOE (as hereinafter defined) and Beijing WFOE are entering into the Onshore Asset Transfer Agreement (as hereinafter defined) on the date hereof, pursuant to Buyer WFOE will purchase from Beijing WFOE, and Beijing WFOE will sell to Buyer WFOE, the Onshore Purchased Assets (as hereinafter defined);

WHEREAS, pursuant to this Agreement, as a condition to the Closing (as hereinafter defined), the Existing Control Documents (as hereinafter defined) shall be terminated by the VIE Termination Agreement (as hereinafter defined) and the New Control Documents (as hereinafter defined) shall be entered into by and between Buyer WFOE and Zhong Yuan;

WHEREAS, the parties desire to enter into this Agreement to set out their agreements with respect to the transactions contemplated by the Transaction Documents (as hereinafter defined) and matters related thereto;

NOW THEREFORE, for good and valuable consideration, the receipt and sufficiency are hereby acknowledged, the parties hereto agree as follows:

ARTICLE 1
DEFINITIONS

Section 1.01. *Definitions.* (a) The following terms, as used herein, have the following meanings:

“**Affiliate**” means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such other Person. For purposes of this definition, “**control**” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms “**controlling**” and “**controlled**” have correlative meanings.

“**Applicable Law**” means, with respect to any Person, any transnational, domestic or foreign federal, state or local law (statutory, common or otherwise), constitution, treaty, convention, ordinance, code, rule, regulation, order, injunction, judgment, decree, ruling or other similar requirement enacted, adopted, promulgated or applied by a Governmental Authority that is binding upon or applicable to such Person, as amended unless expressly specified otherwise.

“**Balance Sheet**” means the unaudited balance sheet of Zhong Yuan as of April 30, 2013, prepared in accordance with U.S. GAAP applied on a consistent basis.

“**Balance Sheet Date**” means April 30, 2013.

“**Business Day**” means a day, other than Saturday, Sunday or other day on which commercial banks in Hong Kong and the PRC are authorized or required by Applicable Law to close.

“**Closing Date**” means the date of the Closing.

“**Consolidated Financial Statements**” means the audited consolidated balance sheet and statements of income and cash flow of the Company and its Subsidiaries as of December 31, 2011, prepared in accordance with U.S. GAAP applied on a consistent basis.

“**Deferred Management Payment**” means such amount of the Purchase Price payable to the Management Equity Holders (as defined in the Deferred Management Payment Agreement) pursuant to the Deferred Management Payment Agreement.

“**Deferred Management Payment Agreement**” means the agreement to be entered into by and among Buyer, Seller and certain management members of Seller on or prior to the Closing, reflecting the arrangement with respect to Deferred Management Payment, the form of which is attached as Exhibit H.

“**Escrow Account**” means the escrow account maintained by the Escrow Agent pursuant to the Escrow Agreement.

“**Escrow Agent**” means Citibank, N.A. Hong Kong Branch.

“**Escrow Agreement**” means the escrow agreement to be entered into by and among Buyer, Seller and the Escrow Agent on or prior to the Closing, reflecting the escrow arrangement agreed by Buyer and Seller, in such form as mutually agreed by the parties thereto.

“**Existing Control Documents**” means the existing control documents entered into by and among Beijing WFOE, Zhong Yuan and the equity holders of Zhong Yuan, the forms of which are attached as Exhibit B-1.

“**Financial Statements**” means the unaudited balance sheet and statements of income and cash flow of Zhong Yuan as of and for the year ended December 31, 2011 and December 31, 2012, and as of and for the 4-month period ended April 30, 2013.

“**Governmental Authority**” means any nation or government or any province or state or any other political subdivision thereof, or any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organization.

“**Group Companies**” means Seller, Beijing WFOE and Zhong Yuan, and each of them is referred to as a **Group Company**.

“**Group Company Assets**” means the Offshore Assets and the Onshore Assets.

“**Group Company Intellectual Property**” means the Offshore Intellectual Property and the Onshore Intellectual Property.

“**Group Company IT Assets**” means the Offshore IT Assets and the Onshore IT Assets.

“**Group Company Software**” means the Offshore Software and the Onshore Software.

“**Hong Kong**” means Hong Kong Special Administrative Region.

“**Indebtedness**” means, with respect to Zhong Yuan, all indebtedness for borrowed money from banks or other financial institutions (which for the avoidance of doubt, excludes ordinary course payables that are not borrowed money from banks or other financial institutions).

“Intellectual Property Rights” means any and all intellectual property rights or similar proprietary rights throughout the world, including (i) inventions, whether or not patentable, reduced to practice or made the subject of one or more pending patent applications, (ii) national and multinational statutory invention registrations, patents and patent applications (including all reissues, divisions, continuations, continuations-in-part, extensions and reexaminations thereof) registered or applied for in the PRC, the United States and all other nations throughout the world, all improvements to the inventions disclosed in each such registration, patent or patent application, (iii) trademarks, service marks, trade dress, logos, domain names, trade names and corporate names (whether or not registered) in the PRC, the United States and all other nations throughout the world, including all variations, derivations, combinations, registrations and applications for registration of the foregoing and all goodwill associated therewith, (iv) copyrights (whether or not registered) and registrations and applications for registration thereof in the PRC, the United States and all other nations throughout the world, including all derivative works, moral rights, renewals, extensions, reversions or restorations associated with such copyrights, now or hereafter provided by law, regardless of the medium of fixation or means of expression, (v) Software, (vi) trade secrets and, whether or not confidential, business information (including pricing and cost information, business and marketing plans and customer and supplier lists) and know-how (including manufacturing and production processes and techniques and research and development information), (vii) industrial designs (whether or not registered), (viii) databases and data collections, (ix) domain names, (x) copies and tangible embodiments of any of the foregoing, in whatever form or medium, (xi) all rights to obtain and rights to apply for patents, and to register trademarks, copyrights and domain names, (xii) all rights in all of the foregoing provided by all Applicable Laws and (xiii) all rights to sue or recover and retain damages and costs and attorneys’ fees for past, present and future infringement or misappropriation of any of the foregoing.

“IT Assets” means any and all computers, firmware, middleware, servers, workstations, routers, hubs, switches, data communications lines, and all other information technology equipment and systems, and all associated documentation.

“knowledge” (or best knowledge) means, with respect to any Group Company, the knowledge of the directors and officers holding positions at vice president level or above of such Group Company after due and reasonable inquiry. For the avoidance of doubt, attached as Exhibit A is a list of officers holding positions at vice president level or above at each Group Company.

“Lien” means, with respect to any property or asset, any mortgage, deed of trust, lien, pledge, charge, security interest, encumbrance or other adverse claim of any kind in respect of such property or asset. For the purposes of this Agreement, a Person shall be deemed to own subject to a Lien any property or asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such property or asset.

“Material Adverse Effect” means a material adverse effect on (i) the condition (financial or otherwise), business, assets, results of operations or prospects of the Business, or (ii) Seller’s or its Affiliates’ ability to consummate the transactions contemplated by the Transaction Documents.

“Net Cash” means, with respect to Zhong Yuan, the excess of cash minus Indebtedness.

“**New Control Documents**” means the new control documents to be entered into by and among Buyer WFOE, Zhong Yuan and the equity holders of Zhong Yuan, the forms of which are attached as Exhibit B-3.

“**Offshore Assets**” means all assets used or held for use in or otherwise related to the Business, purchased by Buyer from Seller pursuant to the Offshore Asset Transfer Agreement.

“**Offshore Asset Transfer Agreement**” means the agreement entered into by and between Seller and Buyer with respect to the transfer of the Offshore Assets dated as of the date hereof, the form of which is attached as Exhibit C.

“**Offshore Intellectual Property**” means any and all Intellectual Property Rights used or held for use in or otherwise related to the Business, including the Offshore Software and the items listed on Exhibit E hereto.

“**Offshore IT Assets**” means any and all IT Assets used or held for use in or otherwise related to the Business.

“**Offshore Software**” means any Software used or held for use in or otherwise related to the Business, including the Software listed on Exhibit E hereto.

“**Onshore Assets**” means, except for the Offshore Assets, all the other assets held by the Group Companies which will be transferred to or controlled by an Affiliate of Buyer in connection with the Onshore Transactions (including, for the avoidance of doubt, the Onshore Purchased Assets).

“**Onshore Asset Transfer Agreement**” means the agreement entered into by and between Beijing WFOE and Buyer WFOE with respect to the transfer of the Onshore Purchased Assets dated as of the date hereof, the form of which is attached as Exhibit D.

“**Onshore Intellectual Property**” means, except for the Offshore Intellectual Property, all the other Intellectual Property Rights held by the Group Companies, which will be transferred to or controlled by an Affiliate of Buyer in connection with the Onshore Transactions, including the Onshore Software and the items listed on Exhibit J hereto.

“**Onshore IT Assets**” means, except for the Offshore IT Assets, all the other IT Assets held by the Group Companies, which will be transferred to or controlled by an Affiliate of Buyer in connection with the Onshore Transactions.

“**Onshore Purchased Assets**” means all assets used or held for use by Beijing WFOE, purchased by Buyer WFOE from Buyer WFOE pursuant to the Onshore Asset Transfer Agreement

“**Onshore Software**” means, except for the Offshore Software, all the other Software held by the Group Companies, which will be transferred to or controlled by an Affiliate of Buyer in connection with the Onshore Transactions, including the Software listed on Exhibit J hereto.

“**Onshore Transactions**” means the transactions contemplated by the Onshore Asset Transfer Agreement, the New Control Documents and the VIE Termination Agreement.

“**Person**” means an individual, corporation, partnership, limited liability company, association, trust or other entity or organization, including a Governmental Authority.

“**PRC**” means the People’s Republic of China, solely for purposes of this Agreement, excluding Hong Kong, Macau Special Administrative Region and Taiwan.

“**Pre-Closing Tax Period**” means (i) any Tax Period ending on or before the Closing Date and (ii) with respect to a Tax Period that commences before but ends after the Closing Date, the portion of such period up to and including the Closing Date.

“**Related Party**” means any Affiliate, officer, director, supervisory board member, employee, or holder of any equity security of any Group Company, and any Affiliate or associate of any of the foregoing.

“**RMB**” means the lawful currency of the PRC.

“**Software**” means any and all computer software, including assemblers, applets, compilers, source code, object code, firmware, operating systems and specifications, binary libraries, data, development tools, design tools and user interfaces, in any form or format, however fixed, and all documentation related thereto.

“**Tax**” means any tax, duty, custom, fee, assessment charge, or other levy separately or jointly due or payable to, or levied or imposed by any Governmental Authority, including income, gross receipts, license, wages, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duty, capital, capital gains, capital stock, goods and services, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, transaction, registration, value added, alternative/add-on minimum, estimated or other tax, duty, charge, custom, governmental fee, assessment or other levy of any kind whatsoever, including any interest, penalty, fine or addition thereto, and any interest with respect to such addition or penalty, and (ii) any liability for the payment of any amounts described in clause (i) for or to any other Person as a result of being a member of an Affiliated, consolidated, combined or unitary group, or as a transferee or successor, by contract, or otherwise, including as a result of an express or implied obligation to indemnify any other Person with respect to the payment of any amounts described in clause (i).

“**Transaction Documents**” means, collectively, this Agreement, the Offshore Asset Transfer Agreement, the Onshore Asset Transfer Agreement, the New Control Documents, the VIE Termination Agreement, the Deferred Management Payment Agreement and the Escrow Agreement.

“**U.S. GAAP**” means generally accepted accounting principles in the United States of America.

“**VIE Termination Agreement**” means the agreement to be entered into by and among Beijing WFOE, Zhong Yuan and the equity holders of Zhong Yuan to terminate the Existing Control Documents, the form of which is attached as Exhibit B-2.

“**Zhong Yuan**” means Shanghai Zhong Yuan Network Co., Ltd. (上海众源网络有限公司), a limited liability company organized under the laws of the PRC.

(b) Each of the following terms is defined in the Section set forth opposite such term:

<u>Term</u>	<u>Section</u>
Agreement	Preamble
Audited Balance Sheet	Section 2.09
Audited Stockholder’s Equity	Section 2.09
Beijing WFOE	Preamble
Business	Recitals
Buyer	Preamble
Buyer Group	Preamble
Buyer WFOE	Preamble
Cap	Section 10.02
Closing	Section 2.08
Company	Preamble
Contracts	Section 3.09
Damages	Section 10.02
Difference	Section 2.09
Dispute	Section 12.07(a)
Drop Dead Date	Section 11.01(b)
e-mail	Section 12.01
Escrow Payment	Section 2.06(c)
Excluded Liabilities	Section 2.04
Fundamental Representations	Section 10.01
HKIAC Rules	Section 12.07
Indemnified Party	Section 10.03
Indemnifying Party	Section 10.03
Offshore Payment	Section 2.06(c)
Permit	Section 3.18
Permitted Liens	Section 3.12
Purchase Price	Section 2.06
Seller	Preamble
Shortfall	Section 2.06
Stockholder’s Equity	Section 2.09
Third Party Claim	Section 10.03
Threshold	Section 10.02
VIE Net Cash Balance	Section 2.06
VIE Net Cash Balance Certification	Section 2.07
Warranty Breach	Section 10.02

Section 1.02. *Other Definitional and Interpretative Provisions.* The words “hereof”, “herein” and “hereunder” and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof. References to Articles, Sections, Exhibits and Schedules are to Articles, Sections, Exhibits and Schedules of this Agreement unless otherwise specified. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Exhibit or Schedule but not otherwise defined therein, shall have the meaning as defined in this Agreement. Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular. Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”, whether or not they are in fact followed by those words or words of like import. “Writing”, “written” and comparable terms refer to printing, typing and other means of reproducing words (including electronic media) in a visible form. References to any statute shall be deemed to refer to such statute as amended from time to time and to any rules or regulations promulgated thereunder. References to any agreement or contract are to that agreement or contract as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof; *provided* that with respect to any agreement or contract listed on any schedules hereto, all such amendments, modifications or supplements must also be listed in the appropriate schedule. References to any Person include the successors and permitted assigns of that Person. References from or through any date mean, unless otherwise specified, from and including or through and including, respectively. References to “law”, “laws” or to a particular statute or law shall be deemed also to include any and all Applicable Law.

ARTICLE 2
TRANSACTION FRAMEWORK

Section 2.01. *Purchase and Sale.* Subject to the terms and conditions of the Transaction Documents, Buyer agrees to purchase, or cause to be purchased by its Affiliates, from Seller or its Affiliates and Seller agrees to sell, convey, transfer, assign and deliver, or cause to be sold, conveyed, transferred, assigned and delivered, to Buyer or its Affiliates at the Closing, free and clear of all Liens, the Group Company Assets. Seller covenants to Buyer that (a) the Group Company Assets represent all assets used or held for use by Seller or its Affiliates related to the Business and (b) to the extent any asset used or held for use by Seller or its Affiliates related to the Business is not transferred to Buyer or its Affiliates at the Closing, Seller shall, as soon as possible after the Closing, sell, convey, transfer, assign and deliver, or cause to be sold, transferred, assigned and delivered, to Buyer or its Affiliates, free and clear of all Liens, such assets.

Section 2.02. *Excluded Assets.* Buyer expressly understands and agrees that the equity of Beijing WFOE owned by Seller is not included within the Group Company Assets.

Section 2.03. *Assumed Liabilities*. Subject to the terms and conditions of the Transaction Documents, Buyer agrees, effective at the time of the Closing, to assume, or cause to be assumed by its Affiliates, the following liabilities:

(a) accounts payables arising under (i) the contracts in such amounts as specified in Exhibit 3 of the Onshore Asset Transfer Agreement and (ii) the contracts in such amounts as specified in Schedule C of the Offshore Asset Transfer Agreement;

(b) all liabilities of Zhong Yuan existing on or prior to the Closing Date to the extent such liabilities (and amount thereof) (x) are specifically set forth or reserved against in the Balance Sheet or (y) arise after the Balance Sheet Date in the ordinary course of business consistent with past practice, which are not material to Zhong Yuan (other than liabilities that are Excluded Liabilities); and

(c) such liabilities of Zhong Yuan (x) with respect to each pending or threatened action, litigation or proceeding set forth in Schedule 3.10 of the Disclosure Schedule or (y) arising from the information set forth in Schedule 3.16 of the Disclosure Schedule, to the extent such liabilities under (x) and (y), less any damages obtained by Zhong Yuan from any settlement, litigation or proceeding brought or initiated by Zhong Yuan for any claim based on acts or events that occurred before the Closing, provided that such net liabilities do not exceed US\$1,500,000 in the aggregate.

Section 2.04. *Excluded Liabilities*. Notwithstanding anything to the contrary in the Transaction Documents, Buyer and its Affiliates are not assuming any liabilities and liabilities of the Group Companies not expressly assumed under the Transaction Documents and any liabilities and obligations of the Group Companies not related to the Business, which shall constitute the “**Excluded Liabilities**”. Subject to the terms and conditions of the Transaction Documents, Excluded Liabilities include:

(a) all liabilities and obligations of the Group Companies for Taxes related to income or revenue received prior to the Closing Date or any Pre-Closing Tax Period;

(b) all liabilities of the Group Companies arising out of or relating to any product liability, infringement, misappropriation or other violation, indemnity (including of employees or directors), warranty or similar claims by any Person, in each case to the extent such liabilities arise prior to Closing or otherwise as a result of the conduct of the Business prior to Closing;

(c) all liabilities of the Group Companies arising out of or relating to any Intellectual Property Rights or content used or distributed by the Business prior to Closing for which the Group Companies do not have valid, enforceable and sufficient licenses for use or distribution (other than as expressly assumed under Section 2.02(c));

(d) all liabilities or obligations relating to employee benefits or compensation arrangements existing on or prior to the Closing Date, including any liability or obligation under any of Group Company’s employee benefit agreements, plans or other arrangements;

(e) all liabilities of the Group Companies with respect to each pending or threatened action, litigation or proceeding to the extent based on facts or circumstances existing on or prior to the Closing Date (other than as expressly assumed under Section 2.03(c));

(f) all liabilities and obligations of the Group Companies arising under the Transaction Documents; and

(g) all liabilities and obligations of the Group Companies for Taxes imposed or asserted in connection with the Onshore Transactions or sale of the Business.

Section 2.05. *Assignment of Contracts and Rights.* Anything in the Transaction Documents to the contrary notwithstanding, any Transaction Document shall not constitute an agreement to assign any Group Company Assets or any claim or right or any benefit arising thereunder or resulting therefrom if such assignment, without the consent of a third party thereto, would constitute a breach or other contravention of such Group Company Assets or in any way adversely affect the rights of Buyer or Seller thereunder. Seller and Buyer shall use their best efforts (but without any payment of money by Seller or Buyer) to obtain the consent of such third parties to any such Group Company Assets or any claim or right or any benefit arising thereunder for the assignment thereof to Buyer as Buyer may request. If such consent is not obtained, or if an attempted assignment thereof would be ineffective or would adversely affect the rights of Seller thereunder so that Buyer would not in fact receive all such rights, Seller and Buyer shall cooperate in a mutually agreeable arrangement under which Buyer would obtain the benefits and assume the obligations thereunder in accordance with this Agreement, including sub-contracting, sub-licensing, or sub-leasing to Buyer, or under which Seller would enforce for the benefit of Buyer, with Buyer assuming Seller's obligations, any and all rights of Seller against a third party thereto. Seller shall promptly pay to Buyer when received all monies received by Seller under any Group Company Assets or any claim or right or any benefit arising thereunder.

Section 2.06. *Purchase Price.* The aggregate purchase price (the "**Purchase Price**") for the Group Company Assets shall be US\$370,000,000 in cash; provided that if the Net Cash balance at Zhong Yuan immediately prior to and as of the execution of the New Control Documents (the "**VIE Net Cash Balance**") is less than US\$10,000,000 (such difference, the "**Shortfall**"), the Purchase Price shall be reduced by the amount of such Shortfall; *provided however* that the Purchase Price shall be subject to the price adjustment as set forth in Section 2.09. The Purchase Price shall be paid as follows:

(a) US\$ 7,454,358.57 of the Purchase Price shall be paid in RMB equivalent as agreed by the parties in the amount of RMB 45,947,920.78, pursuant to the Onshore Asset Transfer Agreement;

(b) US\$ 3,244,698.97 of the Purchase Price shall be paid in RMB equivalent as agreed by the parties in the amount of RMB20,000,000.00, pursuant to the VIE Termination Agreement;

(c) The remainder of the Purchase Price (the “**Offshore Payment**”) shall be paid in US Dollars pursuant to the Offshore Asset Transfer Agreement as follows:

- (i) 10% of the Offshore Payment (the “**Escrow Payment**”) shall be paid into the Escrow Account pursuant to the Escrow Agreement;
- (ii) the Management Deferred Payment shall be paid after the Closing pursuant to the Deferred Management Payment Agreement;
- (iii) the remainder of Offshore Payment minus the Escrow Payment minus the Management Deferred Payment shall be paid to an account of Seller, designated by Seller by written notice to Buyer delivered not later than two Business Days prior to the Closing Date.

Section 2.07. *Net Cash Balance Statement.* On or about the date hereof, Seller shall have delivered to Buyer a true copy of the bank statement(s) of Zhong Yuan as of May 6, 2013, stating the balance of cash deposited in the bank(s). From and after the date hereof, Seller undertakes to cause Zhong Yuan to not transfer or distribute any cash from Zhong Yuan to Seller or its Affiliates or Related Parties. Immediately prior to the Closing, Seller shall deliver to Buyer a certification (the “**VIE Net Cash Balance Certification**”) stating the amount of VIE Net Cash Balance immediately prior to and as of the execution of the New Control Documents, supported by accompanying bank statement(s) dated as of the Closing Date to Buyer. The Purchase Price shall be adjusted based on the VIE Net Cash Balance as shown on the VIE Net Cash Certification in accordance with Section 2.06.

Section 2.08. *Closing.* The closing (the “**Closing**”) of the purchase and sale of the Group Company Assets shall take place at the places as the parties may agree, as soon as possible, but in no event later than three (3) Business Days, after satisfaction or, to the extent permissible, waiver by the party or parties entitled to the benefit of the conditions set forth in the Transaction Documents and the conditions set forth in Article 9 (other than conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or, to the extent permissible, waiver of those conditions at the Closing), or at such other time or place as Buyer and Seller may agree. At the Closing:

- (a) Buyer WFOE and Beijing WFOE shall consummate the closing of the transactions contemplated under the Onshore Asset Transfer Agreement in accordance with the terms thereof;
- (b) Buyer and Seller shall consummate the closing of the transactions contemplated under the Offshore Asset Transfer Agreement in accordance with the terms thereof;

- (c) the VIE Termination Agreement shall be duly executed and delivered by the parties thereto;
- (d) the New Control Documents shall be duly executed and delivered by the parties thereto;
- (e) the Deferred Management Payment Agreement shall be duly executed and delivered by the parties thereto;
- (f) Buyer shall pay such portion of the Purchase Price payable at the Closing pursuant to Section 2.06;
- (g) Seller shall deliver any other items the delivery of which is made an express condition to Buyer's obligations to the Closing pursuant to Article 9.

Section 2.09. *Adjustment of Purchase Price; Balance Sheet.* (a) As promptly as practicable but no later than 10 Business Days after the date hereof, Seller will cause to be prepared and delivered to Buyer the Balance Sheet. The Balance Sheet shall (x) fairly present the financial position of Zhong Yuan as at the close of business on April 30, 2013 in accordance with U.S. GAAP applied on a consistent basis, and (y) be prepared in accordance with accounting policies and practices consistent with past practice, but in all instances in accordance with U.S. GAAP. "**Stockholder's Equity**" means the stockholder's equity of Zhong Yuan as shown on the Balance Sheet.

(b) Following the Closing, Buyer shall cause the Balance Sheet to be audited by independent accountants of internationally recognized standing (the "**Audited Balance Sheet**"). "**Audited Stockholder's Equity**" means the consolidated stockholder's equity of Zhong Yuan as shown on the Audited Balance Sheet.

(c) If Audited Stockholder's Equity is less than Stockholder's Equity ("**Difference**") and such Difference is US\$1,000,000 or greater, Buyer shall be entitled to receive the amount of such Difference out of the Escrow Account, as an adjustment to the Purchase Price.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF SELLER

Subject to Section 12.03, except as set forth in the disclosure schedule ("**Disclosure Schedule**"), Seller represents and warrants to Buyer as of the date hereof and as of the Closing Date as follows.

Section 3.01. *Corporate Existence and Power.* Each Group Company is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all corporate powers and all governmental licenses, authorizations, permits, consents and approvals required to carry on its business as now conducted. Each Group Company is duly qualified to do business as a foreign corporation or as a foreign invested company or as a domestic company as the case may be and is in good standing in each jurisdiction where such qualification is necessary, except for those jurisdiction where failure to be so qualified would not, individually or in the aggregate, have a Material Adverse Effect. Each Group Company has heretofore delivered to Buyer true and complete copies of the certificate of incorporation and memorandum and articles of association of Seller as currently in effect.

Section 3.02. *Authorization.* The execution, delivery and performance of the Transaction Documents to which any Group Company is a party, and the consummation of the transactions contemplated by the Transaction Documents are within such Group Company's corporate powers and have been or will be duly authorized before Closing by all necessary corporate action on the part of such Group Company. Each Transaction Document to which any Group Company is a party when executed and delivered by such Group Company in accordance with the terms thereof constitutes or will constitute, a valid and binding agreement of such Group Company enforceable against it in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws affecting creditors' rights generally and general principles of equity).

Section 3.03. *Governmental Authorization.* The execution, delivery and performance by each Group Company of each Transaction Document and except as provided in the Transaction Documents, the consummation of the transactions contemplated thereby require no action by or in respect of, or filing with, any Governmental Authority.

Section 3.04. *Noncontravention.* The execution, delivery and performance by each Group Company of each Transaction Document and the consummation of the transactions contemplated thereby do not and will not (i) violate its certificate of incorporation or memorandum and articles of association, (ii) violate any Applicable Law, (iii) constitute a default or an event that, with or without notice or lapse of time or both, would constitute a default under or give rise to any right of termination, cancellation or acceleration of any right or obligation of Seller or to a loss of any benefit relating to the Business to which Seller is entitled under any provision of any agreement or other instrument binding upon Seller or by which any of the Group Company Assets is or may be bound, or (iv) result in the creation or imposition of any Lien on any Group Company Assets, other than Permitted Liens.

Section 3.05. *No Required Consents.* No agreement, contract or other instrument binding upon any Group Company, the Business or the Group Company Assets requiring a consent or other action by any Person as a result of the execution, delivery and performance of any Transaction Document.

Section 3.06. *Financial Statements.* The Financial Statements and Consolidated Financial Statements fairly present, in conformity with U.S. GAAP applied on a consistent basis (except as may be indicated in the notes thereto), the financial position of Zhong Yuan, and the Company and its Subsidiaries, as applicable, as of the dates thereof and its results of operations and cash flows for the periods then ended (subject to normal year-end adjustments in the case of any unaudited interim financial statements).

Section 3.07. *Absence of Certain Changes.* (a) Since the Balance Sheet Date, the Business has been conducted in the ordinary course consistent with past practices and there has not been any event, occurrence, development or state of circumstances or facts that has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect.

(b) From the Balance Sheet Date until the date hereof, there has not been any action taken by Seller that, if taken during the period from the date of this Agreement through the Closing Date without Buyer's consent, would constitute a breach of Section 5.01.

Section 3.08. *No Undisclosed Material Liabilities.* There are no liabilities of the Business of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances which could reasonably be expected to result in such a liability, other than:

- (a) liabilities provided for in the Balance Sheet or disclosed in the notes thereto;
- (b) liabilities disclosed on Schedule 3.08 of the Disclosure Schedule; and
- (c) other undisclosed liabilities which, individually or in the aggregate, are not material to the Business.

Section 3.09. *Material Contracts.* (a) With respect to the Business, except as set forth on Section 3.09 of the Disclosure Schedule, no Group Company is a party to or bound by (each of the following, a "**Contract**"):

- (i) any lease or sublease (A) of personal property providing for annual rentals of RMB 3,000,000 or more or (B) of real property;
- (ii) any agreement for the purchase, lease or license of materials, supplies, goods, services, Intellectual Property Rights, Internet-based contents, equipment or other assets providing for either (A) annual payments by any Group Company of RMB 3,000,000 or more or (B) aggregate payments by any Group Company of RMB 3,000,000 or more;
- (iii) any sales, distribution or other similar agreement providing for the sale by any Group Company of materials, supplies, goods, services, Intellectual Property Rights, Internet-based contents, equipment or other assets that provides for either (A) annual payments to any Group Company of RMB 3,000,000 or more or (B) aggregate payments to any Group Company of RMB 3,000,000 or more;

(iv) any agreement (including license agreements, research agreements, development agreements, distribution agreements, settlement agreements, consent to use agreements and covenants not to sue, but excluding licenses for commercial off-the-shelf computer software that are generally available on nondiscriminatory pricing terms that have an aggregate acquisition cost of RMB 3,000,000 or less) granting or restricting any right to use, exploit or practice any Intellectual Property Rights;

(v) any partnership, joint venture or other similar agreement or arrangement;

(vi) any agreement relating to the acquisition or disposition of any business (whether by merger, sale of stock, sale of assets or otherwise);

(vii) any agreement relating to indebtedness for borrowed money or the deferred purchase price of property (in either case, whether incurred, assumed, guaranteed or secured by any asset), except any such agreement with an aggregate outstanding principal amount not exceeding RMB 3,000,000 and which may be prepaid on not more than 30 day-notice without the payment of any penalty;

(viii) any option, license, franchise or similar agreement;

(ix) any agency, dealer, sales representative, marketing or other similar agreement;

(x) any agreement that limits the freedom of any Group Company to compete in any line of business or with any Person or in any area or to own, operate, sell, transfer, pledge or otherwise dispose of or encumber any Group Company Asset or which would so limit the freedom of Buyer after the Closing Date;

(xi) any agreement with or for the benefit of any Affiliate of any Group Company; or

(xii) any other agreement, commitment, arrangement or plan not made in the ordinary course of business that is material to the Business.

(b) Each Contract disclosed in any Schedule to this Agreement or required to be disclosed pursuant to this Section is a valid and binding agreement of each of the parties thereto and is in full force and effect, and none of the Group Companies or, to the best knowledge of any Group Company, any other party thereto is in default or breach in any material respect under the terms of any such Contract, and, to the best knowledge of any Group Company no event or circumstance has occurred that, with notice or lapse of time or both, would constitute any event of default thereunder. True and complete copies of each such Contract have been delivered to Buyer.

Section 3.10. *Litigation.* Except as set forth on Section 3.10 of the Disclosure Schedule, there is no material action, suit, investigation or proceeding (or any basis therefor) pending against, or to the best knowledge of Seller, threatened in writing against or affecting, the Business or any Group Company Asset before (or, in the case of threatened actions, suits, investigations or proceedings, would be before) any Governmental Authority or arbitrator.

Section 3.11. *Compliance with Laws and Court Orders.* Each Group Company is not in violation of, has not since its incorporation violated, and to the best knowledge of any Group Company is not under investigation with respect to and has not been threatened in writing to be charged with or given notice of any material violation of, any Applicable Law relating to the Group Company Assets or the conduct of the Business. There is no judgment, decree, injunction, rule or order of any arbitrator or Governmental Authority outstanding against any Group Company that has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on the Group Company Assets or the Business or that in any manner seeks to prevent, enjoin, alter or materially delay the consummation of the transactions contemplated by the Transaction Documents.

Section 3.12. *Properties.* There are no developments affecting any of the Group Company Assets pending or, to the best knowledge of any Group Company, threatened, which might materially detract from the value, materially interfere with any present or intended use or materially adversely affect the marketability of such Group Company Assets. The Group Companies do not own any real property. All leases of real property are in good standing and are valid, binding and enforceable in accordance with their respective terms and there does not exist under any such lease any default or any event which with notice or lapse of time or both would constitute a default. No Group Company Asset is subject to any Lien, except: (i) Liens disclosed on the Balance Sheet; (ii) Liens for taxes not yet due or being contested in good faith (and for which adequate accruals or reserves have been established on the Balance Sheet); or (iii) Liens which do not materially detract from the value of such Group Company Asset, or materially interfere with any present or intended use of such Group Company Asset (clauses (i) - (iii) of this Section are, collectively, the "**Permitted Liens**").

Section 3.13. *Sufficiency of and Title to the Group Company Assets.* (a) The Group Company Assets constitute all of the property and assets used or held for used in the Business and are adequate to conduct the Business as currently conducted and as planned to be conducted by Buyer.

Upon consummation of the transactions contemplated hereby, Buyer will have acquired good and marketable title in and to, or a valid leasehold interest in, each of the Group Company Assets, free and clear of all Liens, except for Permitted Liens.

(b) Upon consummation of the transactions contemplated by the Onshore Transaction Documents, Buyer WFOE will have acquired good and marketable title in and to, or a valid leasehold interest in, each of the Onshore Assets, free and clear of all Liens.

Section 3.14. *Related Party Transactions*. Except set forth on Section 3.14 of the Disclosure Schedule, to the best knowledge of any Group Company, no Related Party has any contract, understanding, or proposed transaction with, or is indebted to, any Group Company or has any direct or indirect interest in any Group Company, nor is any Group Company indebted (or committed to make loans or extend or guarantee credit) to any Related Party (other than for accrued salaries for the current pay period). To the best knowledge of any Group Company, no Related Party has any direct or indirect interest in any Person with which a Group Company is affiliated or with which a Group Company has a material business relationship (including any Person which purchases from or sells, licenses or furnishes to a Group Company any goods, Intellectual Property Rights or other property rights or services) or in any contract to which a Group Company is a party or by which it may be bound or affected, and no Related Party directly or indirectly competes with or has any interest in any Person that directly or indirectly competes with any Group Company (other than ownership of less than one percent (1%) of the stock of publicly traded companies).

Section 3.15. *Products*. Each product published, distributed, offered for sale or sold by the Group Companies in connection with the Business is up to and including the publication, distribution, offer for sale or sale thereof has been, (i) in compliance in all material respects with all Applicable Laws, and (ii) fit for the ordinary purposes for which it is intended to be used and conforms in all material respects to any promises or affirmations of fact made in the description or introduction for such product or in connection with its publication, distribution, sale or offer for sale.

Section 3.16. *Intellectual Property*. (a) Schedule 3.16(a)(i) of the Disclosure Schedule contains a true and complete list of all the registrations and applications for registrations included in the Group Company Intellectual Property. Schedule 3.16(a)(ii) of the Disclosure Schedule contains a true and complete list of all Group Company Software, other than non-material Group Company Software, the absence of which will not affect the operations of the Business.

(b) The Group Companies are the sole and exclusive owners of the Group Company Intellectual Property and holds all right, title and interest in and to the Group Company Intellectual Property free and clear of all Liens. There exist no restrictions on the disclosure, use, license or transfer of the Group Company Intellectual Property. The consummation of the transactions contemplated by the Transaction Documents will not alter, encumber, impair or extinguish any Group Company Intellectual Property.

(c) No Group Company has an outstanding indemnity obligation to any Person in connection with any Group Company Intellectual Property.

(d) To the best knowledge of the Group Companies and except as disclosed in Schedule 3.16(d) of the Disclosure Schedule, no Person has infringed, misappropriated or otherwise violated any Group Company Intellectual Property. Each Group Company has taken reasonable steps in accordance with normal industry practice to maintain the confidentiality of all Group Company Intellectual Property the value of which is contingent upon maintaining the confidentiality thereof and no such Group Company Intellectual Property has been disclosed other than to Buyer and to employees, representatives, consultants and agents of Seller all of whom are bound by written confidentiality agreements.

(e) Except as disclosed in Schedule 3.16(e) of the Disclosure Schedule, no Group Company has infringed, misappropriated or otherwise violated, or is infringing, misappropriating or otherwise violating any Intellectual Property Right of any third party. There is no claim, action, suit, investigation or proceeding pending against, or, to the knowledge of Seller, threatened in writing against or affecting, the Business, any Group Company or any present or former officer, director or employee thereof (i) based upon, or challenging or seeking to deny or restrict, the rights of any Group Company in any of the Group Company Intellectual Property, (ii) alleging that the use of the Group Company Intellectual Property or any services provided, processes used or products manufactured, used, distributed, imported or sold with respect to the Business do or may conflict with, misappropriate, infringe or otherwise violate any Intellectual Property Right of any third party or (iii) alleging that any Group Company has infringed, misappropriated or otherwise violated any Intellectual Property Right of any third party. No Group Company has received from any third party an offer to license any Intellectual Property Rights of such third party for use in the Business.

(f) The Group Companies own or have valid, enforceable and sufficient licenses to use all Intellectual Property Rights necessary to, or used or held for use in, the conduct of the business of the Group Companies as currently conducted.

(g) None of the Group Company Intellectual Property has been adjudged invalid or unenforceable in whole or part, and, to the best knowledge of the Group Companies, all such Group Company Intellectual Property are valid and enforceable.

(h) Section 3.16(h) of the Disclosure Schedule sets forth the systems and measures taken by the Group Companies to (i) block Internet protocol addresses located in jurisdictions other than PRC, including the U.S., from accessing content or other Intellectual Property Rights through its systems and services for which the Group Companies do not have valid, enforceable and sufficient licenses to use or distribute, and (ii) implement a digital rights management system and is utilizing video fingerprint identification technology, as recommended by the Motion Picture Association of America, to remove from its systems and services, and deny access to, any content or other Intellectual Property Rights for which the Group Companies do not have valid, enforceable and sufficient licenses to use or distribute. The Group Companies have implemented and have used commercially reasonable efforts to comply with (x) an infringement notification system through which third parties, including copyright owners and licensees, can notify the Group Companies of any potential infringement by the Group Companies or its users, and request takedown, removal or discontinuance of relevant Intellectual Property Rights or content, and (y) a filtering system to identify and remove content prohibited by Applicable Law in the PRC, including screening processes to filter out popular professionally produced English and/or Chinese language content, such as films, television shows, and variety shows for which the Group Companies do not have valid, enforceable and sufficient licenses to use or distribute.

(i) In each case where a patent or patent application, trademark registration or trademark application, service mark registration or service mark application, or copyright registration or copyright application included in the Group Company Intellectual Property is held by assignment, the assignment has been duly recorded with the Governmental Authority from which the patent or registration issued or before which the application or application for registration is pending. Each Group Company has taken all actions necessary to maintain and protect the Group Company Intellectual Property, including payment of applicable maintenance fees and filing of applicable statements of use.

(j) To the best knowledge of the Group Companies, there are no defects in any of the Group Company Software that would prevent such Group Company Software from performing in all material respects the functions for which such Group Company Software was designed, and there are no viruses, worms, Trojan horses or similar programs in any of the Group Company Software. To the best knowledge of the Group Companies, none of the Group Company Software contains any software code that is licensed under any terms or conditions that require that any software be (i) made available or distributed in source code form, (ii) licensed for the purpose of making derivative works, (iii) licensed under terms that allow reverse engineering, reverse assembly or disassembly of any kind or (iv) redistributable at no charge.

(k) Each Group Company has taken reasonable steps in accordance with normal industry practice to preserve and maintain reasonably complete notes and records relating to the Group Company Intellectual Property.

(l) With respect to pending applications and applications for registration of Group Company Intellectual Property that, to the best knowledge of the Group Companies, no Group Company is aware of any reason that could reasonably be expected to prevent any such application or application for registration from being granted with coverage substantially equivalent to the latest amended version of the pending application or application for registration. To the best knowledge of the Group Companies, none of the trademarks, service marks, applications for trademarks and applications for service marks included in the Group Company Intellectual Property has been the subject of an opposition or cancellation procedure. To the best knowledge of the Group Companies, none of the patents and patent applications included in the Group Company Intellectual Property has been the subject of an interference, protest, public use proceeding or third party reexamination request.

(m) The Group Company IT Assets operate and perform in a manner sufficient for the conduct of the Business of the Group Companies as currently conducted and as proposed to be conducted. The Group Companies have taken commercially reasonable actions, consistent with industry standards, to protect the confidentiality, integrity and security of the Group Company IT Assets (and all information, data and content stored or contained therein or transmitted thereby) against any unauthorized use, access, interruption, modification or corruption, including the implementation of commercially reasonable (i) data backup, (ii) disaster avoidance and recovery procedures and (iii) business continuity procedures, in each case, consistent with industry standards.

(n) The Group Companies have at all times complied with all Applicable Laws in material respect relating to privacy, data protection and the collection and use of personal information and user information gathered or accessed in the course of its business and operations. The Group Companies have at all times complied with all rules, policies and procedures established by the Group Companies from time to time with respect to the foregoing. No claims have been asserted or, to the knowledge of Seller, threatened against the Group Companies by any person alleging a violation of such person's privacy, personal or confidentiality rights under any such Applicable Laws, regulations, rules, policies or procedures. There has been no unauthorized access to or other misuse of any such information.

Section 3.17. *Insurance Coverage.* Each Group Company has furnished to Buyer a list of, and true and complete copies of, all insurance policies relating to the Group Company Assets, the business and operations of the Business and its officers and employees. There is no claim by any Group Company pending under any of such policies as to which coverage has been questioned, denied or disputed by the insurers of such policies or in respect of which such insurers have reserved their rights. All premiums payable under all such policies have been timely paid and any Group Company has otherwise complied fully with the terms and conditions of all such policies. Such policies of insurance (or other policies providing substantially similar insurance coverage) have been in effect since their respective incorporation and remain in full force and effect. Such policies are of the type and in amounts customarily carried by Persons conducting businesses similar to the Business. The Group Companies do not know of any threatened termination of, premium increase with respect to, or material alteration of coverage under, any of such policies. After the Closing the Group Companies shall continue to have coverage under such policies with respect to events occurring prior to the Closing.

Section 3.18. *Licenses and Permits.* Schedule 3.18 of the Disclosure Schedule correctly describes each material license, franchise, permit, certificate, approval or other similar authorization affecting, or relating in any way to, the Group Company Assets or the Business (the “**Permits**”) together with the name of the Governmental Authority issuing such Permit. Except as set forth on Schedule 3.18, (i) the Permits are valid and in full force and effect, (ii) no Group Company is in default under, and no condition exists that with notice or lapse of time or both would constitute a default under, the Permits and (iii) none of the Permits will be terminated or impaired or become terminable, in whole or in part, as a result of the transactions contemplated hereby. Upon consummation of such transactions, Buyer will have all of the right, title and interest in all the Permits.

Section 3.19. *Tax Matters.* (a) Each Group Company has timely paid all Taxes which will have been required to be paid on or prior to the date hereof, the non-payment of which would result in a Lien on any Group Company Asset, would otherwise adversely affect in any material respect the Business or any Group Company Asset or would result in Buyer becoming liable or responsible therefor.

(b) Each Group Company has established, in accordance with GAAP applied on a basis consistent with that of preceding periods, adequate reserves for the payment of, and will timely pay, all Taxes which arise from or with respect to the Group Company Assets or the operation of the Business and are incurred in or attributable to the Pre-Closing Tax Period, the non-payment of which would result in a Lien on any Group Company Asset, would otherwise adversely affect in any material respect the Business or any Group Company Asset, or would result in Buyer becoming liable therefor.

Section 3.20. *Insolvency; Winding Up.* No order or petition has been presented or resolution passed for the administration, winding-up, dissolution or liquidation of any Group Company and no administrator, receiver or manager has been appointed in respect thereof. No Group Company has commenced any other proceeding under any bankruptcy, reorganization, dissolution, insolvency, liquidation or similar Applicable Law of any jurisdiction and no such proceedings have been commenced against such Group Company.

Section 3.21. *Selling Documents.* None of the documents or information delivered to Buyer in connection with the transactions contemplated by this Agreement and the Transaction Documents contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading. Each Group Company has furnished or otherwise made available to Buyer any and all information (financial, operational or other) and documents, failure to provide which to Buyer could reasonably be expected to cause Buyer, based on its reasonable consideration and determination, unwilling to execute, deliver and perform this Agreement and the Transaction Documents or to consummate the transactions contemplated herein and therein pursuant to current terms and conditions herein or therein or would defeat the business rationale of Buyer to enter into this Agreement or any Transaction Document and to consummate the transactions contemplated herein and therein. The financial projections relating to the Business delivered to Buyer are made in good faith and are based upon reasonable assumptions, and to the best knowledge of any Group Company, there is no fact or set of circumstances that would lead it to believe that such projections are incorrect or misleading in any material respect.

Section 3.22. *Finders' Fees.* There is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of any Group Company who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement or the Transaction Documents.

Section 3.23. *Employees.* Schedule 3.23 of the Disclosure Schedule sets forth a true and complete list of the names, titles, annual salaries and other compensation of all employees of the Business holding a position of director or above. To the best knowledge of the Group Companies, none of such employees and no other key employee of the Business has indicated to any Group Company that he intends to resign or retire as a result of the transactions contemplated by this Agreement or the Transaction Documents.

Section 3.24. *Representations.* The representations and warranties of the Group Companies contained in this Agreement, disregarding all qualifications and exceptions contained therein relating to materiality or Material Adverse Effect, are true and correct with only such exceptions as would not in the aggregate reasonably be expected to have a Material Adverse Effect.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as of the date hereof and as of the Closing Date that:

Section 4.01. *Corporate Existence and Power.* Each Buyer Group is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all corporate powers and all material governmental licenses, authorizations, permits, consents and approvals required to carry on its business as now conducted.

Section 4.02. *Corporate Authorization.* The execution, delivery and performance by Buyer Group of this Agreement and the consummation of the transactions contemplated hereby are within the corporate powers of Buyer Group and have been duly authorized by all necessary corporate action on the part of Buyer Group. This Agreement constitutes a valid and binding agreement of Buyer Group.

Section 4.03. *Governmental Authorization.* The execution, delivery and performance by Buyer Group of this Agreement and the consummation of the transactions contemplated hereby require no material action by or in respect of, or material filing with, any Governmental Authority.

Section 4.04. *Noncontravention.* The execution, delivery and performance by Buyer Group of this Agreement and the consummation of the transactions contemplated hereby do not and will not (i) violate the certificate of incorporation or memorandum and articles of association of each Buyer Group or (ii) violate any material Applicable Law.

Section 4.05. *Financing.* Buyer has, or will have prior to the Closing, sufficient cash, available lines of credit or other sources of immediately available funds to enable it to make payment of the Purchase Price.

Section 4.06. *Finders' Fees.* There is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of Buyer who might be entitled to any fee or commission in connection with the transactions contemplated by this Agreement.

ARTICLE 5
COVENANTS OF SELLER

Seller agrees that:

Section 5.01. *Conduct of the Business*. From the date hereof until the Closing Date, Seller shall, and shall cause each other Group Company to conduct the Business in the ordinary course consistent with past practice and use its reasonable best efforts to (i) preserve intact the present business organization of the Business, (ii) maintain in effect all foreign, federal, state and local licenses, permits, consents, franchises, approvals and authorizations of the Business, (iii) keep available the services of the directors, officers and key employees of the Business, and (iv) maintain satisfactory relationships with the customers, lenders, content providers, content subscribers, suppliers and others having material business relationships of the Business. Without limiting the generality of the foregoing, except as expressly contemplated by this Agreement or with the prior written consent of Buyer, no Group Company shall:

(a) incur any capital expenditures or any obligations or liabilities with respect to the Business or the Group Company Assets exceeding RMB 1,000,000 individually or RMB 1,000,000 in the aggregate, outside the ordinary course of business;

(b) acquire (by merger, consolidation, acquisition of stock or assets or otherwise), directly or indirectly, any assets, securities, properties, interests or businesses for the conduct of the Business;

(c) sell, license, lease, or otherwise transfer, or create or incur any Lien on, any Group Company Assets, other than entry of licensing arrangements in the ordinary course of business consistent with past practice;

(d) fail to maintain, preserve, protect or enforce any Group Company Intellectual Property or Group Company IT Asset, as applicable;

(e) make any loans, advances or capital contributions to, or investments in, any other Person with respect to the Business or the Group Company Assets, other than in the ordinary course of business consistent with past practices;

(f) create, incur, assume, suffer to exist or otherwise be liable with respect to any indebtedness for borrowed money with respect to the Business or the Group Company Assets or guarantees thereof other than in the ordinary course of business and in amounts and on terms consistent with past practices;

(g) (i) enter into any agreement or arrangement that limits or otherwise restricts in any material respect the conduct of the Business or any of its Affiliates or any successor thereto or that could, after the Closing Date, limit or restrict in any material respect the Business, Buyer or any of its Affiliates, from engaging or competing in any line of business, in any location or with any Person or (ii) enter into, amend or modify in any material respect or terminate any material Contract or otherwise waive, release or assign any material rights, claims or benefits of the Business or the Group Company Assets;

(h) (i) grant or increase any severance or termination pay to (or amend any existing arrangement with) any director, officer or employee of the Business, (ii) increase benefits payable under any existing severance or termination pay policies or employment agreements with employees, officers or directors of the Business, (iii) enter into any employment, deferred compensation or other similar agreement (or amend any such existing agreement) with any director, officer or employee of the Business, (iv) establish, adopt or amend (except as required by Applicable Law) any collective bargaining, bonus, profit-sharing, thrift, pension, retirement, deferred compensation, compensation, stock option, restricted stock or other benefit plan or arrangement covering any director, officer or employee of the Business or (v) increase compensation, bonus or other benefits payable to any director, officer or employee of the Business;

(i) change the methods of accounting or accounting practice by each Group Company with respect to the Business, except as required by concurrent changes in GAAP as agreed to by its independent public accountants;

(j) settle, or offer or propose to settle, (i) any material litigation, investigation, arbitration, proceeding or other claim involving or against the Business or the Group Company Assets or (ii) any litigation, arbitration, proceeding or dispute that relates to the transactions contemplated hereby;

(k) take any action that would reasonably be expected to make any representation or warranty or undertaking of Seller hereunder, or omit to take any action necessary to prevent any representation or warranty or undertaking of any Group Company hereunder from being, inaccurate in any respect at, or as of any time before, the Closing Date; or

(l) agree, resolve or commit to do any of the foregoing.

Section 5.02. *Tax Matters.* From the date hereof, Seller shall, and shall cause each Group Company to timely pay, all Taxes that arise from or with respect to the Group Company Assets or the operation of the Business and are incurred in or attributable to the Pre-Closing Tax Period.

Section 5.03. *Access to Information; Confidentiality.* (a) From the date hereof until the Closing Date, Seller will, and will cause each other Group Company to, (i) give Buyer, its counsel, financial advisors, auditors and other authorized representatives full access to the offices, properties, books and records of Seller relating to the Business and the Group Company Assets, (ii) furnish to Buyer, its counsel, financial advisors, auditors and other authorized representatives such financial and operating data and other information relating to the Business and the Group Company Assets as such Persons may reasonably request and (iii) instruct the employees, counsel and financial advisors of Seller to cooperate with Buyer in its investigation of the Business and the Group Company Assets, *provided* that any such access by Buyer shall not unreasonably interfere with the conduct of the business of the Group Companies. No investigation by Buyer or other information received by Buyer before the Closing shall operate as a waiver or otherwise affect any representation, warranty or agreement given or made by any Group Company hereunder.

(b) After the Closing, Seller and its Affiliates will hold, and will use their best efforts to cause their respective officers, directors, employees, accountants, counsel, consultants, advisors and agents to hold, in confidence, unless compelled to disclose by Applicable Law, all confidential documents and information concerning the Business and the Group Company Assets, except to the extent that such information can be shown to have been (i) previously known on a non-confidential basis by Seller, (ii) in the public domain through no fault of Seller, (iii) later lawfully acquired by Seller from sources not under any obligations to keep such information confidential to Buyer. The obligation of Seller to hold any such information in confidence shall be satisfied if it exercise the same care with respect to such information as it would take to preserve the confidentiality of their own similar information.

(c) On and after the Closing Date, Seller will, and will cause the other Group Companies to, afford promptly to Buyer and its agents reasonable access to its books of account, financial and other records (including accountant's work papers), information, employees and auditors to the extent necessary or useful for Buyer in connection with any audit, investigation, dispute or litigation or any other reasonable business purpose relating to the Business and the Group Company Assets; *provided* that any such access by Buyer shall not unreasonably interfere with the conduct of the business of the Group Companies.

Section 5.04. *Notices of Certain Events.* Seller shall promptly notify Buyer of:

(a) any notice or other communication from any Person alleging that the consent of such Person is or may be required in connection with the transactions contemplated by this Agreement and the Transaction Documents;

(b) any notice or other communication from any Governmental Authority in connection with the transactions contemplated by this Agreement and the Transaction Documents;

(c) any actions, suits, claims, investigations or proceedings commenced or, to its knowledge threatened against, relating to or involving or otherwise affecting any Group Company or the Business or the Group Company Assets that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to Section 3.10 or that relate to the consummation of the transactions contemplated by this Agreement and the Transaction Documents;

(d) the damage or destruction by fire or other casualty of any Group Company Asset or part thereof or in the event that any Group Company Asset or part thereof becomes the subject of any proceeding or, to the knowledge of the Group Companies, threatened proceeding for the taking thereof or any part thereof or of any right relating thereto by condemnation, eminent domain or other similar governmental action;

(e) any inaccuracy of any representation or warranty contained in this Agreement at any time during the term hereof that could reasonably be expected to cause the conditions set forth in Section 9.02 not to be satisfied; and

(f) any failure of Seller to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder;

provided, however, that the delivery of any notice pursuant to this Section 5.04 shall not limit or otherwise affect the remedies available hereunder to Buyer.

Section 5.05. *Noncompetition.* (a) Seller agrees, that for a period of two (2) full years after the Closing Date, neither it nor any of the controlled Affiliates (including Beijing WFOE) shall:

(i) engage, either directly or indirectly, as a principal or for its own account or solely or jointly with others, or as shareholders or other investor in any company or other entity, in any business that competes with the Business as it exists on the Closing Date within the PRC; or

(ii) employ or solicit, or receive or accept the performance of services by any directors, officers or employees of Buyer or its Affiliates.

(b) If any provision contained in this Section shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Section, but this Section shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein. It is the intention of the parties that if any of the restrictions or covenants contained herein is held to cover a geographic area or to be for a length of time which is not permitted by Applicable Law, or in any way construed to be too broad or to any extent invalid, such provision shall not be construed to be null, void and of no effect, but to the extent such provision would be valid or enforceable under Applicable Law, a court of competent jurisdiction shall construe and interpret or reform this Section to provide for a covenant having the maximum enforceable geographic area, time period and other provisions (not greater than those contained herein) as shall be valid and enforceable under such Applicable Law. Each Seller and Beijing WFOE acknowledges that Buyer would be irreparably harmed by any breach of this Section and that there would be no adequate remedy at law or in damages to compensate Buyer for any such breach. Each Seller and Beijing WFOE agrees that Buyer shall be entitled to injunctive relief requiring specific performance by Each Seller and Beijing WFOE of this Section, and Each Seller and Beijing WFOE consents to the entry thereof.

Section 5.06. *Exclusivity.* From the date hereof until the Closing Date, Seller shall not, and shall cause the other Group Companies not to directly or indirectly, (i) enter into or continue any discussion, negotiation or agreement with any person other than Buyer with respect to any sale or issue of capital stock or assets of any Group Company or any of its subsidiaries, any other sale, financing or investment transaction, or any other transaction that would be similar to the transactions contemplated under this Agreement and the Transaction Documents or have the effect directly or indirectly of disposing a material portion of the Group Company Assets, (ii) take any action to solicit, initiate, encourage or assist the submission of any proposal or offer that constitutes, or may reasonably be expected to lead to any of the transactions described in (i) above from any Person or entity other than Buyer, or (iii) disclose any nonpublic information, or afford access to its properties, books or records, to any other person or entity that is making any proposal or offer that constitutes, or may reasonably be expected to lead to any of the transactions described in (i) above, or would be in substitution or an alternative for or would impede or interfere with the transactions contemplated by this Agreement.

Section 5.07. *Onshore Transactions*. Seller shall cause each applicable Group Company to take all actions necessary and desirable to consummate the Onshore Transactions pursuant to the terms of the Onshore Transaction Documents.

ARTICLE 6
COVENANTS OF BUYER

Buyer agrees that:

Section 6.01. *Confidentiality*. Prior to the Closing Date and after any termination of this Agreement, Buyer and its Affiliates will hold, and will use their best efforts to cause their respective officers, directors, employees, accountants, counsel, consultants, advisors and agents to hold, in confidence, unless compelled to disclose by Applicable Law, all confidential documents and information concerning the Business or any Group Company furnished to Buyer or its Affiliates in connection with the transactions contemplated by this Agreement, except to the extent that such information can be shown to have been (i) previously known on a non-confidential basis by Buyer, (ii) in the public domain through no fault of Buyer or (iii) later lawfully acquired by Buyer from sources not under any obligations to keep such information confidential to Seller; *provided* that Buyer may disclose such information to its officers, directors, employees, accountants, counsel, consultants, advisors and agents in connection with the transactions contemplated by this Agreement so long as such Persons are informed by Buyer of the confidential nature of such information and are directed by Buyer to treat such information confidentially. The obligation of Buyer and its Affiliates to hold any such information in confidence shall be satisfied if they exercise the same care with respect to such information as they would take to preserve the confidentiality of their own similar information. If this Agreement is terminated, Buyer and its Affiliates will, and will use their best efforts to cause their respective officers, directors, employees, accountants, counsel, consultants, advisors and agents to, destroy or deliver to the Group Companies, upon request, all documents and other materials, and all copies thereof, obtained by Buyer or its Affiliates or on their behalf from the Group Companies in connection with this Agreement that are subject to such confidence.

Section 6.02. *Post-Closing Covenants*. After the Closing, Seller shall, and shall cause its Affiliates, to comply with their respective post-Closing obligations under the Transaction Documents.

ARTICLE 7
COVENANTS OF BUYER AND SELLER

Buyer and Seller agree that:

Section 7.01. *Best Efforts; Further Assurances*. (a) Subject to the terms and conditions of this Agreement, each party will use its best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary or desirable under Applicable Laws to consummate the transactions contemplated by this Agreement and the Transaction Documents. The parties agree to execute and deliver such other documents, certificates, agreements and other writings and to take such other actions as may be necessary or desirable in order to consummate or implement expeditiously the transactions contemplated by this Agreement and the Transaction Documents and to vest in Buyer good and marketable title to the Group Company Assets.

(b) Seller hereby constitutes and appoints, effective as of the Closing Date, Buyer and its successors and assigns as the true and lawful attorney of Seller with full power of substitution in the name of Buyer, or in the name of Seller but for the benefit of Buyer, (i) to collect for the account of Buyer any items of Group Company Assets and (ii) to institute and prosecute all proceedings which Buyer may in its sole discretion deem proper in order to assert or enforce any right, title or interest in, to or under the Group Company Assets, and to defend or compromise any and all actions, suits or proceedings in respect of the Group Company Assets. Buyer shall be entitled to retain for its own account any amounts collected pursuant to the foregoing powers, including any amounts payable as interest in respect thereof. Seller hereby agrees that the foregoing agreements shall apply mutatis mutandis with respect to the other Group Companies and the other Group Company Assets and agrees to cause the other Group Companies to take such actions as necessary or desirable to give effect to such agreements.

Section 7.02. *Certain Filings.* The parties shall cooperate with one another (i) in determining whether any action by or in respect of, or filing with, any Governmental Authority is required, or any actions, consents, approvals or waivers are required to be obtained from any third party, in connection with the consummation of the transactions contemplated by this Agreement and (ii) in taking such actions or making any such filings, furnishing information required in connection therewith and seeking timely to obtain any such actions, consents, approvals or waivers.

Section 7.03. *Public Announcements.* The parties agree to consult with each other before issuing any press release or making any public statement with respect to this Agreement or the transactions contemplated hereby and, except for any press releases and public statements the making of which may be required by Applicable Law or any listing agreement with any national securities exchange, will not issue any such press release or make any such public statement prior to such consultation.

ARTICLE 8
[RESERVED]

ARTICLE 9
CONDITIONS TO CLOSING

Section 9.01. *Conditions to Obligations of Buyer and Seller.* The obligations of Buyer and Seller to consummate the Closing are subject to the satisfaction of the following conditions:

(a) No Applicable Law shall prohibit the consummation of the Closing.

(b) All actions by or in respect of or filings with any Governmental Authority required to permit the consummation of the Closing shall have been taken, made or obtained.

Section 9.02. *Conditions to Obligation of Buyer.* The obligation of Buyer to consummate the Closing is subject to the satisfaction of the following further conditions:

(a) (i) Seller shall have performed in all material respects all of its obligations hereunder required to be performed by it on or prior to the Closing Date and (ii) the representations and warranties of the Seller contained in this Agreement and in any certificate or other writing delivered by Seller pursuant hereto (A) that are qualified by materiality or Material Adverse Effect shall be true at and as of the Closing Date as if made at and as of such date, and (B) that are not qualified by materiality or Material Adverse Effect shall be true in all material respects at and as of the Closing Date as if made at and as of such time; and (C) Buyer shall have received a certificate signed by the Chief Executive Officer of Seller to the forgoing effect.

(b) There shall not be threatened (in writing to any Group Company), instituted or pending any action or proceeding by any Person before any Governmental Authority, (i) seeking to restrain, prohibit or otherwise interfere with the ownership or operation by Buyer or any of its Affiliates of all or any material portion of the Group Company Assets or the business or assets of Buyer or any of its Affiliates or to compel Buyer or any of its Affiliates to dispose of all or any material portion of the Group Company Assets or of Buyer or any of its Affiliates or (ii) seeking to require divestiture by Buyer or any of its Affiliates of any Group Company Assets or any business or assets of Buyer or any of its Affiliates.

(c) There shall not be any action taken, or any Applicable Law proposed, enacted, enforced, promulgated, issued or deemed applicable to the purchase of the Group Company Assets, by any Governmental Authority, that, in the reasonable judgment of Buyer could, directly or indirectly, result in any of the consequences referred to in Sections 9.02(b)(i) and 9.02(b)(ii).

(d) Each Group Company shall have received all required consents (including all consents, authorizations or approvals from the Governmental Authorities referred to in Section 3.03), in each case in form and substance reasonably satisfactory to Buyer, and no such consent, authorization or approval shall have been revoked.

(e) No event, development, occurrence, change, effect or condition of any character shall have occurred following the date of this Agreement that, individually or in the aggregate, has had or could reasonably be expected to have a Material Adverse Effect.

(f) Each of the parties to the Transaction Documents, other than Buyer or Buyer WFOE, shall have executed and delivered such Transaction Documents to Buyer or Buyer WFOE, as applicable.

(g) The closing of the transactions contemplated under the Offshore Asset Transfer Agreement and the Onshore Transaction Documents shall be completed simultaneously at the Closing pursuant to the terms and conditions thereto.

(h) Buyer shall have received an opinion from Commerce & Finance Law Offices, in form and substance satisfactory to Buyer.

(i) Buyer shall have received an opinion from Han Kun Law Offices, in form and substance satisfactory to Buyer.

(j) Buyer shall have received an opinion from Conyers Dill & Pearman, in form and substance satisfactory to Buyer.

(k) Each of the individuals listed on Exhibit G shall have entered into an employment agreement with Zhong Yuan in form and substance satisfactory to Buyer, with a non-competition term of two (2) years after the Closing.

(l) Seller shall have delivered to Buyer resolutions duly adopted by Seller's board of directors and shareholders and such other documents as necessary to approve the allocation of the Purchase Price among its shareholders and optionholders as set forth in Exhibit I attached hereto.

(m) Seller shall have delivered the Balance Sheet to Buyer pursuant to Section 2.09.

(n) Seller shall have delivered to Buyer the Consolidated Financial Statements, together with an unqualified audit report thereto issued by Deloitte Touche Tohmatsu.

Notwithstanding anything to the contrary in the Offshore Asset Transfer Agreement or the Onshore Asset Transfer Agreement, no party has any obligation to consummate the transactions contemplated thereunder unless all conditions specified in Section 9.02 have been satisfied and the closings of such transactions and the entry of the New Control Documents happen concurrently at the Closing.

Section 9.03. *Conditions to Obligation of Seller.* The obligation of Seller to consummate the Closing is subject to the satisfaction of the following further conditions:

(a) (i) Buyer shall have performed in all material respects all of its obligations hereunder required to be performed by it at or prior to the Closing Date and (ii) the representations and warranties of Buyer contained in this Agreement and in any certificate or other writing delivered by Buyer pursuant hereto shall be true in all material respects at and as of the Closing Date, as if made at and as of such date.

(b) Seller shall have received all documents it may reasonably request relating to the existence of Buyer and the authority of Buyer for this Agreement, all in form and substance reasonably satisfactory to Seller.

ARTICLE 10
SURVIVAL; INDEMNIFICATION

Section 10.01. *Survival.* The representations and warranties of the parties hereto contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall survive the Closing until 24 months after the Closing Date; *provided* that the representations and warranties in Section 3.01, Section 3.02, Section 3.13, Section 3.16, Section 3.22, Section 4.01 and Section 4.02 (the “**Fundamental Representations**”) shall survive indefinitely or until the latest date permitted by law. The covenants and agreements of the parties hereto contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall survive the Closing until 24 months following the last date on which such covenant or agreement is to be performed or, if no such date is specified, indefinitely. Notwithstanding the preceding sentences, any breach of covenant, agreement, representation or warranty in respect of which indemnity may be sought under this Agreement shall survive the time at which it would otherwise terminate pursuant to the preceding sentence, if notice of the inaccuracy thereof giving rise to such right of indemnity shall have been given to the party against whom such indemnity may be sought prior to such time.

Section 10.02. *Indemnification.* (a) Effective at and after the Closing, Seller hereby indemnifies Buyer, its Affiliates and their respective successors and assignees against and agree to hold each of them harmless from any and all damage, loss, liability and expense (including reasonable expenses of investigation and reasonable attorneys’ fees and expenses in connection with any action, suit or proceeding whether involving a third-party claim or a claim solely between the parties hereto) (the “**Damages**”) incurred or suffered by Buyer, any of its Affiliates or any of their respective successors and assignees arising out of:

(i) any misrepresentation or breach of warranty (determined, without regard to any qualification or exception contained therein relating to materiality or Material Adverse Effect or any similar qualification or standard) given by any Group Company under the Transaction Documents (each such misrepresentation and breach of warranty a “**Warranty Breach**”);

(ii) any breach of covenant or agreement made or to be performed by any Group Company pursuant to the Transaction Documents;

(iii) any Taxes imposed on or with respect to the Group Company Assets or the Business with respect to the Pre-Closing Tax Period, provided that with respect to a Pre-Closing Tax Period that commences before but ends after the Closing Date, the amount of any such Taxes that are income taxes, shall be deemed to be the amount of such Taxes for the entire Tax period multiplied by a fraction the numerator of which is the number of days in the periods ending on the Closing Date and the denominator of which is the number of days in such Tax period;

(iv) any Damages incurred by Buyer or its Affiliates as a result of any Group Company's failure to properly and timely pay Taxes for any transactions contemplated under the Transaction Documents; and

(v) any and all Excluded Liability;

provided that, with respect to indemnification by Seller for any breaches under this Agreement (other than breaches of the Fundamental Representations or covenants made in Article 5), (x) Seller shall not be liable for any such claim unless the aggregate amount of Damages for such breaches (other than breaches of Fundamental Representations or covenants made in Section 5.05) exceeds US\$200,000 (the "**Threshold**"), in which case Seller shall be liable for all such Damages including within the Indemnity Threshold and (y) Seller's maximum liability for all such breaches (other than breaches of Fundamental Representations or covenants made in Section 5.05) shall not exceed 20% of the Offshore Payment (the "**Cap**").

(b) Effective at and after the Closing, Buyer hereby indemnifies Seller and its Affiliates and their respective successors and assignees against and agrees to hold each of them harmless from any and all Damages incurred or suffered by Seller, any of its Affiliates or any of their respective successors and assignees arising out of any breach of covenant or agreement made or to be performed by Buyer pursuant to this Agreement; *provided that* with respect to indemnification by Buyer for Warranty Breaches (other than breaches of Fundamental Representations), (x) Buyer shall not be liable for any claim unless the aggregate amount of Damages for such Warranty Breaches (other than breaches of Fundamental Representations) exceeds the Indemnity Threshold, in which case Buyer shall be liable for all such Damages including within the Threshold and (y) Buyer's maximum liability for all such Warranty Breaches (other than breaches of Fundamental Representations) shall not exceed the Cap.

Section 10.03. *Third Party Claim Procedures.* (a) The party seeking indemnification under Section 10.02(a) and (b) (the "**Indemnified Party**") agrees to give prompt notice in writing to the party against whom indemnity is to be sought (the "**Indemnifying Party**") of the assertion of any claim or the commencement of any suit, action or proceeding by any third party ("**Third Party Claim**") in respect of which indemnity may be sought under such Section. Such notice shall set forth in reasonable detail such Third Party Claim and the basis for indemnification (taking into account the information then available to the Indemnified Party). The failure to so notify the Indemnifying Party shall not relieve the Indemnifying Party of its obligations hereunder, except to the extent such failure shall have actually prejudiced the Indemnifying Party.

(b) The Indemnifying Party shall be entitled to participate in the defense of any Third Party Claim and, subject to the limitations set forth in this Section, shall be entitled to control and appoint lead counsel for such defense, in each case at its own expense; *provided* that prior to assuming control of such defense, the Indemnifying Party must (i) acknowledge that it would have an indemnity obligation for the Damages resulting from such Third Party Claim as provided under this Article and (ii) furnish the Indemnified Party with evidence that the Indemnifying Party has adequate resources to defend the Third Party Claim and fulfill its indemnity obligations hereunder.

(c) The Indemnifying Party shall not be entitled to assume or maintain control of the defense of any Third Party Claim and shall pay the fees and expenses of counsel retained by the Indemnified Party if (i) the Indemnifying Party does not deliver the acknowledgment referred to in Section 10.03(b)(i), (ii) the Third Party Claim relates to or arises in connection with any criminal proceeding, action, indictment, allegation or investigation, (iii) the Indemnified Party reasonably believes an adverse determination with respect to the Third Party Claim would be detrimental to the reputation or future business prospects of the Indemnified Party or any of its Affiliates, (iv) the Third Party Claim seeks an injunction or equitable relief against the Indemnified Party or any of its Affiliates or (v) the Indemnifying Party has failed or is failing to prosecute or defend vigorously the Third Party Claim.

(d) If the Indemnifying Party shall assume the control of the defense of any Third Party Claim in accordance with the provisions of this Section 10.03, the Indemnifying Party shall obtain the prior written consent of the Indemnified Party (which shall not be unreasonably withheld) before entering into any settlement of such Third Party Claim.

(e) In circumstances where the Indemnifying Party is controlling the defense of a Third Party Claim in accordance with paragraphs (b) and (c) above, the Indemnified Party shall be entitled to participate in the defense of any Third Party Claim and to employ separate counsel of its choice for such purpose, in which case the fees and expenses of such separate counsel shall be borne by the Indemnified Party; *provided* that in such event the Indemnifying Party shall pay the fees and expenses of such separate counsel (i) incurred by the Indemnified Party prior to the date the Indemnifying Party assumes control of the defense of the Third Party Claim or (ii) if representation of both the Indemnifying Party and the Indemnified Party by the same counsel would create a conflict of interest.

(f) Each party shall cooperate, and cause their respective affiliates to cooperate, in the defense or prosecution of any Third Party Claim and shall furnish or cause to be furnished such records, information and testimony, and attend such conferences, discovery proceedings, hearings, trials or appeals, as may be reasonably requested in connection therewith.

Section 10.04. *Direct Claim Procedures.* In the event an Indemnified Party has a claim for indemnity under Section 10.02(a) and Section 10.02(b) against an Indemnifying Party that does not involve a Third Party Claim, the Indemnified Party agrees to give prompt notice in writing of such claim to the Indemnifying Party. Such notice shall set forth in reasonable detail such claim and the basis for indemnification (taking into account the information then available to the Indemnified Party). The failure to so notify the Indemnifying Party shall not relieve the Indemnifying Party of its obligations hereunder, except to the extent such failure shall have actually prejudiced the Indemnifying Party. If the Indemnifying Party does not notify the Indemnified Party within 30 days following the receipt of a notice with respect to any such claim that the Indemnifying Party disputes its indemnity obligation to the Indemnified Party for any Damages with respect to such claim, such Damages shall be conclusively deemed a liability of the Indemnifying Party and the Indemnifying Party shall promptly pay to the Indemnified Party any and all Damages arising out of such claim. If the Indemnifying Party has timely disputed its indemnity obligation for any Damages with respect to such claim, the parties shall proceed in good faith to negotiate a resolution of such dispute and, if not resolved through negotiations, such dispute shall be resolved by arbitration pursuant to Section 12.07. In addition, upon receipt of an indemnification notice under this Section 10.04, the Indemnifying Party may propose to the Indemnified Party ways to cure the applicable claim by written notice specifying the details for such proposal and the time period required for such cure; *provided that* the Indemnifying Party shall acknowledge that it would have an indemnity obligation for the Damages resulting from such claim; *provided further* that the Indemnified Party shall have full discretion to consider if it wishes to accept such proposal.

Section 10.05. *Calculation of Damages.* Seller and Buyer agree that in the event Buyer or its Affiliates shall suffer any Damages with respect to any Group Company Assets or the Business for which they shall be entitled to indemnification hereunder, such Damages shall be determined by reference to the aggregate Purchase Price for the Group Company Assets or the Business as a whole, and any allocation of the Purchase Price between the Offshore Assets and the Onshore Assets or for Tax purposes shall not be taken into account in determination of such Damages.

Section 10.06. *Indemnification Payment.* In the event Seller shall be liable for any indemnification payment hereunder, Buyer shall be entitled to receive such amount out of the Escrow Account; provided that if funds in the Escrow Account shall be insufficient for such payment or the Escrow Account shall have terminated; provided that for further avoidance of doubt, Buyer's recourse for indemnification hereunder shall not be limited by funds in the Escrow Account.

Section 10.07. *No Rescission.* Except in the case of fraud or willful or intentional misconduct or as required by Applicable Law, neither Buyer nor Seller, after the consummation of the Closing, shall have the right to rescind the purchase and sale of the Group Company Assets.

ARTICLE 11
TERMINATION

Section 11.01. *Grounds for Termination.* This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written agreement of Seller and Buyer;

(b) by either Seller or Buyer if the Closing shall not have been consummated on or before a date that is 45 days after the date hereof or any other date as mutually agreed by the Seller and Buyer (the “**Drop Dead Date**”); provided that the party seeking to terminate this Agreement is not in material breach of any of its obligations hereunder and the right to terminate this Agreement shall not be available to such party if its failure to fulfill any obligation hereunder shall have been in any material respect, the cause of, or resulted in the failure of Closing to occur prior to the Drop Dead Date; or

(c) by either Seller or Buyer if there shall be any Applicable Law that makes consummation of the transactions contemplated hereby illegal or otherwise prohibited or if consummation of the transactions contemplated hereby would violate any non-appealable final order, decree or judgment of any Governmental Authority having competent jurisdiction.

The party desiring to terminate this Agreement pursuant to Section 11.01(b) or Section 11.01(c) shall give notice of such termination to the other party.

Section 11.02. *Effect of Termination.* If this Agreement is terminated as permitted by Section 11.01, such termination shall be without liability of either party (or any stockholder, director, officer, employee, agent, consultant or representative of such party) to the other party to this Agreement; *provided* that if such termination shall result from the (i) willful failure of either party to fulfill a condition to the performance of the obligations of the other parties, (ii) failure to perform a covenant of this Agreement or (iii) breach by any party hereto of any representation or warranty or agreement contained herein, such party shall be fully liable for any and all Damages incurred or suffered by the other party as a result of such failure or breach. The provisions of Section 6.01, 12.02, 12.05 to Section 12.12 shall survive any termination hereof pursuant to Section 11.01. If this Agreement is terminated before the Closing, the parties hereto agree that all other Transaction Documents shall be automatically terminated.

ARTICLE 12
MISCELLANEOUS

Section 12.01. *Notices.* All notices, requests and other communications to any party hereunder shall be in writing (including facsimile transmission and electronic mail (“**e-mail**”) transmission, so long as a receipt of such e-mail is requested and received) and shall be given,

if to Buyer, to:

Qiyi.com, Inc.
17/F, Capital Development Tower,
No. 2 Haidian North 1st Street,
Haidian District, Beijing, 100080, PRC
Attention: Li Yipeng
Facsimile No.: 86-10-6267 7000
E-mail: liyipeng@qiyi.com

with a copy to:

Davis Polk & Wardwell
The Hong Kong Club Building
3A Chater Road
Hong Kong
Attention: Miranda So
Facsimile No.: (852) 2533-3373
E-mail: miranda.so@davispolk.com

if to Seller, to:

PPSTREAM INC.
Floor 5, No. 1388 Yi Shan Road
Xuhui district, Shanghai
Attention: XU Weifeng
Facsimile No.: +86-21-53519529
E-mail: vincent@ppstream.com

with a copy to:

Cadwalader, Wickersham & Taft LLP
23 Floor China Central Place Tower 2
No. 79 Jianguo Road, Beijing 100025
Attention: Rocky Lee
Facsimile No.: +86 (10) 6599 7300
E-mail: rocky.lee@cwt.com

or such other address or facsimile number as such party may hereafter specify for the purpose by notice to the other parties hereto. All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. in the place of receipt and such day is a Business Day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding Business Day in the place of receipt.

Section 12.02. *Amendments and Waivers.* (a) Any provision of this Agreement may be amended or waived if, but only if, such amendment or waiver is in writing and is signed, in the case of an amendment, by each party to this Agreement, or in the case of a waiver, by the party against whom the waiver is to be effective.

(b) No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

Section 12.03. *Disclosure Schedule References.* The parties hereto agree that any reference in a particular Section of the Disclosure Schedule shall only be deemed to be an exception to (or, as applicable, a disclosure for purposes of) (a) the representations and warranties (or covenants, as applicable) of the relevant party that are contained in the corresponding Section of this Agreement and (b) any other representations and warranties of such party that is contained in this Agreement or the other Transaction Documents but only if the relevance of that reference as an exception to (or a disclosure for purposes of) such representations and warranties would be readily apparent to a reasonable person who has read that reference and such representations and warranties, without any independent knowledge on the part of the reader regarding the matter(s) so disclosed.

Section 12.04. *Expenses.* Except as otherwise provided herein, all costs and expenses (including any Taxes) incurred in connection with this Agreement shall be paid by the party incurring such cost or expense.

Section 12.05. *Successors and Assigns.* The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; *provided* that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of each other party hereto; except that Buyer may transfer or assign its rights and obligations under this Agreement, in whole or from time to time in part, to (i) one or more of its Affiliates at any time and (ii) after the Closing Date, to any Person; *provided* that no such transfer or assignment will relieve Buyer of its obligations hereunder or enlarge, alter or change any obligation of any other party hereto or due to Buyer.

Section 12.06. *Governing Law.* This Agreement shall be governed by and construed in accordance with the law of Hong Kong, without regard to the conflicts of law rules of such jurisdiction.

Section 12.07. *Arbitration.*

(a) Any dispute, controversy or claim (each, a “**Dispute**”) arising out of or relating to this Agreement, or the interpretation, breach, termination, validity or invalidity thereof, shall be exclusively settled by arbitration in Hong Kong under the Hong Kong International Arbitration Centre Administered Arbitration Rules (“**HKIAC Rules**”) in force when the Notice of Arbitration is submitted in accordance with the HKIAC Rules.

(b) There shall be three (3) arbitrators, of whom one (1) arbitrator shall be appointed by Seller, one (1) arbitrator appointed by Buyer, and the third arbitrator shall be appointed by the two arbitrators designated by the parties. If the two arbitrators designated by the parties are unable to agree upon a third arbitrator within thirty (30) days after the first two arbitrators are appointed, the third arbitrator shall be appointed by the Hong Kong Mediation Council of the Hong Kong International Arbitration Centre.

(c) The arbitral proceedings shall be conducted in English. To the extent that the HKIAC Rules are in conflict with the provisions of this Section, including without limitation, the provisions concerning the appointment of the arbitrators, the provisions of this Section shall prevail.

(d) In addition to the authority conferred upon the arbitral tribunal by the HKIAC Rules, the arbitral tribunal shall have the authority to order production of documents in accordance with the IBA Rules on the Taking of Evidence in International Arbitration published by International Bar Association as current on the commencement of the arbitration.

(e) The award of the arbitral tribunal shall be final and binding upon the parties thereto, and the prevailing party may apply to a court of competent jurisdiction for enforcement of such award.

(f) The arbitral tribunal shall decide any Dispute submitted by the parties to the arbitration strictly in accordance with the substantive laws of Hong Kong (without regard to principles of conflict of laws thereunder) and shall not apply any other substantive law.

(g) Any party to the Dispute shall be entitled to seek preliminary injunctive relief, if possible, from any court of competent jurisdiction pending the constitution of the arbitral tribunal.

During the course of the arbitral tribunal's adjudication of the Dispute, this Agreement shall continue to be performed except with respect to the part in dispute and under adjudication.

Section 12.08. *WAIVER OF JURY TRIAL.* EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 12.09. *Counterparts; Effectiveness; Third Party Beneficiaries.* This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by all of the other parties hereto. Until and unless each party has received a counterpart hereof signed by the other parties hereto, this Agreement shall have no effect and no party shall have any right or obligation hereunder (whether by virtue of any other oral or written agreement or other communication). No provision of this Agreement is intended to confer any rights, benefits, remedies, obligations or liabilities hereunder upon any Person other than the parties hereto and their respective successors and assigns.

Section 12.10. *Entire Agreement.* The Transactions Documents (and the agreements referred therein) and all exhibits and schedules thereto constitute the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both oral and written, among the parties with respect to the subject matter hereof. In the event of any conflict or inconsistency between this Agreement (or any portion hereof) and the Onshore Asset Transfer Agreement, and/or the Offshore Asset Transfer Agreement, the terms of this Agreement shall prevail.

Section 12.11. *Severability*. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction or other authority to be invalid, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such a determination, the parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the fullest extent possible.

Section 12.12. *Specific Performance*. The parties hereto agree that irreparable damage would occur if any provision of this Agreement were not performed in accordance with the terms hereof and that the parties shall be entitled to an injunction or injunctions to prevent breaches of this Agreement or to enforce specifically the performance of the terms and provisions hereof, in addition to any other remedy to which they are entitled at law or in equity.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

Qiyi.com, Inc.

By: /s/ Qiyi.com, Inc.

Name: Gong Yu

Title: Director

Beijing Qiyi Century Science & Technology Co., Ltd.
(北京奇艺世纪科技有限公司)

By: /s/ Gong Yu

Name: Gong Yu

Title: Chief Executive Officer

PPSTREAM INC.

By: /s/ PPSTREAM INC.

Name: Zhang Hongyu

Title: President

Chuan Ju Hu Dong (Beijing) Technology Co., Ltd.
(传聚互动(北京)科技有限公司)

By: /s/ Chuan Ju Hu Dong (Beijing) Technology Co., Ltd.

Name: Xu Weifeng

Title: Director

AGREEMENT AND PLAN OF MERGER

among

BAIDU (HONG KONG) LIMITED,
BAIDU (HONG KONG) SUB LIMITED

and

91 WIRELESS WEBSOFT LIMITED

Dated August 14, 2013

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AGREEMENT AND PLAN OF MERGER, dated as of August 14, 2013 (this “**Agreement**”), among Baidu (Hong Kong) Limited, a limited liability company incorporated under the laws of Hong Kong (“**Parent**”), Baidu (Hong Kong) Sub Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands and a wholly owned subsidiary of Parent (“**Merger Sub**”), and 91 Wireless Websoft Limited, an exempted company with limited liability incorporated under the laws of the Cayman Islands (the “**Company**”).

WHEREAS, upon the terms and subject to the conditions of this Agreement and in accordance with the Companies Law (2012 Revision) (as amended) of the Cayman Islands (the “**CICL**”), Parent and the Company will enter into a business combination transaction pursuant to which Merger Sub will merge with and into the Company (the “**Merger**”), with the Company surviving the Merger and becoming a wholly owned subsidiary of Parent as a result of the Merger;

WHEREAS, the board of directors of the Company (the “**Company Board**”) has unanimously (i) determined that it is in the best interests of the Company and its shareholders, and declared it advisable, to enter into this Agreement and the Plan of Merger (as defined below), (ii) approved the execution, delivery and performance of this Agreement, the Plan of Merger and other Transaction Documents, and the consummation of the transactions pursuant to the Transaction Documents, including the Merger (collectively, the “**Transactions**”), and (iii) resolved to recommend the approval of this Agreement, the Plan of Merger and the Transactions by the shareholders of the Company at an extraordinary general meeting in accordance with the memorandum and articles of association of the Company and the CICL (the “**Shareholders’ Meeting**”);

WHEREAS, the board of directors of each of Parent and Merger Sub has (i) approved the execution, delivery and performance by Parent and Merger Sub, respectively, of this Agreement, the Plan of Merger and the consummation of the Transactions, and (ii) declared it advisable for Parent and Merger Sub, respectively, to enter into this Agreement and the Plan of Merger;

WHEREAS, Parent recognizes the importance of the contribution made by the Company’s senior management team and employees to the continuing success of the Company, and Parent is committed to be fully supportive of any incentive schemes to be adopted and adopted by the Company to retain and incentivize its senior management team and employees after the Closing; and

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, Parent, Merger Sub and the Company hereby agree as follows:

ARTICLE 1
THE MERGER

Section 1.01. *The Merger.* Upon the terms of this Agreement and subject to the conditions set forth in Article 6, and in accordance with the CACL, at the Effective Time (as defined below), Merger Sub shall be merged with and into the Company. As a result of the Merger, the separate corporate existence of Merger Sub shall cease and the Company shall continue as the surviving corporation of the Merger (the “**Surviving Corporation**”) under the Laws of the Cayman Islands as a wholly owned subsidiary of Parent. Upon the terms and subject to the conditions set forth herein, Merger Sub and the Company shall cause the Merger to be consummated by filing of a plan of merger (the “**Plan of Merger**”) substantially in the form attached hereto as Annex A and related documentation with the Registrar of Companies of the Cayman Islands pursuant to the CACL and obtain the Requisite Regulatory Approvals (as defined below), if applicable, and the parties shall take all such further actions as may be required by applicable Law to make the Merger effective.

Section 1.02. *Closing; Closing Date.* Unless this Agreement shall have been terminated pursuant to Section 7.01, and unless otherwise mutually agreed in writing among the Company, Parent and Merger Sub, the closing for the Merger (the “**Closing**”) shall take place at the offices of Davis Polk & Wardwell, Hong Kong solicitors, at 18/F, The Hong Kong Club Building, 3A Chater Road, Hong Kong on a date to be specified by the Company and Parent (the “**Closing Date**”), which shall be no later than the fifth (5th) Business Day immediately following the day on which the last to be satisfied or, if permissible, waived of the conditions set forth in Article 6 (other than those conditions that by their nature are to be satisfied at the Closing, but subject to the satisfaction or waiver of those conditions) shall be satisfied or, if permissible, waived in accordance with this Agreement.

Section 1.03. *Effective Time.* On the Closing Date, Merger Sub and the Company shall execute the Plan of Merger and the parties shall file the Plan of Merger and other documents required under the CACL to effect the Merger with the Registrar of Companies of the Cayman Islands as provided by Section 233 of the CACL. The Merger shall become effective as of such date specified in the Plan of Merger (the “**Effective Time**”).

Section 1.04. *Memorandum and Articles of Association of Surviving Corporation.* At the Effective Time, the memorandum and articles of association of Merger Sub, as in effect immediately prior to the Effective Time, shall be the memorandum and articles of association of the Surviving Corporation (the “**Surviving Corporation Memorandum**”) until thereafter amended as provided by the CACL; *provided, however,* that, at the Effective Time, all references in the memorandum and articles of association to the name of Merger Sub shall be amended to refer to 91 Wireless Websoft Limited.

Section 1.05. *Directors and Officers.* The parties hereto shall take all actions necessary so that (a) the directors of Merger Sub immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, and (b) the officers (other than the directors) of the Company immediately prior to the Effective Time shall be the initial officers of the Surviving Corporation, in each case, unless otherwise determined by Parent prior to the Effective Time, and until their respective successors are duly elected or appointed and qualified or until the earlier of their death, resignation or removal in accordance with the Surviving Corporation Memorandum.

Section 1.06. *Termination of Listing.* Upon Closing, the Company shall forthwith terminate its application for listing and dealing of the Shares (as defined below) on the Growth Enterprise Market of the Stock Exchange.

ARTICLE 2
EFFECT ON ISSUED SECURITIES; EXCHANGE OF CERTIFICATES

Section 2.01. *Effect of Merger on Issued Securities.* At the Effective Time, by virtue of the Merger and without any action on the part of Parent, Merger Sub, the Company or the holders of any securities of the Company:

(a) each ordinary share, par value US\$0.0001 per share, of the Company (a “**Share**” or, collectively, the “**Shares**”), issued and outstanding immediately prior to the Effective Time, other than the Dissenting Shares (as defined below), shall be cancelled in consideration for the right to receive an aggregate merger consideration of US\$13.168 in cash per Share (the “**Per Share Merger Consideration**”) payable in the manner provided in Section 2.03 and Section 2.04 without interest; and the register of members of the Company will be amended accordingly and payment of the Per Share Merger Consideration shall be deemed to satisfy any entitlement to any liquidation preference under Article 5.03(a) of the Company’s memorandum and articles of association. The Merger Consideration was arrived at after taking into account factors including but not limited to the items set out in Annex K.

(b) each ordinary share, par value US\$0.0001 per share, of Merger Sub issued and outstanding immediately prior to the Effective Time shall be converted into one validly issued, fully paid and non-assessable ordinary share, par value US\$0.0001 per share, of the Surviving Corporation. Such ordinary shares shall be the only issued and outstanding share capital of the Surviving Corporation, and the Surviving Corporation shall make entries in its register of members to reflect Parent as the holder of ordinary shares of the Surviving Corporation after the Effective Time.

Section 2.02. *Dissenting Shares.* (a) Notwithstanding any provision of this Agreement to the contrary and to the extent available under the CICL, Shares that are issued and outstanding immediately prior to the Effective Time and that are held by shareholders who shall have validly exercised and not effectively withdrawn or lost their appraisal rights (“**dissenter rights**”) in accordance with Section 238 of the CICL (collectively, the “**Dissenting Shares**,” holders of Dissenting Shares being referred to as “**Dissenting Shareholders**”) shall at the Effective Time be cancelled and cease to exist, and each such Dissenting Shareholder shall be entitled to receive only the payment of the fair value of such Dissenting Shares held by them in accordance with the provisions of Section 238 of the CICL, except that all Shares held by Dissenting Shareholders who shall have failed to perfect or who effectively shall have withdrawn or lost their dissenter rights in respect of such Shares under Section 238 of the CICL shall thereupon (i) not be deemed to be Dissenting Shares and (ii) be and be deemed to have been cancelled and cease to exist, as of the Effective Time, in consideration for the right of the holder thereof to receive the Per Share Merger Consideration, without any interest thereon, in the manner provided in Section 2.03 and Section 2.01.

(b) The Company shall give Parent (i) prompt notice of any objection or dissent to the Merger or demands for appraisal received by the Company, attempted withdrawals of such dissenter rights or demands, and any other instruments served pursuant to the CICL and received by the Company relating to its shareholders' dissenter rights, and (ii) the opportunity to participate in all negotiations and proceedings with respect to any exercise of dissenter rights or any demands for appraisal under the CICL. The Company shall not, except with the prior written consent of Parent or pursuant to an order from the Grand Court of the Cayman Islands or the competent Governmental or Regulatory Authorities, make any payment with respect to any exercise of dissenter rights or any demands for appraisal or offer to settle or settle any such dissenter rights or any demands or approve any withdrawal of any such dissenter rights or demands.

(c) In the event that any written notices of objection to the Merger are served by any shareholders of the Company pursuant to section 238(2) of the CICL, the Company shall serve written notice of the authorization of the Merger on such shareholders pursuant to section 238(4) of the CICL within two (2) days of the approval of the Merger by shareholders of the Company at the Shareholders' Meeting.

Section 2.03. *Payment of Merger Consideration.* All payments required to be made to registered holders of Shares (other than Dissenting Shares) entitled to receive the Per Share Merger Consideration pursuant to Section 2.01(a) (such registered holders, "**Eligible Shareholders**," and all such payments collectively, the "**Merger Consideration**") shall be paid as follows:

(a) Promptly after the Effective Time and in any event no later than the Business Day following the Effective Time, Parent shall deposit with the Paying Agent, an amount to be paid to General Shareholders (the "**General Shareholders Closing Payment Amount**") equal to the product of

$$(A1) \times (B1)$$

Where,

(A1) = Per Share Merger Consideration

(B1) = Shares (other than Dissenting Shares) held by General Shareholders as shown against the names of General Shareholders in the register of members of the Company;

(b) Promptly after the Effective Time and in any event no later than the Business Day following the Effective Time, Parent shall deposit with the Paying Agent, an amount to be paid to the Management Shareholders equal to the product of

$$(A2) \times (B2)$$

Where,

(A2) = Per Share Merger Consideration

(B2) = Shares (other than Dissenting Shares) held by Management Shareholders as shown against the names of the Management Shareholders in the register of members of the Company

Where 75% of the product of (A2) X (B2) (the “**Management Shareholders Closing Payment Amount**”) shall be paid by the Paying Agent to the Management Shareholders in the manner set out in Section 2.04(b).

(c) Promptly after the Effective Time and in any event no later than the Business Day following the Effective Time, Parent shall deposit with the Paying Agent, an amount to be paid to the Controlling Shareholder (the “**Controlling Shareholder Offshore Closing Payment Amount**,” collectively with the General Shareholders Closing Payment Amount and the Management Shareholders Closing Payment Amount, the “**Closing Payment Amount**”) equal to the product of

$$(A3) \times (B3) - (C3) - (D3) - (E3)$$

Where,

(A3) = Per Share Merger Consideration

(B3) = Shares (other than Dissenting Shares) held by Controlling Shareholder as shown against name of Controlling Shareholder in the register of members of the Company

(C3) = US\$50,000,000

(D3) = US\$ 93,108,348.72 in RMB equivalent as agreed by the parties in the amount of RMB 570,000,000, paid by the Parent Nominees to NetDragon (Fujian) for acquiring the entire equity interests in Fujian BoRui pursuant to the Equity Interests Transfer Agreements (as defined below) (such amount, the “**Controlling Shareholder Onshore Closing Payment Amount**”)

(E3) = US\$10,000,000 (which Parent shall pay to an escrow agent to be mutually agreed by Parent and the Controlling Shareholder and to be released to the Controlling Shareholder pursuant to the terms and conditions set out in the Deed of Undertaking executed by the Controlling Shareholder and an escrow agreement to be entered into among Parent and the Controlling Shareholder for the purpose of providing the circumstances under which such US\$10,000,000 shall be released to the Controlling Shareholder)

(d) Promptly after the Effective Time and in any event no later than the Business Day following the Effective Time, Parent shall pay the Controlling Shareholder Onshore Closing Payment Amount to an account of the Controlling Shareholder, designated by the Controlling Shareholder by written notice to Parent delivered not later than two (2) Business Days prior to the Closing Date.

(e) After the Closing, Parent shall procure the Paying Agent to pay to the Management Shareholders, pursuant to the terms and conditions of this Agreement and the Management Deferred Payment Agreement, an amount (the “**Management Shareholders Deferred Payment Amount**”) equal to the product of

$$(A2) \times (B2) \times (1-C2)$$

Where,

(A2) = Per Share Merger Consideration

(B2) = Shares (other than Dissenting Shares) held by Management Shareholders as shown against the names of the Management Shareholders in the register of members of the Company

(C2) = 75%

Section 2.04. Exchange Procedures for Closing Payment Amount.

(a) At least two (2) Business Days prior to the Closing Date, the Company shall have delivered to Parent and the Paying Agent a schedule setting forth (i) the name and address and personal or tax identification number (if applicable) of each Eligible Shareholder entitled to distribution of the applicable Closing Payment Amount, and (ii) the amount of consideration to which each such Eligible Shareholder is then entitled, together with the register of members of the Company showing the number of Ordinary Shares held immediately prior to the Effective Time by each Eligible Shareholder, including certificate number(s) for issued Share Certificates, if applicable), and (iii) any amount subject to withholding, pursuant to Section 2.05.

(b) *Exchange Procedures.* Promptly after the Effective Time, and in any event no later than the Business Day following the Effective Time, Parent shall deposit with the Paying Agent, for the benefit of the General Shareholders, the Management Shareholders and the Controlling Shareholder, cash in an amount sufficient to pay respectively, the General Shareholders Closing Payment Amount, the Management Shareholders Closing Payment Amount and the Controlling Shareholder Offshore Closing Payment Amount (such cash being hereinafter referred to as the “**Exchange Fund**”). As promptly as practicable after the Effective Time, and in any event no later than the fifth (5th) Business Day following the Effective Time, the Surviving Corporation shall cause the Paying Agent or such other agent as mutually agreed by Parent, Merger Sub and the Company to mail or otherwise disseminate to each Eligible Shareholder: (i) a letter of transmittal (which shall be in a form reasonably acceptable to Parent and the Company, and shall specify the manner in which the delivery of the General Shareholders Closing Payment Amount, the Management Shareholders Closing Payment Amount and the Controlling Shareholder Offshore Closing Payment Amount to the General Shareholders, the Management Shareholders and the Controlling Shareholder, respectively, shall be effected and contain such other provisions as Parent and the Company may mutually agree); and (ii) instructions for use in effecting the surrender of any issued share certificates representing the Shares (the “**Share Certificates**”) (or affidavits and indemnities of loss in lieu of the Share Certificates as provided in Section 2.04(c)) and/or such other documents as may be required in exchange for the applicable Closing Payment Amount. Upon surrender of, if applicable, Share Certificate(s) (or affidavit and indemnity of loss in lieu of the Share Certificate as provided in Section 2.04(c)) and/or such other documents as may be required pursuant to such instructions to the Paying Agent or such other agent as agreed by Parent, Merger Sub and the Company in accordance with the terms of such letter of transmittal, duly executed in accordance with the instructions thereto, each such General Shareholder, Management Shareholder and Controlling Shareholder shall be entitled to receive the applicable General Shareholders Closing Payment Amount, the Management Shareholders Closing Payment Amount and the Controlling Shareholder Offshore Closing Payment Amount, respectively.

(c) *Lost Certificates.* If any Share Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Eligible Shareholder claiming such Share Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such Eligible Shareholder of a bond, in such reasonable amount as the Surviving Corporation may direct, as indemnity against any claim that may be made against it with respect to such Share Certificate, the Paying Agent will pay in respect of the Shares represented by such lost, stolen or destroyed Share Certificate an amount equal to the applicable Closing Payment Amount to which such Eligible Shareholder thereof is entitled pursuant to Section 2.01(a) and Section 2.03 and in the manner stated in Section 2.04(b).

(d) *Adjustments to Merger Consideration.* The Per Share Merger Consideration shall be adjusted to reflect appropriately the effect of any share split, reverse share split, share dividend (including any dividend or distribution of securities convertible into the Shares), extraordinary cash dividends, reorganization, recapitalization, reclassification, combination, exchange of shares or other like change with respect to the Shares occurring, or with a record date, on or after the date hereof and prior to the Effective Time; *provided, however,* (and without prejudice to Article 5) the Company shall not effect any of the foregoing without the consent of Parent, save for the special dividends to be declared to the existing Shareholders in an aggregate amount of not more than US\$52,064,491.28 prior to Closing.

(e) *Investment of Exchange Fund.* The Exchange Fund, pending its disbursement to the Eligible Shareholders, shall be invested by the Paying Agent as directed by Parent or, after the Effective Time, the Surviving Corporation, *provided* that no such investment gains or losses thereon shall affect the Closing Payment Amount payable to the Eligible Shareholders; *provided* further that if there are any losses that result in the amount of funds in the Exchange Fund being insufficient to pay any portion of the payable Closing Payment Amount that remains unpaid, Parent shall promptly provide additional funds to the Paying Agent to the extent of such insufficiency. The Exchange Fund shall not be used for any other purposes, except as provided in this Agreement. Earnings from investments shall be the sole and exclusive property of the Surviving Corporation.

(f) *Termination of Exchange Fund.* Any portion of the Exchange Fund (including any income or proceeds thereof or of any investment thereof) that remains undistributed to the Eligible Shareholders for one (1) year after the Effective Time shall be delivered to the Surviving Corporation, and any Eligible Shareholder who has not theretofore complied with this Article 2 shall thereafter look only to the Surviving Corporation for the applicable Closing Payment Amount in cash to which such Eligible Shareholder is entitled pursuant to Section 2.01(a) and Section 2.03 in respect of the Shares (other than the Dissenting Shares) without any interest thereon. Any portion of the Exchange Fund remaining unclaimed by any Eligible Shareholders as of a date which is immediately prior to such time as such amounts would otherwise escheat to or become property of any Governmental or Regulatory Authority shall, to the extent permitted by applicable Law, shall become the property of the Surviving Corporation free and clear of any claims or interest of any Person previously entitled thereto (including such Eligible Shareholders).

(g) *No Liability.* None of the Paying Agent, Parent, the Surviving Corporation or such other agent as agreed by Parent, Merger Sub and the Company shall be liable to any holder of Shares in respect of any such Shares (or dividends or distributions with respect thereto) for which payment was delivered to a public official pursuant to any abandoned property, escheat or similar Law.

Section 2.05. *Withholding Rights.* Each of Parent, the Surviving Corporation and the Paying Agent (and any other Person that has a payment obligation pursuant to this Agreement), without double counting, shall be entitled to deduct and withhold from the Merger Consideration otherwise payable pursuant to this Agreement to any Eligible Shareholder who are former or current employees of any Group Company (the “**Employee Shareholder**”) such amounts as it reasonably determines in good faith it or any of the Subsidiaries is required to deduct and withhold with respect to the making of such payment under any provisions of applicable Law, including but not limited to Taxes (if any) that such Employee Shareholder is required to pay, unless such Employee Shareholder provides such certifications, forms or other documentation reasonably satisfactory to Parent, the Surviving Corporation, and the Paying Agent, as applicable, that such withholding is not required under applicable Law. To the extent that any amounts are deducted, withheld and remitted to the applicable Governmental or Regulatory Authority by Parent, the Surviving Corporation, the Paying Agent, or any of the Subsidiaries, as the case may be, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the Employee Shareholder in respect of which such deduction and withholding was made by Parent, the Surviving Corporation or the Paying Agent, as the case may be. If the Surviving Corporation or any of its subsidiaries settles any Tax deduction or withholding pursuant to this Section in RMB, the Paying Agent shall promptly transfer such amount in USD equivalent to the Surviving Corporation upon such settlement.

Section 2.06. *Tax*. All transfer, documentary, sales, use, stamp, value added or similar taxes and duties (including interest and penalties) incurred in connection with cancellation of the Company's shares by a Person that is shareholder of the Company immediately prior to the Merger, including, in exchange for the applicable Merger Consideration, as contemplated in the Transaction, if any, shall be paid by such shareholder when due, and such shareholder will, at its own expense, file all necessary Tax Returns with respect to all such taxes and duties, subject to requirements of any applicable Law.

Section 2.07. *No Transfers*. From and after the Effective Time, holders of the Shares outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such Shares, except as otherwise provided in this Agreement or by Law. On or after the Effective Time, any Share Certificates presented to the Paying Agent or such other agent as mutually agreed by Parent, Merger Sub and the Company, Parent or Surviving Corporation for transfer or any other reason shall be canceled and (except for the Dissenting Shares) shall only represent the right to receive the cash consideration to which the holders thereof are entitled pursuant to Section 2.01(a) and Section 2.03.

Section 2.08. *Agreement of Fair Value*. Parent, Merger Sub and the Company respectively agree that the Per Share Merger Consideration represents the fair value of the Shares for the purposes of Section 238(8) of the CICA.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES OF THE COMPANY

Subject to Section 8.13 and except as set forth in the Company Disclosure Schedule, the Company represents and warrants to Parent, as of the date hereof and as of the date of Closing as follows:

Section 3.01. *Corporate Existence and Power*. The Company has been duly incorporated and is validly existing and in good standing under the laws of the Cayman Islands, with all corporate powers and all governmental licenses, authorizations, permits, consents and approvals required to own its properties and conduct its business as described in the Listing Document, except for those licenses, authorizations, permits, consents and approvals the absence of which would not have, individually or in the aggregate, a Material Adverse Effect. The Company is duly qualified to do business as a foreign corporation in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except for those jurisdictions where failure to be so qualified would not have, individually or in the aggregate, a Material Adverse Effect. Complete and correct copies of the certificate of incorporation and memorandum and articles of association of the Company and all amendments thereto have been delivered to Parent. Such certificate of incorporation and memorandum and articles of association are in full force and effect as of the date hereof.

Section 3.02. *Corporate Authorization.*

(a) The execution, delivery and performance of the Transaction Documents to which any Group Company is a party, and the consummation of the Transactions are within such Group Company's corporate powers and have been or will be duly authorized before Closing by all necessary corporate action on the part of such Group Company, subject only to the approval of this Agreement, the Plan of Merger and the Merger by the Requisite Company Vote (as defined below) in accordance with Section 233(6) of the CICA and the memorandum and articles of association of the Company and the approval from shareholders of NetDragon Cayman at a general meeting held in accordance with the requirements of the Listing Rules in relation to the Transaction Documents and the transactions contemplated thereunder. Each Transaction Document to which any Group Company is a party when executed and delivered by such Group Company in accordance with the terms thereof constitutes or will constitute, a valid and binding agreement of such Group Company enforceable against it in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws affecting creditors' rights generally and general principles of equity).

(b) The Company Board has, as of the date of this Agreement, unanimously (i) determined that the Transaction Documents to which the Company or any of the Subsidiaries is a signing party and the Transactions, on the terms and subject to the conditions set forth herein and therein, are in the best interests of the Company and its shareholders, (ii) approved and declared advisable such Transaction Documents and the Transactions, and (iii) resolved to recommend approval of this Agreement, the Plan of Merger and the Merger to the holders of the Shares (the "**Company Recommendation**"). The Company Board has, as of the date of this Agreement, by unanimous vote, directed that this Agreement, the Plan of Merger and the Merger be submitted to the holders of Shares for approval.

Section 3.03. *Governmental Authorization.* The execution, delivery and performance of the Transaction Documents to which any Group Company is a party, and the performance of such Transaction Documents and consummation of the Transactions by such Group Company do not and will not, require any material consent, approval, authorization or permit of, or material filing with or notification to, any Governmental or Regulatory Authority, except (i) for the filing of the Plan of Merger and related documentation with the Registrar of Companies of the Cayman Islands pursuant to the CICA, (ii) for the consents, approvals, authorizations or permits of, or filings with or notifications to the Governmental or Regulatory Authorities set forth in Section 3.03 of the Company Disclosure Schedule (collectively, the "**Requisite Regulatory Approvals**"), and (iii) for such as have been obtained or made prior to the date hereof. The Company does not either (x) hold any tangible or intangible assets located in the United States with an aggregate fair market value in excess of US\$70,900,000, or (y) have revenue from sales in or into the United States exceeding US\$70,900,000 in the fiscal year ending December 31, 2012.

Section 3.04. *Noncontravention*. The execution, delivery and performance of the Transaction Documents to which any Group Company is a party, and the consummation of the Transactions by such Group Company do not and will not (i) contravene, conflict with, or result in any violation or breach of any provision of the memorandum and articles of association or any equivalent constitutive documents of any Group Company, (ii) assuming compliance with the matters referred to in this Section 3.04 and except for those matters that are waived from strict compliance with the Listing Rules granted by the Stock Exchange, contravene, conflict with or result in a violation or breach of any provision of any applicable Law, (iii) require any consent or other action by any Person under, constitute a default, or an event that, with or without notice or lapse of time or both, would constitute a default, under, or cause or permit the termination, cancellation, acceleration or other change of any right or obligation or the loss of any benefit to which any Group Company is entitled under any provision of any agreement or other instrument binding upon such Group Company or any license, franchise, permit, certificate, approval or other similar authorization affecting, or relating in any way to, the assets or business of such Group Company, or (iv) result in the creation or imposition of any Lien on any asset of any Group Company, with only such exceptions, in the case of each of clauses (ii) through (iv), as have not and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on such Group Company.

Section 3.05. *No Creditors*. The Company does not have any creditors (secured or unsecured) save for any unsecured creditors with whom whose debts are incurred by the Company in its ordinary course of business, and the execution, delivery and performance by the Company of this Agreement and the consummation of the Transactions do not and will not require the consent or approval of, or any other action by any creditor.

Section 3.06. *Capitalization*.

(a) Immediately prior to Closing, (i) the authorized capital of the Company consists of (i) 1,994,500,000 Ordinary Shares, of which 140,335,556 are issued and outstanding, (ii) 15,500,000 Series A Preferred Shares, of which none is issued and outstanding, and (iii) 40,000,000 Series B Preferred Shares, of which none is issued and outstanding. Section 3.06(a) of the Company Disclosure Schedule contains a complete and correct list of each holder of Ordinary Shares as of the date of this Agreement, including the name and address of such holder, date of issue, number of Ordinary Shares held by such holder and certificate number(s) for issued Share Certificates (if applicable). All outstanding shares of the Company have been duly authorized and validly issued, fully paid and nonassessable and free of preemptive rights.

(b) There are no outstanding bonds, debentures, notes or other indebtedness of the Company having the right to vote (or convertible into, or exchangeable for, securities having the right to vote) on any matters on which shareholders of the Company may vote. Except as set forth in Section 3.06(a), there are no issued, reserved for issuance or outstanding (i) shares or other voting securities of or ownership interests in the Company, (ii) securities of the Company convertible into or exchangeable for shares or other voting securities of or ownership interests in the Company or (iii) warrants, calls, options or other rights (including, without limitation, preemptive rights) to acquire from the Company, or other obligation of the Company to issue, any shares, voting securities or securities convertible into or exchangeable for shares or voting securities of the Company, or (iv) restricted shares, stock or share appreciation rights, performance units, contingent value rights, "phantom" stock or similar securities or rights that are derivative of, or provide economic benefits based, directly or indirectly, on the value or price of, any share, equity or voting securities of the Company (the items in clauses (i) through (iv) being referred to collectively as the "**Company Securities**"). There are no outstanding obligations of the Company or any Subsidiaries to repurchase, redeem or otherwise acquire any of the Company Securities. Neither the Company nor any Subsidiaries is a party to any voting agreement with respect to the voting of any Company Securities. Neither the Company nor any Subsidiaries has any outstanding employee share option plan, share award scheme or other equity compensation plan or arrangement.

(c) Except as set forth in this Section 3.06, none of (i) the shares, equities or securities of the Company or (ii) Company Securities are owned by any Subsidiary of the Company.

Section 3.07. *Subsidiaries.*

(a) Save for Shanghai BoGu, Beijing Miku, Jiangsu BoDe and Jinan CloverTek, the Company does not own or control, directly or indirectly, any shares of stock or any other equity interests or securities of, or any ownership interests in, or otherwise control, any corporation, firm, partnership, joint venture, association or other entity other than the Subsidiaries.

(b) Each Subsidiary has been duly incorporated and is validly existing and in good standing under the laws of the jurisdiction of its incorporation, with all corporate powers and all governmental licenses, authorizations, permits, consents and approvals required to own its properties and conduct its business as described in the Listing Document, except in the case of where the failure to have such corporate power or authority, or to be so licensed, or in good standing, individually or in the aggregate, has not had and would not reasonably have a Material Adverse Effect. Each Subsidiary is duly qualified to do business in good standing in all other jurisdictions in which its ownership or lease of property or the conduct of its business requires such qualification, except in the case of where the failure to have such corporate power or authority, or to be so licensed, or in good standing, individually or in the aggregate, has not had and would not have a Material Adverse Effect; the constitutive documents of each Subsidiary complies with the requirements of applicable Laws of the jurisdiction of its incorporation and are in full force and effect. Each Subsidiary has heretofore delivered to Parent true and complete copies of the constitutive documents of such Subsidiary.

(c) Except as disclosed in Section 3.07 of the Company Disclosure Schedule, all of the issued and outstanding share capital of Talent Zone, Prestige Plus, Alpha Great, Keen City, BoYuan (Hong Kong), Jiangsu BoWang, Fuzhou BoYuan and Fujian BoDong has been duly authorized and validly issued and is fully paid and nonassessable, and such share capital is owned, directly or indirectly, by the Company free from Liens and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests).

(d) The equity interests of Jiangsu BoDe is beneficially owned as to 51% indirectly by the Company and 49% by DeNA Holdco as disclosed in the Listing Document. The 51% equity interests of Jiangsu BoDe indirectly owned by the Company is free from Liens and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests).

(e) All of the issued and outstanding share capital of I-Wave has been duly authorized and validly issued and is fully paid and nonassessable, and such share capital is owned as to 51% indirectly by the Company and 49% by GalaxyWave as disclosed in the Listing Document. The 51% equity interests of I-Wave indirectly owned by the Company is free from Liens and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests).

(f) The equity interests of Jinan CloverTek is beneficially owned as to 12% indirectly by the Company, 44.9% by 苟振興 (Gou Zhenxing) and 43.1% by 趙玉芳 (Zhao Yufang) as disclosed in the Listing Document. The 12% equity interests of Jinan CloverTek indirectly owned by the Company is free from Liens and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests).

(g) As of the date hereof and immediately prior to Closing, all of the equity interests of Fujian BoRui is beneficially owned by NetDragon (Fujian). Fujian BoRui is the deemed subsidiary of Fuzhou BoYuan by virtue of the Structured Contracts as disclosed in the Listing Document. Save as contemplated under the Structured Contracts, all of the equity interests of Fujian BoRui is free from Liens and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests).

(h) The equity interests of Shanghai BoGu is beneficially owned as to 35%, 45%, 16% and 4% by Fujian BoRui, 上海萬臣信息科技發展有限公司 (Shanghai Wanchen Information Technology Development Limited), 胡凌燕 (Hu Lingyan) and 何波 (He Bo), respectively, as disclosed in the Listing Document. The 35% equity interests of Shanghai BoGu beneficially owned by Fujian BoRui is free from Liens and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests).

(i) The equity interests of Beijing MiKu is beneficially owned as to 50% and 50% by Fujian BoRui and 北京大米視訊科技有限公司 (Beijing Dami Media Technology Ltd.), respectively, as disclosed in the Listing Document. The 50% equity interests of Beijing MiKu beneficially owned by Fujian BoRui is free from Liens and free of any other limitation or restriction (including any restriction on the right to vote, sell or otherwise dispose of such capital stock or other voting securities or ownership interests).

(j) Except as contemplated under the Structured Contracts, there are no issued, reserved for issuance or outstanding (i) securities of any Group Company convertible into, or exchangeable for, shares or other voting securities of, or ownership interests in, any Group Company, (ii) warrants, calls, options or other rights to acquire from any Group Company, or other obligations of any Group Company to issue, any shares, capital stock or other voting securities of, or ownership interests in, or any securities convertible into, or exchangeable for, any shares, capital stock or other voting securities of, or ownership interests in, any Group Company or (iii) restricted shares, stock or share appreciation rights, performance units, contingent value rights, “phantom” stock or similar securities or rights that are derivative of, or provide economic benefits based, directly or indirectly, on the value or price of, any shares, capital stock or other voting securities of, or ownership interests in, any Group Company issued by any Group Company, or otherwise obligations of any Group Company to issue (the items in clauses (i) through (iii) being referred to collectively as the “**Company Subsidiary Securities**”). There are no outstanding obligations of any Group Company to repurchase, redeem or otherwise acquire any of the Company Subsidiary Securities.

Section 3.08. *Structured Contracts.*

(a) As of the date hereof and immediately prior to Closing: (i) the description of the corporate structure of the Company and the Structured Contracts as disclosed in the Listing Document is true and accurate and nothing has been omitted from such description which would make it misleading in any respect; and (i) there is no other agreement, contract or document relating to the corporate structure or the operation of the Company and the Covered VIEs which has not been disclosed in the Listing Document.

(b) Each party of the Structured Contracts has the legal right, power and authority (corporate and other, as the case may be) to enter into and perform its respective obligations under the Structured Contracts and has taken all necessary corporate action to authorize the execution, delivery and performance of, and has authorized, executed and delivered, each of the Structured Contracts; and as of the date hereof and immediately prior to Closing, each of the Structured Contracts constitutes a valid and legally binding obligation of the parties thereto, enforceable against such parties in accordance with its terms and the PRC Contract Law, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws of general applicability affecting creditors’ rights or by equitable principles relating to enforceability.

(c) The execution, delivery and performance by Fuzhou BoYuan, NetDragon (Fujian) and Fujian BoRui of their respective obligations under each of the Structured Contracts do not: (i) conflict with or result in a breach or violation of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, lease, loan agreement or other agreement or instrument to which the Company, Fuzhou BoYuan, NetDragon (Fujian) and Fujian BoRui, as the case may be, are a party or by which the Company, Fuzhou BoYuan, NetDragon (Fujian) and Fujian BoRui are bound or to which any of the properties or assets of the Company, Fuzhou BoYuan, NetDragon (Fujian) and Fujian BoRui are subject; (ii) result in any violation of the provisions of constitutive documents or business licenses of the Company, Fuzhou BoYuan, NetDragon (Fujian) and Fujian BoRui, as the case may be; or (iii) result in any violation of any mandatory requirement under any PRC laws as promulgated by the National People’s Congress or administrative regulations. Each of the Structured Contracts is in proper legal form under the PRC Law for the enforcement thereof against Fuzhou BoYuan, NetDragon (Fujian) and Fujian BoRui, as the case may be, in the PRC without further action by Fuzhou BoYuan, NetDragon (Fujian) and Fujian BoRui, as the case may be; and to ensure the legality, validity, enforceability pursuant to the PRC Contract Law or admissibility in evidence of each of the Structured Contracts in the PRC, it is not necessary that any such document be filed or recorded with any Governmental or Regulatory authority in the PRC or in respect of any of the Structured Contracts, except as disclosed in the section headed “Structured Contracts” of the Listing Document.

(d) As of the date hereof and immediately prior to Closing, the Company possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of Fujian BoRui, as authorized by NetDragon (Fujian) as the holder of 100% of the equity interest of Fujian BoRui to exercise its voting rights.

(e) As of the date hereof, except as disclosed in the section headed “Structured Contracts” of the Listing Document and as disclosed in the Company Disclosure Schedule, the contractual arrangement of the Company as described in the Listing Document does not violate or breach any mandatory requirement under any PRC laws as promulgated by the National People’s Congress or administrative regulations, which would have a Material Adverse Effect, and to the Knowledge of the Company, has not been challenged by any Governmental or Regulatory Authority and there are no legal, arbitration, government or other legal proceedings, pending before by any Governmental or Regulatory Authority. As of the date hereof, none of the parties to any of the Structured Contracts has sent or received any communication regarding termination of, or intention not to renew, any of the Structured Contracts, and no such termination or non-renewal has been, to the Knowledge of the Company, threatened or is being contemplated by any of the parties thereto.

(f) As of the date hereof and immediately prior to Closing, the Company possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the Covered VIEs, through, among other things, its rights to direct their shareholders as to the exercise of their voting rights pursuant to the Structured Contracts. The Company is not aware of any development (including, without limitation, developments with respect to the contractual arrangements involving the Covered VIEs and accounting policies and operations of the Covered VIEs) that could reasonably cause the Company to be unable to consolidate the operating and financial results of any of the Covered VIEs.

Section 3.09. *Financial Statements.*

(a) The audited consolidated results of the Group for each of the fiscal years ended December 31, 2011, and December 31, 2012 and the audited consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows of the Group as at December 31, 2011, and December 31, 2012 contained in the accountants' report prepared and signed by the Ernst & Young (the "**Reporting Accountants**") delivered by the Company to Parent and Merger Sub pursuant to Section 6.02(j) (the "**Audited Financial Statements**") have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") on a consistent basis so as to give a true and fair view of state of affairs and financial position of the Group as at the dates thereof and of the results of operations and cash flows of the Group for the applicable accounting reference period.

(b) The unaudited consolidated management accounts of the Group for the 3 month period ended March 31, 2013 delivered by the Company to Parent and Merger Sub pursuant to Section 6.02(j) (the "**Unaudited Management Accounts**") have been prepared in accordance with HKFRS on a consistent basis so as to give a true and fair view of the state of affairs and financial position of the Group as at March 31, 2013 and of the results of operations and cash flows of the Group for the accounting reference period of the 3-month period ended March 31, 2013.

(c) The Group has given to the Reporting Accountants all information that was reasonably requested by the Reporting Accountants and no material information was withheld from the Reporting Accountants for the purposes of their preparation of their report contained in the Listing Document; and all information given to the Reporting Accountants for such purposes was given in good faith after due and careful consideration and the factual contents of their report contained in the Listing Document above are true and accurate and no material fact or matter has been omitted, and the Company does not disagree with any aspect of the reports, letters or certificates prepared by the Reporting Accountants.

Section 3.10. *Absence of Existing Defaults and Conflicts.* Neither the Company nor any of the Subsidiaries is (i) in violation of its respective memorandum and articles of association, charter or other constitutive documents, (ii) in material breach or violation of or in default (or with the giving of notice or lapse of time would be in default) under any Governmental Authorization or (iii) in material breach or violation of or in default (or with the giving of notice or lapse of time would be in default) under any existing obligation, agreement, covenant or condition contained in any indenture, loan agreement, mortgage, lease or other agreement or instrument to which any of them is a party or by which any of them is bound or to which any of the properties of any of them is subject.

Section 3.11. *Absence of Certain Changes.* Except as disclosed in the Listing Document, the negotiation, execution, delivery and performance of this Agreement, and save for the special dividends proposed to be declared to the existing Shareholders in an aggregate amount of not more than US\$52,064,491.28 prior to Closing since the end of the period covered by the latest audited financial statements included in the Listing Document, (i) the business of the Company and the Subsidiaries has been conducted in the ordinary course consistent with past practices and to the Knowledge of the Company, there has been no development or event that would, individually or in the aggregate, result in a Material Adverse Effect on any Group Company, (ii) there has been no dividend or distribution of any kind declared, paid or made by the Company on any class of its share capital, (iii) there has been no material adverse change in the share capital, short-term indebtedness, long-term indebtedness, net current assets or net assets of the Company and the Subsidiaries, (iv) neither the Company nor any of the Subsidiaries has entered into any material transaction or agreement or incurred any material liability or obligation, direct or contingent, (v) neither the Company nor any of the Subsidiaries has sustained any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree, (vi) there has not been any waiver or compromise by the Company or any of the Subsidiaries of a valuable right or of a material debt owed to it, (vii) there has not been any satisfaction or discharge of any Lien, claim or encumbrance or payment of any obligation by the Group or any of the Subsidiaries, except in the ordinary course of business and the satisfaction or discharge of which would not have a Material Adverse Effect on any Group Company, (viii) there has not been any material change to a contract or agreement by which the Company or any of the Subsidiaries or any of their respective assets are bound or subject, (ix) there has not been any material change in any compensation arrangement or agreement with any employee, officer, director or shareholder of the Company or any of the Subsidiaries, (x) there has not been any resignation or termination of employment of any officer or executive holding positions at the director level or above of the Company or any of the Subsidiaries, (xi) there has not been any mortgage, pledge, transfer of a security interest in, or Lien, created by the Company or any of the Subsidiaries, with respect to any of its properties or assets, except Liens for Taxes not yet due or payable and Liens that arise in the ordinary course of business and do not materially impair such Group Company's ownership or use of such property or assets, (xii) there has not been any loans or guarantees made by the Company or any of the Subsidiaries to or for the benefit of its employees, officers or directors, or any members of their immediate families, other than travel advances and other advances made in the ordinary course of its business, (xiii) there has not been any declaration, setting aside or payment or other distribution in respect of any of the shares or equity securities of the Company or any of the Subsidiaries, or any direct or indirect redemption, purchase, or other acquisition of any of such shares by the Company or any of the Subsidiaries, (xiv) there has not been any sale, assignment, license, transfer or other disposition of any Intellectual Property Rights, (xv) there has not been any receipt of notice that there has been a loss of, or material order cancellation by, any major customer of the Company or any of the Subsidiaries, (xvi) there has not been any receipt of notice that there has been a disruption of, or material delay in, the delivery of products by any major supplier of the Company or any of the Subsidiaries, (xvii) there has not been any other event or condition of any character, other than events affecting the economy or any Group Company's industry generally, that could reasonably be expected to result in a Material Adverse Effect on any Group Company, or (xviii) there has not been any arrangement or commitment by the Company or any of the Subsidiaries to do any of the things described in this Section 3.11.

Section 3.12. *No Undisclosed Material Liabilities.* There are no liabilities of the Group of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances which could reasonably be expected to result in such a liability, other than:

- (a) liabilities provided for in the Unaudited Management Accounts;

(b) liabilities disclosed on Section 3.12 of the Company Disclosure Schedule; and

(c) other undisclosed liabilities which, individually or in the aggregate, are not material to the business of the Group.

Section 3.13. *Absence of Certain Actions.*

(a) Save for the special dividend to be declared to the existing Shareholders in an aggregate amount of not more than US\$52,064,491.28 prior to Closing, and except as disclosed in sections headed “Summary”, “History, development and reorganization”, “Financial information”, “Appendix I – Accountants’ report” and “Appendix III – Statutory and general information” of the Listing Document, none of the Group Companies has (i) declared or paid any dividends, or authorized or made any distribution upon or with respect to any class or series of its shares or equity securities, (ii) incurred any indebtedness for money borrowed or incurred any other liabilities individually in excess of US\$500,000 or in excess of US\$1,000,000 in the aggregate, other than indebtedness or any other liabilities incurred in the ordinary course of its business, (iii) made any loans or advances to any Person, other than ordinary advances for travel expenses and other advances made in the ordinary course of its business, or (iv) sold, exchanged or otherwise disposed of any of its assets or rights, other than the sale of its inventory or the licensing of its products in the ordinary course of business.

(b) Except as disclosed in the section headed “Structured Contracts” of the Listing Document, none of the Group Companies is a guarantor or indemnitor of any indebtedness of any other Person.

For the purposes of this Section 3.13, all indebtedness, liabilities, agreements, understandings, instruments, contracts and proposed transactions involving the same Person or entity (including Persons or entities the Company has reason to believe are affiliated with that Person or entity) shall be aggregated for the purposes of meeting the individual minimum dollar amounts of each such subsection.

Section 3.14. *Title to Property and Assets.* None of the Group Companies owns any real property. Except as disclosed in the section headed “Structured Contracts” of the Listing Document, each lease, sublease or license (each, a “**Lease**”) under which the Company or any Subsidiary leases, subleases or licenses any real property (the “**Leased Real Property**”) is in full force and effect, valid and effective in accordance with their respective terms, and there is not, under any Lease any existing material default or event of default (or event which, with notice or lapse of time, or both, would constitute a default) by the Company or any Subsidiary or, to the Knowledge of the Company, by the other party to such Lease, except in each case, as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on any Group Company. Except as disclosed in the section headed “Business” of the Listing Document, each of the Company and the Subsidiaries has good and valid leasehold or subleasehold interests in each parcel of the Leased Real Property, free and clear of any Liens other than Permitted Liens, except as would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on any Group Company.

Section 3.15. *Insurance.* The Company maintains insurance covering its properties and personnel and the properties and personnel of its Subsidiaries as the Company reasonably deems adequate. Such insurance insures against such losses and risks to an extent which is adequate to protect the Company and the Subsidiaries and their respective businesses and are of the type and in amounts customarily carried by Persons conducting business similar to the business conducted by the Company and the Subsidiaries. All premiums payable under all such policies have been timely paid and any Group Company has otherwise complied fully with the terms and conditions of all such policies. All such insurance is fully in force on the date hereof and will be fully in force at Closing. Neither the Company nor any of the Subsidiaries has any reason to believe that it will not be able to renew any such insurance as and when such insurance expires; and there is no insurance claim made by or against the Company or any of the Subsidiaries, pending, outstanding, or to the Company's Knowledge, threatened, and no facts or circumstances exist which would reasonably be expected to give rise to any such claim and all due premiums in respect thereof have been paid. Section 3.15 of the Company Disclosure Schedule contains a list of all insurance policies covering properties and personnel of the Group and the Company has furnished to Parent true and complete copies of all such insurance policies.

Section 3.16. *Licenses and Permits.* Except as set forth in Section 3.16 of the Company Disclosure Schedule and the section headed "Regulation" of the Listing Document, the Company and the Subsidiaries possess, and are in compliance with the terms of, all certificates, authorizations, franchises, licenses, permits and all other similar authorization and have made all declarations and filings with, the appropriate domestic or foreign Governmental or Regulatory Authority (collectively, the "**Licenses**") necessary or material to the conduct of the business now conducted or proposed as described in the Listing Document to be conducted by them. All approvals of, and filings and registrations and other requisite formalities with Governmental or Regulatory Authorities in the PRC required to be made by the Company or the Subsidiaries in respect of the Company and the Subsidiaries and their capital structure and operations, including but not limited to registrations with the State Administration for Industry and Commerce, the State Administration of Foreign Exchange and the State Administration of Taxation, and their respective local counterparts, have been duly completed in accordance with applicable PRC Law. The Licenses are valid and in full force and effect and no suspension or cancellation of any of the License is pending. No Group Company has received any notice of proceedings relating to the revocation or modification of any Licenses. No Group Company is in default under, and no condition exists that with notice or lapse of time or both would constitute a default under, the Licenses. Except as disclosed in the section headed "Business" of the Listing Document, none of the Licenses will be terminated or impaired or become terminable, in whole or in part, as a result of the Transactions.

Section 3.17. *Litigation.*

(a) Except as disclosed in the Listing Document, there are no pending actions, suits, claims, demand letters, arbitration or any judicial, criminal, administrative or regulatory proceeding, hearing, investigation, or formal or informal regulatory document production request proceeding (including any inquiries or investigations by any Governmental or Regulatory Authority) (an “**Action**”) against or affecting the Company, any of the Subsidiaries or any of their respective directors or properties, or to the Knowledge of the Company, their respective officers or employees, that, if determined adversely to the Company or any of the Subsidiaries or any of their respective directors, properties, officers or employees, would individually or in the aggregate have a Material Adverse Effect on any Group Company; and to the Knowledge of the Company, no such Actions are threatened or contemplated and there are no circumstances likely to give rise to any such Actions.

(b) No Group Company is a party to a joint venture or shareholders’ agreement which is in dispute with the other parties to such joint venture or shareholders’ agreement and to the Knowledge of the Company, there are no circumstances which may give rise to any dispute or affect the relevant Group Company’s relationship with such other parties which might be expected to have an adverse effect on such joint venture or company or its business or finances.

(c) There is no (i) Action by any Group Company pending or which any Group Company intends to initiate, or (ii) disputes with or claims against any Governmental or Regulatory Authority whether in respect of Taxes, fines, penalties, administrative action, or otherwise.

Section 3.18. *Intellectual Property.*

(a) Section 3.18(a) of the Company Disclosure Schedule contains (i) a list that is complete and correct as of the date of this Agreement of all the registrations and applications for registrations included in the Group Company Intellectual Property, and (ii) a list that is complete and correct as of the date of this Agreement of all Group Company Software, other than non-material Group Company Software, the absence of which will not affect the operations of the business of the Group.

(b) The Group Companies have valid, enforceable and sufficient licenses to use all Group Company Intellectual Property, in each case, free and clear of Liens, other than Permitted Liens. Except as disclosed in Section 3.18(a) of the Company Disclosure Schedule, the Group Companies are the sole and exclusive owners of all material Group Company Intellectual Property owned, or purported to be owned by the Group Companies, and the Group Companies own such Intellectual Property Rights free and clear of all Liens, other than Permitted Liens. There exist no material restrictions on the disclosure, use, license or transfer of the Group Company Intellectual Property. The consummation of the transactions contemplated by the Transaction Documents will not alter, encumber, impair or extinguish any Group Company Intellectual Property.

(c) No Group Company has an outstanding indemnity obligation to any Person related to any Group Company Intellectual Property Rights. None of the Group Company Intellectual Property has been adjudged invalid or unenforceable in whole or part, and, to the Knowledge of the Company, all such Group Company Intellectual Property is valid and enforceable.

(d) To the Knowledge of the Company, no Person has infringed, misappropriated or otherwise violated any Group Company Intellectual Property. Each Group Company has taken reasonable steps in accordance with normal industry practice to maintain the confidentiality of all Group Company Intellectual Property the value of which is contingent upon maintaining the confidentiality thereof and no such Group Company Intellectual Property has been disclosed other than to Parent and to Representatives of the Company all of whom are bound by written confidentiality agreements.

(e) Except as set forth in the section headed "Business" of the Listing Document, and to the Knowledge of the Company, no Group Company has infringed, misappropriated or otherwise violated, or is infringing, misappropriating or otherwise violating any Intellectual Property Right of any third party. Except as disclosed in the section headed "Business" of the Listing Document, there is no claim, action, suit, investigation or proceeding pending against, or to the Knowledge of the Company threatened in writing against or affecting, any Group Company or any present or former officer, director or employee thereof (i) based upon, or challenging or seeking to deny or restrict, the rights of any Group Company in any of the Group Company Intellectual Property, (ii) alleging that the use of the Group Company Intellectual Property or any services provided, processes used or products manufactured, used, distributed, imported or sold with respect to the business of the Group do or may conflict with, misappropriate, infringe or otherwise violate any Intellectual Property Right of any third party or (iii) alleging that any Group Company has infringed, misappropriated or otherwise violated any Intellectual Property Rights of any third party. Except as disclosed in the sections headed "Business", "Connected transactions" and "Appendix III – Statutory and general information" of the Listing Document, no Group Company has received from any third party an offer to license any Intellectual Property Rights of such third party for use in the business of the Group.

(f) Except as disclosed in the section headed "Business" of the Listing Document, the Group Companies own or have valid, enforceable and sufficient licenses to use all Intellectual Property Rights necessary to, or used or held for use in, the conduct of the business of the Group Companies as currently conducted.

(g) None of 91 Assistant, HiMarket, 91 Panda Reader and 91 Launcher made available by the Group has infringed, misappropriated, violated or otherwise conflicted with, or infringes, misappropriates, violates or otherwise conflicts with, any rights (including Intellectual Property Rights) or policies of any third party or any contracts or other agreements between any Group Company and any third party, including any mobile phone or Software developer or provider.

(h) In each case where a patent or patent application, trademark registration or trademark application, service mark registration or service mark application, or copyright registration or copyright application included in the Group Company Intellectual Property is held by assignment, the assignment has been duly recorded with the Governmental or Regulatory Authority from which the patent or registration issued or before which the application or application for registration is pending. Each Group Company has taken all reasonable actions to maintain and protect the Group Company Intellectual Property, including payment of applicable maintenance fees and filing of applicable statements of use.

(i) To the Knowledge of the Company, except as disclosed under the section headed "Statement of Business Objectives and Strategies" of the Listing Document, there are no defects in any of the Group Company Software that would prevent such Group Company Software from performing in all material respects the functions for which such Group Company Software was designed, and there are no viruses, worms, Trojan horses or similar programs in any of the Group Company Software. To the Knowledge of the Company, none of the Group Company Software contains any software code that is licensed under any terms or conditions that require that any software be (i) made available or distributed in source code form, (ii) licensed for the purpose of making derivative works, (iii) licensed under terms that allow reverse engineering, reverse assembly or disassembly of any kind or (iv) redistributable at no charge.

(j) Each Group Company has taken reasonable steps in accordance with normal industry practice to preserve and maintain reasonably complete notes and records relating to the Group Company Intellectual Property.

(k) With respect to pending applications and applications for registration of Group Company Intellectual Property that, to the Knowledge of the Company, no Group Company is aware of any reason that could reasonably be expected to prevent any such application or application for registration from being granted with coverage substantially equivalent to the latest amended version of the pending application or application for registration. None of the trademarks, service marks, applications for trademarks and applications for service marks included in the Group Company Intellectual Property has been the subject of an opposition or cancellation procedure. None of the patents and patent applications included in the Group Company Intellectual Property has been the subject of an interference, protest, public use proceeding or third party reexamination request.

(l) The Group Company IT Assets operate and perform in a manner sufficient for the conduct of the business of the Group Companies as currently conducted and as proposed to be conducted. The Group Companies have taken commercially reasonable actions, consistent with industry standards, to protect the confidentiality, integrity and security of the Group Company IT Assets (and all information, data and content stored or contained therein or transmitted thereby) against any unauthorized use, access, interruption, modification or corruption, including the implementation of commercially reasonable (i) data backup, (ii) disaster avoidance and recovery procedures and (iii) business continuity procedures, in each case, consistent with industry standards.

(m) The Group Companies have at all times complied with all applicable Laws in material respects relating to privacy, data protection and the collection and use of personal information and user information gathered or accessed in the course of its business and operations. The Group Companies have at all times complied with all rules, policies and procedures established by the Group Companies and their third party partners from time to time with respect to the foregoing. No material claims have been asserted or, to the Knowledge of the Company, threatened against the Group Companies by any person alleging a violation of such person's privacy, personal or confidentiality rights under any such applicable Laws, regulations, rules, policies or procedures. To the Knowledge of the Company, there has been no unauthorized access to or other misuse of any such information.

Section 3.19. *Material Contracts.*

(a) Section 3.19(a) of the Company Disclosure Schedule sets forth a list that is complete and correct in all material respects as of the date of this Agreement of Material Contracts. For purposes hereof, "**Material Contract**" means any agreement, written or otherwise (other than the Transaction Documents), to which a Group Company is a party or otherwise bound that:

- (i) cannot be terminated on less than one-hundred-and-eighty (180) -day notice;
- (ii) involves payments (or a series of payments), contingent or otherwise, of RMB10,000,000 (or the equivalent thereof in another currency) or more individually or in the aggregate with respect to a series of related agreements, in cash, property or services by or to any Group Company;
- (iii) is with a Governmental or Regulatory Authority;
- (iv) materially limits or materially restricts any Group Company's ability to compete or otherwise conduct its business as now conducted and as presently proposed to be conducted in any manner, time or place, or that contains any exclusivity provision;
- (v) grants a power of attorney, agency or similar authority;
- (vi) other than solely among wholly owned Subsidiaries, relates to indebtedness for money borrowed having an outstanding principal amount in excess of RMB10,000,000 (or the equivalent thereof in another currency), provides for an extension of credit, provides for indemnification or any guaranty, or provides for a "keep well" or other agreement to maintain any financial statement condition of another Person for an aggregate amount in excess of RMB10,000,000 (or the equivalent thereof in another currency);

- (vii) (A) includes a license of Intellectual Property Rights, other than “shrink-wrap” or “off-the-shelf” software commercially available on non-discriminating pricing terms, (B) is with any independent firms, consultants, or contractors for product research and development requiring an investment by the Company in excess of RMB10,000,000 (or the equivalent thereof in another currency), (C) relates to any purchases or other acquisitions of Intellectual Property Rights by any Group Company in the amount in excess of RMB10,000,000 (or the equivalent thereof in another currency), including documentation of all assignments or transfers of rights by the founders and predecessors thereof, or (D) is a disaster recovery program or service agreement related thereto;
- (viii) is with an affiliate of any Group Company (other than a Group Company) that is material to the Company with payment obligations in excess of RMB10,000,000;
- (ix) is a lease on (A) personal property, including operating leases, for annual payment of RMB10,000,000 or more or (B) for real property with a valuation in excess of RMB10,000,000;
- (x) is an insurance policy;
- (xi) other than solely between wholly owned Subsidiaries, grants the right to manufacture, produce, assemble, market or sells its products to any other Person or affect the exclusive right of the Group Company to develop, manufacture, assemble, distribute, market or sell its products;
- (xii) other than solely between wholly owned Subsidiaries, contains any outstanding guarantee or warranty obligations of any Group Company with an indemnity amount in excess of RMB10,000,000;
- (xiii) (A) relates to acquisitions or dispositions of business (including spin-offs), restructurings or reorganizations, including any disclosure schedules attached to such agreements, amounts involved is in excess of RMB10,000,000, if any, (B) is with a financial advisor, if any, or (C) is a joint venture, partnership or similar agreement, if any;
- (xiv) will be terminated or varies upon a change of control of any Group Company, or will subject any Group Company’s participation in the transactions contemplated by the Transaction Documents to the consent of any third party;
- (xv) any option, license, franchise or similar agreement with an amount which is in excess of RMB10,000,000;
- (xvi) contains any agency, dealer, sales representative, marketing or other similar agreement with an amount which is in excess of RMB10,000,000; or
- (xvii) is otherwise material to any Group Company or is an agreement on which any Group Company is substantially dependent.

(b) A true, fully-executed copy of each Material Contract (and a written summary of each non-written Material Contract) has been made available to Parent. To the Company's Knowledge, each Material Contract is a valid and binding agreement of the Group Company that is a party thereto, the performance of which does not and will not violate any applicable Law or Order, and is in full force and effect, and such Group Company has duly performed all of its obligations under each Material Contract to the extent that such obligations to perform have accrued, and, to the Company's Knowledge, no breach or default, alleged breach or alleged default, or event which would (with the passage of time, notice or both) constitute a breach or default thereunder by such Group Company or any other party or obligor with respect thereto, has occurred, or as a result of the Transaction Documents or performance hereof will occur, except for such breach or default which, by itself or together with other breach or default, does not and will not have a Material Adverse Effect. No Group Company has given notice (whether or not written) that it intends to terminate a Material Contract or to the Knowledge of the Company that any other party thereto has breached, violated or defaulted under any Material Contract. No Group Company has received any notice (whether or not written) that (i) it has breached, violated or defaulted under any Material Contract or (ii) any other party thereto intends to terminate such Material Contract.

Section 3.20. *Related Party Transactions.* Other than (i) standard employee benefits generally made available to all employees, (ii) standard director and officer indemnification agreements approved by the Company Board, (iii) the purchase of shares of the Company, in each instance, approved by the Company Board, and (iv) as disclosed in the sections headed "Waiver from strict compliance with the GEM Listing Rules", "Structured contracts", "Connected transactions" and "Appendix III- Statutory and general information" of the Listing Document, there are no agreements, understandings or proposed transactions between the Company and any of its officers, directors, shareholders, affiliates, or any affiliate thereof. To the Knowledge of the Company and except as disclosed in the sections headed "Business", "Relationship with controlling shareholders and non-competition undertakings", "Financial information" and "Appendix I – Accountants' report" of the Listing Document, no Related Party has any direct or indirect interest in any Person with which a Group Company is affiliated or with which a Group Company has a material business relationship (including any Person which purchases from or sells, licenses or furnishes to a Group Company any goods, Intellectual Property Rights or other property rights or services) or in any contract to which a Group Company is a party or by which it may be bound or affected, and no Related Party directly or indirectly competes with or has any interest in any Person that directly or indirectly competes with any Group Company (other than ownership of less than one percent (1%) of the stock of publicly traded companies).

Section 3.21. *Employees; Employee Benefits.* Except as disclosed in the Listing Document, neither the Company nor any of the Subsidiaries has any material obligation to provide or has not made the required payment for retirement, healthcare, death or disability benefits to any of the present or past employees of the Company or any of the Subsidiaries, or to any other Person. Section 3.21 of the Company Disclosure Schedule sets forth a true and complete list of the names and titles of all employees of the Group as of the date of this Agreement. To the Knowledge of the Company, as of the date hereof, none of the Key Employees has given written notice to any Group Company of his or her intent to resign or retire as a result of the transactions contemplated by this Agreement or the Transaction Documents.

Section 3.22. *Labour Agreements; Absence of Labour Dispute and Actions.* None of the Group Companies is bound by or subject to (and none of its assets or properties is bound by or subject to) any written or oral, express or implied, contract, commitment or arrangement with any labor union, and, to the Company's Knowledge, no labor union has requested or has sought to represent any of the Representatives of any Group Company which could have a Material Adverse Effect. There is no strike or other labor dispute involving any Group Company pending or, to the Knowledge of the Company, threatened which could have a Material Adverse Effect, nor is any Group Company aware of any labor organization activity involving its employees. Each Group Company has complied in all material respects with all applicable employment Laws and with other applicable Laws related to employment or employment practices, including but not limited to those related to wages, work hours, shifts, overtime, Social Security Benefits, holiday and leave collective bargaining terms and conditions of employment. No employee of any Group Company has been granted the right to continued employment by such Group Company or to any compensation following termination of employment with such Group Company. To the Knowledge of the Company, as at the date hereof, no officer at director level or above and Key Employee or group of employees has given written notice to the Company to terminate his, her or their employment with any Group Company, nor does any Group Company have a present intention to terminate the employment of any officer at director level or above, Key Employee or group of employees. None of the Group Companies has made any representations regarding equity incentives to any officer, employees, director or consultant that are inconsistent as set forth in the Listing Document. None of the Group Companies had any employee whose employment was terminated and who has not entered into an agreement with such Group Company providing for the full release of any claims against such Group Company or any officer, director, employee or other related party of any Group Company arising out of such employment.

Section 3.23. *Proprietary Information, Invention Assignment and Non-Competition Agreement.* Each Key Employee has executed an agreement with the Group Company regarding proprietary information, assignment of inventions and non-competition substantially in the form or forms delivered to the counsel for Parent. To the Knowledge of the Company, none of the Key Employees is in violation thereof.

Section 3.24. *Environmental Laws.* The operations of the Company and the Subsidiaries do not involve the use, disposal or release of hazardous or toxic substances or the protection or restoration of the environment or human exposure to hazardous or toxic substances. Neither the Company nor any of the Subsidiaries has been penalized by Governmental Authorities for violation of any applicable environmental Law or Order related thereto.

Section 3.25. *Taxes.*

(a) Except as disclosed in Section 3.25(a) of the Company Disclosure Schedule, all Tax Returns that are required to be filed by any Group Company have been filed when due in accordance with all applicable Laws and such Tax Returns were true and complete in all material respects. None of the Group Companies has granted any extension or waiver of the statute of limitations period applicable to any Tax Return, which period (after giving effect to such extension or waiver) has not yet expired.

(b) Except as disclosed in Section 3.25(a) of the Company Disclosure Schedule, all Taxes that are due and payable under any applicable Law have been timely paid, or withheld and remitted, to the appropriate Governmental or Regulatory Authority or Tax authority.

(c) The charges, accruals and reserves for Taxes reflected on any Group Company's books are adequate to cover material Tax liabilities accruing through the end of the last period for which the relevant Group Company ordinarily records items on its books and have been provided for in accordance with HKFRS, and since the end of the last period for which any Group Company ordinarily records items on its books, none of the Group Companies has engaged in any transaction, or taken any other action, other than in the ordinary course of business, that would materially impact any Tax Asset or Tax liability of any Group Company.

(d) There is no claim, audit, action, suit, proceeding or investigation now pending or to the Knowledge of the Company threatened against or with respect to any Group Company in respect of any Tax or Tax Asset. To the Knowledge of the Company, no adjustment that would increase the Tax liability or reduce any Tax Asset of any Group Company had been proposed or made by a Governmental or Regulatory Authority or Tax authority which could reasonably be expected to be threatened, proposed or made in an audit of any Tax period ending on or following Closing.

(e) The Subsidiaries located in the PRC have, in accordance with applicable PRC Law, duly registered with the relevant PRC Governmental or Regulatory Authority, obtained and maintained the validity of all national and local Tax registration certificates and complied with all requirements in all material respects imposed by such Governmental or Regulatory Authorities. Any submissions made on behalf of the Company or any Subsidiary to any Governmental or Regulatory Authority in connection with obtaining Tax exemptions, Tax holidays, Tax deferrals, Tax incentives or other preferential Tax treatments or Tax rebates were accurate and complete in all material respects. As of the date hereof, no suspension, revocation or cancellation of any Tax exemptions, preferential treatments or rebates is pending or, to the Knowledge of the Company, threatened.

(f) To the Knowledge of the Company, no claim has been made by any Governmental or Regulatory Authority (including any Tax authority) that any Group Company is or may be subject to taxation by, or required to file any Tax Return in, a jurisdiction other than the jurisdiction under the laws of which such Group Company is organized.

(g) No Group Company has been a member of an affiliated, consolidated, combined or unitary Tax group, or participated in any arrangement whereby any Tax liability or any Tax Asset of any Group Company was determined or taken into account for Tax purposes with reference to or in conjunction with any Tax liability or any Tax Asset of any other Person.

(h) Section 3.25(h) of the Company Disclosure Schedule contains a list of each Tax exemption, Tax holiday or reduced Tax rate (“**Tax Grant**”) granted by any Governmental or Regulatory Authority (including any Tax authority) with respect to any Group Company. Each Group Company that was granted a Tax Grant has complied with the conditions stipulated in each Tax Grant.

Section 3.26. *Compliance with Laws and Court Orders.* Each Group Company is not in violation of, has not since its incorporation violated, and to the Knowledge of the Company, the Company is not under investigation with respect to and has not been threatened in writing to be charged with or given notice of any material violation of, any applicable Law. There is no judgment, decree, injunction, rule or order of any arbitrator or Governmental or Regulatory Authority outstanding against any Group Company that has had or would reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on any Group Company or that in any manner seeks to prevent, enjoin, alter or materially delay the consummation of the Transactions.

Section 3.27. *Business Practices.* Neither the Company nor any of the Subsidiaries or affiliates, nor any director, officer, or employee of the Company or any of the Subsidiaries and affiliates, nor, to the Company’s Knowledge, any Representative of the Company or of any of the Subsidiaries acting on the behalf of the Company or any of the Subsidiaries, has taken or will take any action in furtherance of an offer, payment, promise to pay, or authorization or approval of the payment or giving of money, property, gifts or anything else of value, directly or indirectly, to any “government official” (including any officer or employee of a government or government-owned or controlled entity or of a public international organization, or any person acting in an official capacity for or on behalf of any of the foregoing, or any political party or party official or candidate for political office) to influence official action or secure an improper advantage. The Company and the Subsidiaries have conducted their businesses in compliance with applicable anti-corruption Laws and have instituted and maintain and will continue to maintain policies and procedures designed to promote and achieve compliance with such applicable Laws and with the representation and warranty contained herein.

Section 3.28. *Compliance with Anti-Money Laundering Laws.* The operations of the Company and the Subsidiaries are and have been conducted in compliance with all applicable financial recordkeeping and reporting requirements, and the applicable anti-money laundering statutes of all applicable jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any Governmental or Regulatory Authority (collectively, the “**Anti-Money Laundering Laws**”), and no action, suit or proceeding by or before any Governmental or Regulatory Authority or any arbitrator involving the Company or any of the Subsidiaries with respect to the applicable Anti-Money Laundering Laws is pending or, to the Knowledge of the Company, threatened.

Section 3.29. *Products*. Each of 91 Assistant, HiMarket, 91 Panda Reader and 91 Launcher made available by the Group has been, (i) in compliance in all material respects with all applicable Laws, and (ii) fit for the ordinary purposes for which it is intended to be used and conforms in all material respects to any promises or affirmations of fact made in the description or introduction for such product or in connection with its publication, distribution, sale or offer for sale.

Section 3.30. *Customers and Suppliers*. Section 3.30 of the Company Disclosure Schedule lists (a) five (5) largest customers of the Company and its Subsidiaries (determined on the basis of aggregate revenues recognized by the Company and its Subsidiaries over the fiscal year ended December 31, 2012) (each, a “**Major Customer**”), and (b) five (5) largest suppliers of the Company and its Subsidiaries (determined on the basis of aggregate purchases made by the Company and its Subsidiaries over the fiscal year ended December 31, 2012) (each, a “**Major Supplier**”). Neither the Company nor any of its Subsidiaries has received, as of the date hereof, any written notice or communication from any Major Customer or Major Supplier that it intends to terminate, or not renew, its relationship with the Company or such Subsidiary.

Section 3.31. *Insolvency; Winding Up*. No order or petition has been presented or resolution passed for the administration, winding-up, dissolution or liquidation of any Group Company and no administrator, receiver or manager has been appointed in respect thereof. No Group Company has commenced any other proceeding under any bankruptcy, reorganization, dissolution, insolvency, liquidation or similar applicable Law of any jurisdiction and no such proceedings have been commenced against such Group Company.

Section 3.32. *Anti-Takeover Provisions*. The Company is not party to a shareholder rights agreement, “poison pill” or similar agreement or plan. To the knowledge of the Company, no takeover, anti-takeover, moratorium, “fair price”, “control share” or other similar Laws enacted under any Law applicable to the Company applies, and will apply, to this Agreement or the Transactions other than the CICL.

Section 3.33. *Finder’s Fee*. There is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of the Company or the Subsidiaries who might be entitled to any fee or commission in connection with the Transactions.

Section 3.34. *Accuracy of Listing Document*. The Listing Document and the information supplied by the Company for inclusion or incorporation by reference in the Listing Document do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they are made, not misleading or which are material for disclosure therein. All expressions of opinion or intention therein are made on reasonable grounds or, where appropriate, reasonable assumptions and are truly and honestly held and there are no other material facts the omission of disclosure therein of which would make any such statement or expression misleading.

Section 3.35. *Selling Documents.* None of the documents or information delivered to Parent by the Group Companies and its respective Representatives in connection with the Transactions as a whole and with due regard to the respective dates thereof contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained therein not misleading. Each Group Company has furnished or otherwise made available to Parent any and all material information (financial, operational or other) and documents, failure to provide which to Parent could reasonably be expected to cause Parent unwilling to execute, deliver and perform this Agreement and the Transaction Documents or to consummate the Transactions pursuant to current terms and conditions herein or therein or would defeat the business rationale of Parent to enter into this Agreement or any Transaction Document and to consummate the Transactions.

Section 3.36. *Representations.* The representations and warranties of the Company contained in this Agreement are true and correct.

ARTICLE 4
REPRESENTATIONS AND WARRANTIES OF PARENT

Parent represents and warrants to the Company, as of the date hereof and as of Closing as follows:

Section 4.01. *Corporate Existence and Power.* Each of Parent and Merger Sub is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation and has all corporate powers and all material governmental licenses, authorizations, permits, consents and approvals required to carry on its business as now conducted. Merger Sub is qualified to do business and is in good standing as a foreign corporation in each jurisdiction where the ownership, leasing or operation of its assets or properties or conduct of its business requires qualification, except where the failure to be so organized, validly existing, qualified or in good standing, or to have such power or authority, would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

Section 4.02. *Corporate Authorization.* The execution, delivery and performance by each of Parent and Merger Sub of this Agreement and the consummation of the Transactions are within the corporate powers of Parent and Merger Sub, as applicable and have been duly authorized by all necessary corporate action on the part of Parent or Merger Sub, as applicable. This Agreement when executed and delivered by Parent or Merger Sub in accordance with the terms thereof constitutes and will constitute a valid and binding agreement of Parent and Merger Sub and enforceable against them respectively in accordance with its terms (subject to applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and other laws affecting creditors' rights generally and general principles of equity).

Section 4.03. *Governmental Authorization.* The execution, delivery and performance by Parent and Merger Sub of this Agreement and the consummation of the Transactions require no material consent, approval, authorization, action by or permit of or in respect of, or material filing with, any Governmental or Regulatory Authority by either Parent or Merger Sub, except for the filing of the Plan of Merger and related documentation with the Registrar of Companies of the Cayman Islands pursuant to the CICL, and for the Requisite Regulatory Approvals.

Section 4.04. *Noncontravention.* The execution, delivery and performance by Parent and Merger of this Agreement and the consummation of the Transactions do not and will not (i) contravene, conflict with, or result in any violation or breach of any provision of the memorandum and articles of association or any equivalent constitutive documents of either Parent or Merger Sub, (ii) assuming compliance with the matters referred to in this Section 4.04, contravene, conflict with or result in a violation or breach of any provision of any applicable Law, (iii) require any consent or other action by any Person under, constitute a default, or an event that, with or without notice or lapse of time or both, would constitute a default, under any provision of any agreement or other instrument binding thereupon, or (iv) result in the creation or imposition of any Lien on any asset of either Parent or Merger Sub, with only such exceptions, in the case of each of clauses (ii) through (iv), as have not and would not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on either Parent or Merger Sub.

Section 4.05. *Financing.* Parent has, or will have at the Effective Time, sufficient cash, available lines of credit or other sources of immediately available funds to enable it to make payment of Merger Consideration. Both Parent and Merger Sub are able to pay its debts as and when they fall due, and each of them is expected to be able to do so for a period of 12 months after the Effective Time.

Section 4.06. *Litigation.* There is no Action against or affecting Parent or Merger Sub seeking to prohibit or materially delaying the Transaction including the Merger, and to the Knowledge of Parent or Merger Sub, no such Actions are threatened or contemplated and there are no circumstances likely to give rise to any such Actions.

Section 4.07. *Finders' Fees.* There is no investment banker, broker, finder or other intermediary which has been retained by or is authorized to act on behalf of Parent who might be entitled to any fee or commission in connection with the Transactions.

ARTICLE 5
CONDUCT OF BUSINESS PENDING THE MERGER

Section 5.01. *Conduct of Business by the Company Pending the Merger.* (a) The Company agrees that, between the date of this Agreement and the Effective Time, except as required by applicable Law or as expressly contemplated by any other provision of this Agreement, unless Parent shall otherwise consent in writing:

- (i) the businesses of the Company and its Subsidiaries shall be conducted only in, and the Company and its Subsidiaries shall not take any action except in, the ordinary course of business and in the same general nature, taken as a whole, as the date hereof;
- (ii) the Company shall and shall procure its Subsidiaries and/or NetDragon Cayman to maintain in force all existing insurance policies (if any) on the same terms and level of cover prevailing at the date of this Agreement for the benefit of the Company and its Subsidiaries;
- (iii) the Company shall and shall procure its Subsidiaries and/or NetDragon Cayman to make all insurance claims in relation to the Company and its Subsidiaries promptly subject to consistency with the Company's past practices and in accordance with the requirements of the relevant policy; and
- (iv) the Company shall use its reasonable best efforts to preserve substantially intact the business organization of the Company and its Subsidiaries, to keep available the services of the current officers, employees, and consultants and contractors of the Company and its Subsidiaries, who are integral to the operation of their businesses as presently conducted and to maintain satisfactory relationships of the Company and the Subsidiaries with Governmental or Regulatory Authorities, customers and suppliers, and any other persons with which the Company or any of its Subsidiaries has relations that are material to the Company and its Subsidiaries, taken as a whole, provided however that the Company is not required to pay additional amounts that are of the extraordinary nature to keep available the services of its officers and employees and the officers and employees of the Subsidiaries.

By way of amplification and not limitation, except as expressly contemplated by any other provision of this Agreement or as required by applicable Law, the Company will not, and will not permit any of its Subsidiaries to, between the date of this Agreement and the Effective Time, directly or indirectly, do, or propose to do, any of the following without the prior written consent of Parent (which consent shall not be unreasonably withheld):

(b) amend or otherwise change the memorandum and articles of association or equivalent organizational documents of the Company or any Subsidiary;

(c) issue, sell, transfer, lease, sublease, license, pledge, dispose of, grant or encumber, or authorize the issuance, sale, transfer, lease, sublease, license, pledge, disposition, grant or encumbrance of, (i) any shares of any class of the Company or any Subsidiary, or any options, warrants, convertible securities or other rights of any kind to acquire any shares, or any other ownership interest (including, without limitation, any phantom interest), of the Company or any Subsidiary, or (ii) any property or assets (whether real, personal or mixed, and including leasehold interests and intangible property) of (x) any Subsidiary except in the ordinary course of business consistent with past practice or (y) directly held by the Company (including shares or other securities of any Subsidiary);

(d) Save for the special dividends to be declared to the existing Shareholders in an aggregate amount of not more than US\$52,064,491.28 prior to Closing, declare, set aside, make or pay any dividend or other distribution, payable in cash, stock, property or otherwise, with respect to any of its shares, other than dividends or other distributions from any Subsidiary of the Company to the Company or another Subsidiary of the Company;

(e) reclassify, combine, split, subdivide, repurchase or redeem, or purchase or otherwise acquire, directly or indirectly, any of its shares, or any options, warrants, convertible securities or other rights exchangeable into or convertible or exercisable for any of its shares, or any of its loan capital;

(f) effect or commence any liquidation, dissolution, scheme of arrangement, merger, consolidation, amalgamation, restructuring, reorganization or similar transaction involving the Company or any of its Subsidiaries (other than the Merger or any merger or consolidation among wholly owned Subsidiaries of the Company), or create any new Subsidiaries;

(g) enter into, or propose to enter into, any transaction involving any earn-out, installment or similar payment payable by the Company or any Subsidiary of the Company, to any Third Party, other than payments in connection with purchases of vehicles, plant, equipment, supplies or computers in the ordinary course of business;

(h) (i) acquire (including, without limitation, by merger, consolidation, scheme of arrangement, amalgamation or acquisition of stock or assets or any other business combination) or make any capital contribution or investment in any corporation, partnership, other business organization or any division thereof or acquire any significant amount of assets;

(ii) incur, assume, alter, amend or modify any Indebtedness, or guarantee such Indebtedness, or issue any debt securities or make any loans or advances, except for (x) trade payables incurred in the ordinary course of business; (y) debt entered into in the ordinary course of business consistent with past practice not to exceed US\$500,000; and (z) Indebtedness for borrowed money among the Company and its wholly owned Subsidiaries or among the Company's wholly owned Subsidiaries;

(iii) create or grant any Lien on any assets of any Subsidiaries of the Company other than Permitted Liens; except in each case for Liens not exceeding US\$500,000 individually or US\$1,000,000 in the aggregate;

- (iv) authorize, or make any commitment with respect to, any capital expenditures which are, in the aggregate, in excess of US\$1,000,000 for the Company and the Subsidiaries taken as a whole; or
- (v) guarantee the performance or other obligations of any Person except for Subsidiaries that are wholly-owned by the Company;

(i) except as otherwise required by Law or pursuant to any Contract or terms and conditions of any Company Employee Plan in existence as of the date hereof, (A) enter into any new employment or compensatory agreements in connection with employment (including the renewal of any such agreements), or terminate or materially amend any such agreements, with any director, officer, employee or consultant of the Company or any of its Subsidiaries with annual base compensation in excess of US\$200,000 (or its equivalent in other currencies), (B) grant or provide any severance or termination payments or benefits to any director, officer, employee or consultant of the Company or any of its Subsidiaries with annual base compensation in excess of US\$200,000 (or its equivalent in other currencies), (C) materially increase the compensation, bonus or pension, welfare, severance or other benefits of, pay any bonus to, or make any new equity awards to any director, officer, employee or consultant of the Company or any of its Subsidiaries with annual base compensation in excess of US\$200,000 (or its equivalent in other currencies), other than in the ordinary course, including as a part of the Company's annual compensation review or increases for commissions, (D) establish, adopt, amend or terminate any Company Employee Plan, (E) materially change any actuarial or other assumptions used to calculate funding obligations with respect to any Company Employee Plan or to change the manner in which contributions to such plans are made or the basis on which such contributions are determined, except as may be required by HKFRS, or (F) forgive any loans to directors, officers or employees of the Company or any of its Subsidiaries;

(j) make any material changes with respect to any method of financial accounting, or financial accounting policies or procedures, including material changes affecting the reported consolidated assets, liabilities or results of operations of the Company and its Subsidiaries, except as required by changes in HKFRS or applicable Law;

(k) enter into, or materially amend or modify, or consent to the termination of any Material Contract (or any Contract that would be a Material Contract if such Contract had been entered into prior to the date hereof), or amend, waive, modify or consent to the termination of the Company's or any Subsidiary's material rights thereunder;

(l) enter into any Contract between the Company or any Subsidiary, on the one hand, and any of their respective directors or executive officers, on the other hand;

(m) terminate or cancel, let lapse, or amend or modify in any material respect, other than renewals in the ordinary course of business, any material insurance policies maintained by it which is not promptly replaced by a comparable amount of insurance coverage with reputable independent insurance companies or underwriters;

(n) commence any material Action (other than in respect of collection of amounts owed in the ordinary course of business), or settle any material Action naming the Company, any of the Subsidiaries and/or any of their directors or officers;

(o) engage in the conduct of any new line of business material to the Company and its Subsidiaries, taken as a whole;

(p) make or change any material Tax election, materially amend any Tax return (except as required by applicable Law), enter into any material closing agreement with respect to Taxes, surrender any right to claim a material refund of Taxes, settle or finally resolve any material controversy with respect to Taxes or materially change any method of Tax accounting, except as required by applicable Law or upon the order of the competent Governmental or Regulatory Authorities;

(q) waive any material benefits of, or agree to materially modify in any matter, any confidentiality, standstill or similar agreement to which the Company or any of its Subsidiaries is a party;

(r) fail to maintain or protect any material Group Company Intellectual Property, Group Company IT Assets or Group Company Software;

(s) authorize or agree in writing to take any of the foregoing actions, or enter into any letter of intent (binding or non-binding) or similar written agreement or arrangement with respect to any of the foregoing.

Without prejudice to the generality of Section 5.01, the Company and its Subsidiaries shall use their reasonable best efforts to collaborate with Parent in relation to all material matters concerning the running of the Group.

Section 5.02. *Company Shareholders' Meeting.* Promptly after NetDragon Cayman has obtained approval from its shareholders at a general meeting held in accordance with the requirements of the Listing Rules in relation to the Transactions, the Company shall, in accordance with Cayman Islands Law and the Company's memorandum and articles of association, take all action necessary to call, give notice of, convene an extraordinary general meeting of its shareholders and obtain, as promptly as practicable, approval of this Agreement, the Plan of Merger and the Merger by the affirmative consent of holders of at least three-fourths (3/4th) of the Shares at the Shareholders' Meeting (the "**Requisite Company Vote**"). Subject to Section 5.04 and subject always to directors' fiduciary duties, the Company Board shall (i) recommend approval and adoption of this Agreement, the Merger and the other transactions contemplated hereby by the Company's shareholders, (ii) use its reasonable best efforts to obtain the Requisite Company Vote and (iii) not effect an Adverse Recommendation Change (as defined below). Without limiting the generality of the foregoing, this Agreement and the Merger shall be submitted to the Company's shareholders for approval by Requisite Company Vote whether or not an Adverse Recommendation Change (as defined below) shall have occurred.

Section 5.03. *Access to Information.* From the date hereof until the Effective Time and subject to applicable Law, upon reasonable advance notice from Parent, the Company and its Subsidiaries shall (i) give Parent and its Representatives reasonable access during normal business hours to the offices, properties, books and records of such party, (ii) cause its officers and those of its Subsidiaries furnish to Parent and its Representatives such existing financial and operating data and other existing information as such Persons may reasonably request, and (iii) instruct its Representatives to reasonably cooperate with Parent and its Representatives in its investigation; *provided*, that the Company shall not be required to (A) furnish, or provide access to, any information to any Person not a party to, or otherwise covered by, any confidentiality agreement with respect to such information, or (B) provide access to or furnish any information if doing so would (x) violate any Contract with any Third Party or any applicable Law, or (y) cause a risk of loss of privilege to the Company or any of its Subsidiaries to, upon advice of outside legal counsel, *provided* that the Company shall take all commercially reasonable steps to permit inspection of or to disclose such information without such loss of the Company's or any of its Subsidiaries' privilege with respect thereto, including, without limitation, by means of a joint interest or defense agreement.

Section 5.04. *No Solicitation; Other Offers.* Neither the Company nor any of its Subsidiaries shall authorize or permit any of its or their Representatives to, directly or indirectly, (i) solicit, initiate or take any action to facilitate or encourage the submission of any Acquisition Proposal, (ii) enter into or participate in any discussions or negotiations with, furnish any information relating to the Company or any of its Subsidiaries or afford access to the business, properties, assets, books or records of the Company or any of its Subsidiaries to, otherwise cooperate in any way with, or knowingly assist, participate in, facilitate or encourage any effort by any Third Party that is seeking to make, or has made, an Acquisition Proposal, (iii) fail to make, withdraw or modify in a manner adverse to Parent the Company Recommendation (or recommend an Acquisition Proposal or take any action or make any statement inconsistent with the Company Recommendation) (any of the foregoing in this clause (iii), an "**Adverse Recommendation Change**"), (iv) grant any waiver or release under any standstill or similar agreement with respect to any class of equity securities of the Company or any of its Subsidiaries or (v) enter into any agreement in principle, letter of intent, term sheet, merger agreement, acquisition agreement, option agreement or other similar instrument relating to an Acquisition Proposal. It is agreed that any violation of the restrictions on the Company set forth in this Section by any Representative of the Company or any of its Subsidiaries shall be a breach of this Section by the Company.

Section 5.05. *Notification of Certain Matters.* (a) Each of the Company and Parent shall promptly notify the other in writing of:

- (i) any notice or other communication from any person alleging that the consent of such person is or may be required in connection with the Transactions;

- (ii) any notice or other communication from any Governmental or Regulatory Authority in connection with the Transactions;
- (iii) any Actions commenced or, to the Knowledge of the Company or the knowledge of the executive officers of Parent, threatened against the Company or any of its Subsidiaries or Parent, as the case may be, that, if pending on the date of this Agreement, would have been required to have been disclosed by such party pursuant to any of such party's representations and warranties contained herein, or that relate to such party's ability to consummate the Transactions;
- (iv) if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of such party set forth in this Agreement shall have occurred that would cause the conditions set forth in Sections 6.01, 6.02 and 6.03 not to be satisfied; and
- (v) any failure of the Company or Parent to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by it hereunder,

together, in each case, with a copy of any such notice, communication or Action; *provided*, that the delivery of any notice pursuant to this Section 5.05 shall not limit or otherwise affect the remedies available hereunder to the party receiving such notice.

(b) The Company shall promptly notify Parent in writing of: (i) (A) any notice, correspondence or other communication between any Governmental or Regulatory Authority and any Group Company or their respective Representatives, (B) any presentation made to any Governmental or Regulatory Authority by any Group Company or their Representatives or (C) to the Knowledge of the Company, any notice, correspondence or other communication between any Governmental or Regulatory Authority and any executive officers or directors of the Company (or their respective Representatives) or any Third Party (other than Parent and Merger Sub) in connection with any Action naming any Group Company or any executive officer or director of any Group Company, with, to the extent permitted, a complete copy (to the extent known by and available to the Company) of any such notice, correspondence or communication (including a written summary of any oral communication to the extent known by the Company), or materials used in the presentation, as applicable, and (ii) any order to the Company, or any notice, correspondence or other communication between any other party or its counsel and any Group Company or their respective Representatives in connection with an Action filed with any court, with a complete copy (to the extent known by and available to the Company) of any such notice, correspondence or communication, as applicable.

Section 5.06. *Further Action; Reasonable Best Efforts.* (a) Upon the terms and subject to the conditions of this Agreement, each of the parties hereto shall (i) make promptly its respective filings, and thereafter make any other required submissions, with each relevant Governmental or Regulatory Authority with jurisdiction over enforcement of any applicable antitrust or competition Laws with respect to the Transactions (if applicable), and coordinate and cooperate fully with the other parties in exchanging such information and providing such assistance as the other parties may reasonably request in connection therewith (including, without limitation, (x) notifying the other parties promptly of any communication (whether verbal or written) it or any of its affiliates receives from any Governmental or Regulatory Authority in connection with such filings or submissions, (y) permitting the other parties to review in advance, and consulting with the other parties on, any proposed filing, submission or communication (whether verbal or written) by such party to any Governmental or Regulatory Authority, and (z) giving the other parties the opportunity to attend and participate at any meeting with any Governmental or Regulatory Authority in respect of any filing, investigation or other inquiry); and (ii) use its reasonable best efforts to take, or cause to be taken, all appropriate action, and to do, or cause to be done, all things necessary, proper or advisable under applicable Laws or otherwise to consummate and make effective the Transactions, including, without limitation, employing such resources and taking all steps as are necessary to obtain the Requisite Regulatory Approvals, if required to consummate the Transactions; *provided*, that none of the Company, Parent, Merger Sub or any of their respective affiliates shall be required to hold separate, restructure, reorganize, sell, divest, dispose of, or otherwise take or commit to any action that limits its freedom of action with respect to, or its ability to retain, any of its businesses, services or assets. The parties agree to cooperate in good faith to determine and direct the strategy and process by which the parties will seek the Requisite Regulatory Approvals. If, at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and directors of each party to this Agreement shall use their reasonable best efforts to take all such action.

(b) Each party hereto shall, upon request by any other party, furnish such other party, to the extent not in violation of any applicable Law, with all information concerning itself, its subsidiaries, directors, officers and shareholders and such other matters as may be reasonably necessary or advisable in connection with any statement, filing, notice or application made by or on behalf of Parent, Merger Sub, the Company or any of their respective affiliates to any Governmental or Regulatory Authority in connection with the Merger and the Transactions.

(c) The Company shall cooperate with all Governmental or Regulatory Authorities in connection with any Actions naming the Company or its directors or executive officers.

Section 5.07. *Obligations of Merger Sub.* Parent shall take all actions necessary to cause Merger Sub to perform its obligations under this Agreement and to consummate the Merger on the terms and subject to the conditions set forth in this Agreement.

Section 5.08. *Participation in Litigation.* Prior to the Effective Time, (a) the Company shall give prompt notice to Parent of any Actions by shareholders of the Company commenced or, to the Knowledge of Company threatened, against the Company and/or its directors which relate to this Agreement or the Transactions, and (b) the Company shall give Parent the opportunity to participate in the defense or settlement of any such shareholder Action against the Company and/or its directors relating to this Agreement or the Transactions, and except as permitted under Section 5.01(n), no such Action shall be settled or compromised, and the Company shall not take any action to adversely affect or prejudice any such Action, without Parent's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed).

Section 5.09. *Confidentiality*. Each party to this Agreement shall not divulge to any third party any information regarding the existence or subject matter or terms of this Agreement, without the prior written consent of the other parties (such consent not to be unreasonably withheld), except (a) as contemplated in this Agreement, (b) on a need-to-know basis to the respective directors, officers, employees and professional advisers of each party, (c) to the extent necessary to comply with the regulations or policies of any stock exchange or other regulatory body, or (d) to the extent necessary to comply with applicable Law or for the purpose of legal or arbitration proceedings; provided, that in the case of (c) or (d), each party shall use its reasonable efforts to allow the other parties reasonable time to comment on the form and content of the release of information in advance of such release.

Section 5.10. *Tax Matters*. From the date hereof, the Company shall, and shall cause each Subsidiary to timely pay, all Taxes that arise from or with respect to the Company and/or Subsidiary as applicable.

ARTICLE 6 CONDITIONS TO THE MERGER

Section 6.01. *Conditions to the Obligations of Each Party*. The obligations of the Company, Parent and Merger Sub to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following conditions:

(a) *Shareholder Approval*. The Requisite Company Vote shall have been obtained in accordance with the CICL and the Company's memorandum and articles of association.

(b) *No Injunction*. No provision of any Law or Order shall prohibit the consummation of the Merger or make the Merger illegal.

(c) *Regulatory Approvals*. All actions by or in respect of or filings with any Governmental or Regulatory Authority required to permit the consummation of the Merger shall have been taken, made or obtained, including but not limited to the Requisite Regulatory Approvals.

Section 6.02. *Conditions to the Obligations of Parent and Merger Sub*. The obligations of Parent and Merger Sub to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(a) *Representations and Warranties*. The representations and warranties of the Company contained in this Agreement and in any certificate or other writing delivered by the Company pursuant hereto (A) that are qualified by materiality or Material Adverse Effect shall be true at and as of the Closing Date as if made at and as of such date, and (B) that are not qualified by materiality or Material Adverse Effect shall be true in all material respects at and as of the Closing Date as if made at and as of such time.

(b) *Agreements and Covenants*. The Company shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by it on or prior to the Closing.

(c) *Officer Certificate*. The Company shall have delivered to Parent a certificate, dated the Closing Date, signed by chief executive officer of the Company, certifying as to the satisfaction of the conditions specified in Sections 6.02(a) and 6.02(b).

(d) *Material Adverse Effect*. Since the date of this Agreement, there shall not have occurred and be continuing a Material Adverse Effect.

(e) *Transaction Documents*. Each of the parties to the Transaction Documents, other than Parent or Merger Sub, shall have executed and delivered such Transaction Documents to Parent.

(f) *Transfer of Fujian BoRui*. NetDragon (Fujian), the Person(s) nominated by Parent (the “**Parent Nominees**”), and Fujian BoRui have duly entered into the Equity Interests Transfer Agreements (the “**Equity Interests Transfer Agreements**”) in substantially the form attached hereto as Annex F, pursuant to which 100% equity interests of Fujian BoRui shall be transferred to Parent Nominees, and the Company shall have delivered to Parent and Merger Sub documents evidencing the filing with Fuzhou Economic and Technological Development Zone Administration For Industry and Commerce for the transfer of all of the equity interests in Fujian BoRui from NetDragon (Fujian) to the Parent Nominees.

(g) *Key Employee Employment Contracts*. The Company shall have delivered to Parent and Merger Sub employment agreements, confidentiality agreements, non-compete agreements and intellectual property assignment agreements with the Key Employees in substantially the forms to the reasonable satisfaction of Parent.

(h) *Business Contracts*. (A) The contracts listed in Annex B-1 hereto shall have been duly terminated to the reasonable satisfaction of Parent; and (B) the contracts listed in Annex B-2 hereto shall have been duly amended in substantially the forms to the reasonable satisfaction of Parent.

(i) *Termination of Post Conversion Co-sale Agreement and Post Conversion Shareholders’ Agreement*. The Company shall have delivered to Parent and Merger Sub reasonable evidence to the satisfaction of Parent of the termination of the Post Conversion Co-sale Agreement and the Post Conversion Shareholders’ Agreement which shall take effect immediately upon the Effective Time.

(j) *Audited Financial Statements and Unaudited Management Accounts.* The Company shall have delivered to Parent and Merger Sub the Audited Financial Statements and the Unaudited Management Accounts.

(k) *PRC legal opinion.* The Company shall have delivered to Parent and Merger Sub an opinion from Jingtian & Gongcheng, the PRC legal advisors to the Company, in substantially the form attached hereto as Annex G.

(l) *Cayman Islands legal opinion.* The Company shall have delivered to Parent and Merger Sub an opinion from Conyers Dill & Pearman, the Cayman Islands legal advisors to the Company, regarding the incorporation of the Company and execution by the Company of this Agreement in substantially the form as attached hereto as Annex I.

(m) *Resignations.* The Company shall have delivered to Parent and Merger Sub duly signed resignations, effective as of the Effective Time, of the directors of the Company designated by Parent.

(n) *Deeds of Undertaking.* Shareholders holding at least 90% of the issued share capital of the Company shall have entered into certain deeds of undertaking (the “**Deeds of Undertaking**”) in substantially the form attached hereto as Annex H.

Section 6.03. *Conditions to the Obligations of the Company.* The obligations of the Company to consummate the Merger are subject to the satisfaction or waiver (where permissible) of the following additional conditions:

(a) *Representations and Warranties.* The representations and warranties of Parent and Merger Sub contained in this Agreement and in any certificate or other writing delivered by Parent or Merger Sub pursuant hereto (A) that are qualified by materiality or Material Adverse Effect shall be true at and as of the Closing Date as if made at and as of such date, and (B) that are not qualified by materiality or Material Adverse Effect shall be true in all material respects at and as of the Closing Date as if made at and as of such time.

(b) *Agreements and Covenants.* Parent and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required by this Agreement to be performed or complied with by them on or prior to the Closing, the Effective Time and/or thereafter as provided therein.

(c) *Requisite Shareholders Approval of NetDragon Cayman.* The approval by the shareholders of NetDragon Cayman of the shareholders’ resolution in relation to, inter alia, this Agreement, the Deed of Undertaking to be signed by NetDragon Cayman and NetDragon BVI and the Transactions at an extraordinary general meeting of NetDragon Cayman shall have been obtained.

(d) *Compliance with Listing Rules and Securities Futures Ordinance.* NetDragon Cayman shall have complied with and to the satisfaction of the Stock Exchange and other relevant regulatory authorities all requirements under the Listing Rules and/or the Securities Futures Ordinance (Chapter 571 of the laws of Hong Kong) in relation to the Merger and other transactions contemplated thereunder.

For the avoidance of doubt, the conditions of Section 6.02(i) and Sections 6.03(c) to (d) cannot be waived notwithstanding anything stated hereof

Section 6.04. *Frustration of Closing Conditions.* Prior to the End Date, none of the Company, Parent or Merger Sub may rely on the failure of any condition set forth in Article 6 to be satisfied if such failure was caused by such party's failure to act in good faith to comply with this Agreement and consummate the Transactions.

ARTICLE 7
TERMINATION

Section 7.01. *Termination.* This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time whether the Requisite Company Vote has been obtained:

(a) by mutual written agreement of the Company and Parent;

(b) by either the Company or Parent, if:

(i) the Merger has not been consummated on or before December 31, 2013 (the "**End Date**"); *provided* that the right to terminate this Agreement pursuant to this Section 7.01(b) shall not be available to any party whose breach of any provision of this Agreement results in the failure of the Merger to be consummated by such time;

(ii) there shall be any Law or Order that (A) makes consummation of the Merger illegal or otherwise prohibited or (B) enjoins the Company or Parent from consummating the Merger and such injunction shall have become final and nonappealable;

(iii) the Post Conversion Co-Sale Agreement and the Post Conversion Shareholders' Agreement have not been effectively terminated in accordance with their respective terms by the End Date; or

(c) by Parent, if an Adverse Recommendation Change shall have occurred, or if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of the Company set forth in this Agreement shall have occurred that would cause the condition set forth in Section 6.02(a) not to be satisfied, and such condition is incapable of being satisfied by the End Date; or

(d) by the Company, if a breach of any representation or warranty or failure to perform any covenant or agreement on the part of Parent or Merger Sub set forth in this Agreement shall have occurred that would cause the condition set forth in Section 6.03(a) not to be satisfied, and such condition is incapable of being satisfied by the End Date; or

(e) by the Company, if the approval by the shareholders of NetDragon Cayman of the shareholders' resolutions in relation to, inter alia, this Agreement, the Deed of Undertaking to be signed and delivered by NetDragon Cayman and all transactions contemplated thereunder at an extraordinary general meeting of NetDragon Cayman shall not have been obtained.

The party desiring to terminate this Agreement pursuant to this Section 7.01 (other than pursuant to Section 7.01(a) shall give notice of such termination to the other party.

Section 7.02. *Effect of Termination.* In the event of the termination of this Agreement pursuant to Section 7.01, such termination shall be without liability of either party (or any stockholder, director, officer, employee, agent, consultant or representative of such party) to the other party to this Agreement; provided that if such termination shall result from the (i) willful failure of either party to fulfill a condition to the performance of the obligations of the other party, (ii) failure to perform a covenant of this Agreement or (iii) breach by either party hereto of any representation or warranty or agreement contained herein, such party shall be fully liable for any and all damages incurred or suffered by the other party as a result of such failure or breach. The terms of Section 7.02 and Article 8 shall survive any termination of this Agreement.

ARTICLE 8 GENERAL PROVISIONS

Section 8.01. *Survival of Representations and Warranties.* The representations and warranties of the parties hereto contained in this Agreement or in any certificate or other writing delivered pursuant hereto or in connection herewith shall survive the Closing.

Section 8.02. *Notices.* All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given (and shall be deemed to have been duly given upon receipt) by delivery in person, by telecopy or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at the following addresses (or at such other address for a party as shall be specified in a notice given in accordance with this Section 8.02):

if to Parent or Merger Sub, to:

Baidu (Hong Kong) Limited
Baidu Campus
No. 10 Shangdi 10th Street, Haidian District
Beijing, 100085, China
Attention: Hesong Tang
Facsimile: +8610-59920021/59920022
Email: tanghesong@baidu.com

if to the Company:

Building 851
No. 58 Wenquan Zhilu
Gulou District
Fuzhou
People's Republic of China
Attention: Board of directors
Facsimile: +86591-87676528
Email: wujoe@yahoo.com

All such notices, requests and other communications shall be deemed received on the date of receipt by the recipient thereof if received prior to 5:00 p.m. in the place of receipt and such day is a Business Day in the place of receipt. Otherwise, any such notice, request or communication shall be deemed not to have been received until 9:30 a.m. in the place of receipt on the next succeeding Business Day.

Section 8.03. *Certain Definitions.*

(a) For purposes of this Agreement:

“**91 Assistant**” means 91 助手 (91 Assistant), the proprietary Smartphone Apps of the Group, which is a mobile device management tool and a mobile apps store;

“**91 Launcher**”, means 91 桌面 (91 Launcher), one of the proprietary Smartphone Apps of the Group;

“**91 Panda Reader**”, means 91 熊貓看書 (91 Panda Reader), one of the proprietary Smartphone Apps of the Group;

“**Acquisition Proposal**” means, other than the Transactions, any offer, proposal or inquiry relating to, or any Third Party indication of interest in, (i) any acquisition or purchase, direct or indirect, of 10% or more of the consolidated assets of the Company and its Subsidiaries or 10% or more of any class of equity or voting securities of the Company or any of its Subsidiaries whose assets, individually or in the aggregate, constitute 10% or more of the consolidated assets of the Company, (ii) any tender offer (including a self-tender offer) or exchange offer that, if consummated, would result in such Third Party's beneficially owning 10% or more of any class of equity or voting securities of the Company or any of its Subsidiaries whose assets, individually or in the aggregate, constitute 10% or more of the consolidated assets of the Company, (iii) a merger, consolidation, share exchange, business combination, sale of substantially all the assets, reorganization, recapitalization, liquidation, dissolution or other similar transaction involving the Company or any of its Subsidiaries whose assets, individually or in the aggregate, constitute 10% or more of the consolidated assets of the Company or (iv) any other transaction the consummation of which could reasonably be expected to impede, interfere with, prevent or materially delay the Merger or that could reasonably be expected to dilute materially the benefits to Parent of the Transactions. Notwithstanding the previous sentence, a purchase of Company Securities by, or a borrowing from, a Person who is a holder of Company Securities on the date of this Agreement will not constitute an “**Acquisition Proposal**” if and to the extent Parent gives its prior written consent to such purchase or borrowing;

“**affiliate**” of a specified person means a person who, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such specified person;

“**Alpha Great**” means Alpha Great International Limited (強領國際有限公司), a BVI business company incorporated in the BVI on 25 October 2011;

“**Beijing MiKu**” means 北京米酷倍顯軟件科技有限公司 (Beijing Mi Ku Bei Xian Software Technology Ltd.), a company incorporated under the laws of the PRC on 27 September 2012;

“**BoYuan (Hong Kong)**” means BoYuan (Hong Kong) Wireless Websoft Technology Limited (博遠 (香港) 無線網絡科技有限公司), a company incorporated in Hong Kong on 18 November 2011;

“**Business Day**” means a day, other than Saturday, Sunday or other day on which commercial banks in Cayman Islands, Hong Kong and the PRC are authorized or required by Applicable Law to close;

“**Company Disclosure Schedule**” means the disclosure schedule attached hereto as Schedule 1, delivered to Parent and Merger Sub by the Company on the date hereof;

“**Company Employee Plan**” means any written plan, program, policy, Contract or other arrangement providing for cash compensation, severance, termination pay, deferred cash compensation, cash performance awards, fringe benefits or other employee benefits, that is or has been maintained, contributed to or required to be contributed to by the Company or any of its Subsidiaries for the benefit of any current or former employee, director, officer or independent contractor of the Company or its Subsidiaries, or with respect to which the Company or any of its Subsidiaries has or may have any liability or obligation;

“**Contract**” means any note, bond, mortgage, indenture, deed of trust, contract, agreement, lease, license, permit, franchise or other instrument;

“**control**” (including the terms “**controlled by**” and “**under common control with**”) means the possession, directly or indirectly, or as trustee or executor, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities or the possession of voting power, as trustee or executor, by contract (including, without limitation, contractual arrangements similar to those provided by the Structured Contracts) or credit arrangement or otherwise;

“**Controlling Shareholder**” means NetDragon BVI;

“**Covered Subsidiaries**” means Talent Zone, Prestige Plus, Alpha Great, Keen City, BoYuan (Hong Kong), I-Wave, Jiangsu BoWang, Fuzhou BoYuan and Fujian BoDong;

“**Covered VIEs**” means Fujian BoRui;

“**DeNA Holdco**” means 株式会社 DeNA (DeNA Co., Ltd.*), an Internet company whose shares are listed on the Tokyo Stock Exchange, Inc. (stock code: 2432) and the Company’s joint venture partner;

“**Fujian BoDong**” means 福建博動文化傳播有限公司 (Fujian BoDong Cultural and Communications Co., Ltd.), an enterprise established in the PRC on 27 December 2011;

“**Fujian BoRui**” means 福建博瑞網絡科技有限公司 (Fujian BoRui Websoft Technology Co., Ltd.), an enterprise established in the PRC on 18 March 2011;

“**Fuzhou BoYuan**” means 福州博遠無線網絡科技有限公司 (Fuzhou BoYuan Wireless Websoft Technology Co., Ltd.), a wholly foreign-owned enterprise established under the laws of the PRC on 6 September 2010;

“**GalaxyWave**” means GalaxyWave Co., Ltd., a company incorporated in the British Virgin Islands on January 9, 2012;

“**General Shareholders**” means Eligible Shareholders, other than Controlling Shareholder and Management Shareholders;

“**Governmental Authorization**” means any approval, order, registration, clearance, qualification, consent, waiver, authorization, exemption, permission, judgment, endorsement or license with or granted by any Governmental or Regulatory Authority having jurisdiction over the Company or any of the Subsidiaries;

“**Governmental or Regulatory Authority**” means any nation or government or any province or state or any other political subdivision thereof, or any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality or any political subdivision thereof, any court, tribunal or arbitrator, and any self-regulatory organization and any stock exchange (including The Stock Exchange of Hong Kong Limited);

“**Group**” means the Company and the Subsidiaries, and “**Group Company**” means any of them;

“**Group Company Intellectual Property**” means all Intellectual Property Rights owned, purported to be owned, or otherwise held by or licensed to the Group Companies;

“**Group Company IT Assets**” means any and all IT Assets owned, used or held for use by or licensed to the Group Companies;

“**Group Company Software**” means all Software owned, purported to be owned, or otherwise held by or licensed to the Group Companies;

“**HiMarket**” means 安卓市場 (HiMarket), the proprietary Smartphone App of the Group, which is an online apps store;

“**Hong Kong**” means the Hong Kong Special Administrative Region of the PRC;

“**Indebtedness**” means, with respect to any person, without duplication (a) all indebtedness of such person, whether or not contingent, for borrowed money, (b) all obligations of such person for the deferred purchase price of property or services, (c) all obligations of such person evidenced by notes, bonds, debentures or other similar instruments, (d) all obligations of such person under currency, interest rate or other swaps, and all hedging and other obligations of such person under other derivative instruments, (e) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (f) all obligations of such person as lessee under leases that have been or should be, in accordance with HKFRS, recorded as capital leases, (g) all obligations, contingent or otherwise, of such person under acceptance, letter of credit or similar facilities, (h) all obligations of such person to purchase, redeem, retire, defease or otherwise acquire for value any share capital of such person or any warrants, rights or options to acquire such share capital, valued, in the case of redeemable preferred shares, at the greater of its voluntary or involuntary liquidation preference plus accrued and unpaid dividends, (i) all Indebtedness of others referred to in clauses (a) through (h) above guaranteed directly or indirectly in any manner by such person, and (j) all Indebtedness referred to in clauses (a) through (h) above secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Liens on property (including accounts and contract rights) owned by such person, even though such person has not assumed or become liable for the payment of such Indebtedness;

“**IT Assets**” means any and all computers, firmware, middleware, servers, workstations, routers, hubs, switches, data communications lines, and all other information technology equipment and systems, and all associated documentation;

“**I-Wave**” means I-Wave Wireless Limited (愛威無線有限公司), a company incorporated in Hong Kong on 29 June 2012;

“Intellectual Property Rights” means any and all intellectual property rights or similar proprietary rights throughout the world, including (i) inventions, whether or not patentable, reduced to practice or made the subject of one or more pending patent applications, (ii) national and multinational statutory invention registrations, patents and patent applications (including all reissues, divisions, continuations, continuations-in-part, extensions and reexaminations thereof) registered or applied for in the PRC and all other nations throughout the world, all improvements to the inventions disclosed in each such registration, patent or patent application, (iii) trademarks, service marks, trade dress, logos, domain names, trade names and corporate names (whether or not registered) in the PRC and all other nations throughout the world, including all variations, derivations, combinations, registrations and applications for registration of the foregoing and all goodwill associated therewith, (iv) copyrights (whether or not registered) and registrations and applications for registration thereof in the PRC and all other nations throughout the world, including all derivative works, moral rights, renewals, extensions, reversions or restorations associated with such copyrights, now or hereafter provided by law, regardless of the medium of fixation or means of expression, (v) trade secrets and, whether or not confidential, business information (including pricing and cost information, business and marketing plans and customer and supplier lists) and know-how (including research and development information), (vi) industrial designs (whether or not registered), (vii) databases and data collections, (viii) domain names, (ix) copies and tangible embodiments of any of the foregoing, in whatever form or medium, (x) all rights to obtain and rights to apply for patents, and to register trademarks, copyrights and domain names, (xi) all rights in all of the foregoing provided by all applicable Laws and (xii) all rights to sue or recover and retain damages and costs and attorneys’ fees for past, present and future infringement or misappropriation of any of the foregoing;

“Jiangsu BoDe” means 江蘇博得網絡科技有限公司 (Jiangsu BoDe Websoft Technology Ltd.), a company incorporated in the PRC on 2 August 2012;

“Jiangsu BoWang” means 江蘇博望網絡科技有限公司 (Jiangsu Bowang Websoft Technology Ltd.), a wholly foreign-owned enterprise incorporated in the PRC on 25 June 2012;

“Jinan CloverTek” means 濟南四葉草信息技術有限公司 (Jinan CloverTek Information Technology Limited), a company incorporated under the laws of the PRC on 18 August 2010;

“Keen City” means Keen City Holdings Limited (鷹威控股有限公司), a company incorporated in Hong Kong on 15 September 2011;

“Key Employees” means the list of employees as set out in [Annex J](#);

“Knowledge” including the phrase “to the Knowledge of” any Person, means the knowledge of such Person, after due and reasonable inquiry; with respect to the Company, “Knowledge” means the knowledge of the directors of each Group Company and Key Employees after due and reasonable inquiry;

“Law” means any constitutional provision, statute or other law, rule, regulation, official policy or interpretation of any Governmental or Regulatory Authority;

“Liens” means any security interest, pledge, hypothecation, mortgage, lien (including environmental and Tax liens), violation, charge, lease, license, encumbrance, servient easement, adverse claim, reversion, reverter, preferential arrangement, restrictive covenant, condition or restriction of any kind, including any restriction on the use, voting, transfer, receipt of income or other exercise of any attributes of ownership;

“**Listing Document**” means the listing document prepared in connection with the proposed spin-off and separate listing of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited in the form attached in Annex C hereto;

“**Listing Rules**” means the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;

“**Management Deferred Payment Agreement**” means the agreement to be entered into by and among Parent, the Company and Management Shareholders on or prior to Closing, reflecting the arrangement with respect to Management Shareholders Deferred Payment Amount, the form of which is attached as Annex D;

“**Management Shareholders**” means the list of management shareholders as set out in Schedule A of the Management Deferred Payment Agreement;

“**Material Adverse Effect**” means a material adverse effect on the condition (financial or otherwise), results of operations, business, properties or prospects of the Company and the Subsidiaries taken as a whole, or on the ability of the Company or any of the Subsidiaries to carry out their respective obligations under the Transaction Documents;

“**Mobile Device(s)**” means smartphones, tablet computers and smart televisions in the context of HiMarket; and means smartphones and tablet computers in the other context;

“**NetDragon BVI**” means NetDragon Websoft Inc., a company incorporated in the British Virgin Islands on January 8, 2003, being a wholly-owned subsidiary of NetDragon Cayman;

“**NetDragon Cayman**” means NetDragon Websoft Inc., an exempted company incorporated in the Cayman Islands with limited liability, the securities of which are listed on the Main Board of the Stock Exchange;

“**NetDragon (Fujian)**” means Fujian NetDragon Websoft Co., Ltd. (福建網龍計算機網絡信息技術有限公司), formerly known as Fuzhou NetDragon Websoft Co., Ltd. (福州網龍計算機網絡信息技術有限公司), a company established in the PRC with limited liability on 25 May 1999;

“**Order**” means any injunction, judgment, decree, order, ruling, assessment or writ of any Governmental or Regulatory Authority;

“**Ordinary Share**” means ordinary shares of par value of USD0.0001 each in the capital of the Company;

“**Paying Agent**” means such Person to be mutually agreed by Parent and the Company;

“Permitted Liens” means (i) Taxes, assessments and other governmental levies, fees or charges imposed which are not yet due and payable, or which are being contested in good faith and by appropriate proceedings, (ii) mechanics liens and similar liens arising or incurred in the ordinary course of business relating to obligations as to which there is no default on the part of the Company or any of its Subsidiaries or that secure a liquidated amount, that are being contested in good faith, (iii) zoning, building codes and other land use Laws regulating the use or occupancy of such real property or the activities conducted thereon which are imposed by any Governmental or Regulatory Authority having jurisdiction over such real property which are not violated by the current use or occupancy of such real property or the operation of the business thereon, (iv) easements, covenants, conditions, restrictions and other similar matters of record affecting title to such real property which do not or would not materially impair the use or occupancy of such real property in the operation of the business conducted thereon, (v) leases, subleases and licenses (other than capital leases and leases underlying sale and leaseback transactions) between the Company and its Subsidiaries or otherwise granted to third parties in the ordinary course of business by the Company or its Subsidiaries, (vi) Liens imposed by applicable Law, (vii) pledges or deposits to secure obligations under workers’ compensation Laws or similar legislation or to secure public or statutory obligations, (viii) pledges and deposits to secure the performance of bids, trade contracts, leases, surety and appeal bonds, performance bonds and other obligations of a similar nature, in each case in the ordinary course of business, (ix) Liens arising in connection with the Structured Contracts, and (x) any other Liens that have been incurred or suffered in the ordinary course of business and that would not reasonably be expected to have a Company Material Adverse Effect;

“Person” means an individual, corporation, partnership, limited partnership, limited liability company, syndicate, person, trust, association or entity or government, political subdivision, agency or instrumentality of a government;

“Post Conversion Co-sale Agreement” means the Amended and Restated Right of First Refusal and Co-sale Agreement dated March 27, 2013, entered into among the Company, NetDragon BVI, and certain other parties thereto;

“Post Conversion Shareholders’ Agreement” means the Amended and Restated Shareholders’ Agreement dated March 27, 2013, entered into among the Company, Talent Zone, Fuzhou BoYuan, Fujian BoRui, NetDragon BVI, and certain other parties thereto;

“Prestige Plus” means Prestige Plus Holdings Limited (增馨控股有限公司), a business company incorporated under the laws of the British Virgin Islands on September 20, 2011;

“PRC” means the People’s Republic of China, but solely for purposes of this Agreement and the other Transaction Documents, excluding Hong Kong, the Macau Special Administrative Region and the island of Taiwan;

“**Related Party**” means any Affiliate, officer, director, supervisory board member, employee, or holder of any equity security of any Group Company, and any Affiliate or associate of any of the foregoing;

“**Representatives**” means, with respect to any party, such party’s officers, directors, employees, accountants, consultants, financial and legal advisors, agents and other representatives;

“**RMB**” means Renminbi yuan, the lawful currency of the PRC;

“**Series A Preferred Shares**” means the Series A Preferred Shares of par value USD0.0001 each of the Company;

“**Series B Preferred Shares**” means the Series B Preferred Shares of par value USD0.0001 each of the Company;

“**Shanghai BoGu**” means 上海博股信息科技有限公司 (Shanghai BoGu Information Technology Limited), a company incorporated under the laws of the PRC on 28 September 2011;

“**Shareholders**” means the shareholders of the share capital of the Company;

“**Smartphone App(s)**” means application(s) running on Mobile Device(s), and for the purpose of this Agreement, which do not include games designed to run on Mobile Device(s);

“**Social Security Benefits**” means any social insurance, pension insurance benefits, medical insurance benefits, work-related injury insurance benefits, maternity insurance benefits, unemployment insurance benefits and public housing reserve fund benefits or similar benefits, in each case as required by any applicable Law or contractual arrangements;

“**Software**” means any and all software, including computer software, mobile applications, assemblers, applets, compilers, source code, object code, firmware, operating systems and specifications, binary libraries, data, development tools, design tools and user interfaces, in any form or format, however fixed, and all documentation related thereto;

“**Stock Exchange**” means The Stock Exchange of Hong Kong Limited;

“**Structured Contracts**” means (1) the cooperation framework agreement dated 30 May 2011 between Fujian BoRui and Fuzhou BoYuan; (2) the technical consultancy and service agreement dated 30 May 2011 between Fujian BoRui and Fuzhou BoYuan; (3) the equity interest pledge agreement in respect of the equity interest of Fujian BoRui dated 30 May 2011 between Fujian BoRui, Fuzhou BoYuan and NetDragon (Fujian); (4) the agreement for the exclusive right to acquire equity interest and assets of Fujian BoRui between Fujian BoRui, Fuzhou BoYuan and NetDragon (Fujian); and (5) the voting rights proxy agreement in respect of the equity interest of Fujian BoRui dated 30 May 2011) between Fujian BoRui, Fuzhou BoYuan and NetDragon (Fujian);

“Structured Contracts Termination Agreement” means the agreement to terminate the Structured Contracts, the form of which is attached as Annex E;

“Subsidiaries” means the Covered Subsidiaries and the Covered VIEs;

“Talent Zone” means Talent Zone Holdings Limited, a limited liability company incorporated in Hong Kong on 19 February 2010;

“Tax” or **“Taxes”** means (i) any tax, duty, custom, fee, assessment charge, or other levy separately or jointly due or payable to, or levied or imposed by any Governmental or Regulatory Authority, including income, gross receipts, license, wages, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duty, capital, capital gains, shares, capital stock, goods and services, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, sales, use, transfer, transaction, registration, value added, alternative/add-on minimum, estimated or other tax, duty, charge, custom, governmental fee, assessment or other levy of any kind whatsoever, including any interest, penalty, fine or addition thereto, and any interest with respect to such addition or penalty, and (ii) any liability for the payment of any amounts described in (i) above for or to any other Person as a result of being a member of an affiliated, consolidated, combined or unitary group, or as a transferee or successor, by contract, or otherwise, including as a result of an express or implied obligation to indemnify any other Person with respect to the payment of any amounts described in (i) above;

“Tax Asset” means any net operating loss, net capital loss, foreign tax credit, or any other credit or tax attribute that could be carried forward or back to reduce Taxes;

“Tax Return” means any return, statement, report, election, declaration, disclosure, schedule or form relating to Taxes that is filed or required to be filed with any taxing authority;

“Transaction Documents” means, collectively, this Agreement, Plan of Merger, , Equity Interests Transfer Agreements, the Structured Contracts Termination Agreement and the Management Deferred Payment Agreement;

“Third Party” means any Person or group of Persons, other than Parent or the Company or any of their respective affiliates or Representatives; and

“USD” or **“US\$”** means United States dollars, the lawful currency of the United States of America.

(b) The following terms have the meaning set forth in the Sections set forth below:

<u>Defined Term</u>	<u>Location of Definition</u>
Action	3.17(a)
Adverse Recommendation Change	5.04(iii)
Agreement	Preamble
Anti-Money Laundering Law	3.28
Audited Financial Statements	3.09(a)
CICL	Recitals
Closing	1.02
Closing Date	1.02
Closing Payment Amount	2.03(c)
Company	Preamble
Company Board	Recitals
Company Recommendation	3.02(b)
Company Securities	3.06(b)
Company Subsidiary Securities	3.07(j)
Controlling Shareholder Offshore Closing Payment Amount	2.03(c)
Controlling Shareholder Onshore Closing Payment Amount	2.03(c)
Deeds of Undertaking	6.02(n)
Dispute	8.10(a)
dissenter rights	2.02(a)
Dissenting Shareholders	2.02(a)
Dissenting Shares	2.02(a)
Effective Time	1.03
Eligible Shareholders	2.03
Employee Shareholder	2.04(h)
End Date	7.01(b)(i)
Environmental Laws	3.24
Equity Interests Transfer Agreements	6.02(f)
Exchange Fund	2.04(b)
Expenses	8.14
General Shareholders Closing Payment Amount	2.03(a)
HKIAC Rules	8.10(a)
HKFRS	3.09(a)
Lease	3.14
Leased Real Property	3.14
License(s)	3.16
Major Customer	3.30
Major Supplier	3.30
Material Contracts	3.19(a)
Management Shareholders Closing Payment Amount	2.03(b)
Management Shareholders Deferred Payment Amount	2.03(e)
Merger	Recitals
Merger Consideration	2.03

<u>Defined Term</u>	<u>Location of Definition</u>
Merger Sub	Preamble
Parent	Preamble
Parent Nominees	6.02(f)
Per Share Merger Consideration	2.01(a)
Plan of Merger	1.01
Reporting Accountants	3.09(a)
Requisite Company Vote	5.02
Requisite Regulatory Approvals	3.03
Share Certificates	2.04(b)(ii)
Shareholders' Meeting	Recitals
Shares	2.01(a)
Surviving Corporation	1.01
Surviving Corporation Memorandum	Section 1.04
Transactions	Recitals
Unaudited Management Accounts	3.09(b)

(c) *Other Definitional and Interpretative Provisions.* The words “hereof”, “herein” and “hereunder” and words of like import used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. The captions herein are included for convenience of reference only and shall be ignored in the construction or interpretation hereof. References to Articles, Sections, Exhibits and Schedules are to Articles, Sections, Exhibits and Schedules of this Agreement unless otherwise specified. All Exhibits and Schedules annexed hereto or referred to herein are hereby incorporated in and made a part of this Agreement as if set forth in full herein. Any capitalized terms used in any Exhibit or Schedule but not otherwise defined therein, shall have the meaning as defined in this Agreement. Any singular term in this Agreement shall be deemed to include the plural, and any plural term the singular. Whenever the words “include”, “includes” or “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”, whether or not they are in fact followed by those words or words of like import. “Writing”, “written” and comparable terms refer to printing, typing and other means of reproducing words (including electronic media) in a visible form. References to any statute shall be deemed to refer to such statute as amended from time to time and to any rules or regulations promulgated thereunder. References to any agreement or contract are to that agreement or contract as amended, modified or supplemented from time to time in accordance with the terms hereof and thereof; *provided* that with respect to any agreement or contract listed on any schedules hereto, all such amendments, modifications or supplements must also be listed in the appropriate schedule. References to any Person include the successors and permitted assigns of that Person. References from or through any date mean, unless otherwise specified, from and including or through and including, respectively. References to “law”, “laws” or to a particular statute or law shall be deemed also to include any and all applicable Law.

Section 8.04. *Severability*. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law, or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the Transactions is not affected in any manner adverse to any party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the Transactions be consummated as originally contemplated to the fullest extent possible.

Section 8.05. *Entire Agreement; Assignment*. The Transaction Documents (and the agreements referred therein) and all exhibits and schedules thereto constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and undertakings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof. This Agreement shall not be assigned (whether pursuant to a merger, by operation of law or otherwise), except that Parent and Merger Sub may assign all or any of their rights and obligations hereunder to any affiliate of Parent, *provided* that no such assignment shall relieve the assigning party of its obligations hereunder if such assignee does not perform such obligations.

Section 8.06. *Amendment*. This Agreement may be amended by an instrument in writing signed by each of the parties hereto at any time prior to the Effective Time; *provided, however*, that, after the approval of this Agreement and the Transactions by the shareholders of the Company, no amendment may be made that would reduce the amount or change the type of consideration into which each Share shall be converted upon consummation of the Merger or which adversely affects the rights of the Shareholders without the approval of the Shareholders.

Section 8.07. *Waiver*. At any time prior to the Effective Time, any party hereto may (a) extend the time for the performance of any obligation or other act of any other party hereto, (b) waive any inaccuracy in the representations and warranties of any other party contained herein or in any document delivered pursuant hereto and (c) waive compliance with any agreement of any other party or any condition to its own obligations contained herein. Any such extension or waiver shall be valid if set forth in an instrument in writing signed by the party or parties to be bound thereby. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. For the purpose of this Section 8.07, Parent and Merger Sub shall be considered as one party and the Company shall be considered as a separate party.

Section 8.08. *Specific Performance*. The parties hereto agree that irreparable damage would occur in the event that any provision of this Agreement were not performed in accordance with the terms hereof and that each party shall be entitled to specific performance of the terms hereof (including the other parties' obligation to consummate the Transactions, subject in each case to the terms and conditions of this Agreement), including an injunction or injunctions to prevent breaches of this Agreement, in addition to any other remedy at law or equity.

Section 8.09. *Governing Law and Jurisdiction.*

(a) This Agreement shall be construed, performed and enforced in accordance with the Laws of Hong Kong without giving effect to its principles or rules of conflict of laws to the extent such principles or rules would require or permit the application of the Laws of another jurisdiction other than Hong Kong except that the following matters arising out of or relating to this Agreement shall be construed, performed and enforced in accordance with the Laws of the Cayman Islands in respect of which the parties hereto hereby irrevocably submit to the nonexclusive jurisdiction of the courts of the Cayman Islands: the Merger, the vesting of the rights, property, choses in action, business, undertaking, goodwill, benefits, immunities and privileges, contracts, obligations, claims, debts and liabilities of the Merger Sub in the Surviving Corporation, the cancellation of the Shares in consideration of the payment of the Per Share Merger Consideration, the rights provided for in Section 238 of the CICA with respect to any Dissenting Shares, the fiduciary or other duties of the Company Board and the board of directors of Merger Sub, and the internal corporate affairs of the Company and Merger Sub. Save as aforesaid any proceeding (whether in contract, tort, equity or otherwise) arising out of or relating to this Agreement or the transactions contemplated hereby, shall be brought solely and exclusively in the courts of Hong Kong. Each of the parties hereto agrees that a final judgment (subject to any appeals therefrom) in any such proceedings shall be conclusive and may be enforced in other jurisdictions in any manner provided by Law. Each party hereby irrevocably submits to the exclusive jurisdiction of such courts in respect of any such proceedings, and hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any such proceedings in any such courts. Each of the parties hereto hereby irrevocably and unconditionally consents to service of process in the manner provided for notices in Section 8.02.

Section 8.10. *Arbitration.*

(a) Any dispute, controversy or claim (each, a “**Dispute**”) arising out of or relating to this Agreement, or the interpretation, breach, termination, validity or invalidity thereof, shall be exclusively settled by arbitration in Hong Kong under the Hong Kong International Arbitration Centre Administered Arbitration Rules (“**HKIAC Rules**”) in force when the Notice of Arbitration is submitted in accordance with the HKIAC Rules, save for as provided by sub-section (g).

(b) There shall be three (3) arbitrators, of whom one (1) arbitrator shall be appointed by Parent, one (1) arbitrator appointed by the Company, and the third arbitrator shall be appointed by the two arbitrators designated by the parties. If the two arbitrators designated by the parties are unable to agree upon a third arbitrator within thirty (30) days after the first two arbitrators are appointed, the third arbitrator shall be appointed by the Hong Kong Mediation Council of the Hong Kong International Arbitration Centre.

(c) The arbitral proceedings shall be conducted in English. To the extent that the HKIAC Rules are in conflict with the provisions of this Section 8.10, including without limitation, the provisions concerning the appointment of the arbitrators, the provisions of this Section 8.10 shall prevail.

(d) In addition to the authority conferred upon the arbitral tribunal by the HKIAC Rules, the arbitral tribunal shall have the authority to order production of documents in accordance with the International Bar Association Rules on the Taking of Evidence in International Arbitration published by International Bar Association as current on the commencement of the arbitration.

(e) The award of the arbitral tribunal shall be final and binding upon the parties thereto, and the prevailing party may apply to a court of competent jurisdiction for enforcement of such award.

(f) The arbitral tribunal shall decide any Dispute submitted by the parties to the arbitration strictly in accordance with the substantive laws of Hong Kong (without regard to principles of conflict of laws thereunder) and shall not apply any other substantive law.

(g) Any party to the Dispute shall be entitled to seek preliminary injunctive relief, if in its judgment such action is necessary to avoid irreparable harm of damages, from any court with competent jurisdiction over the other party pending the constitution of the arbitral tribunal. Despite of such action, the parties will continue to participate in good faith in the arbitration procedures specified in this Agreement.

(h) During the course of the arbitral tribunal's adjudication of the Dispute, this Agreement shall continue to be performed except with respect to the part in dispute and under adjudication.

Section 8.11. *Headings.* The descriptive headings contained in this Agreement are included for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

Section 8.12. *Counterparts; Effectiveness; Third Party Beneficiaries.* This Agreement may be executed and delivered (including by facsimile transmission) in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. This Agreement shall become effective when each party hereto shall have received a counterpart hereof signed by all of the other parties hereto. Until and unless each party has received a counterpart hereof signed by the other parties hereto, this Agreement shall have no effect and no party shall have any right or obligation hereunder (whether by virtue of any other oral or written agreement or other communication). No provision of this Agreement is intended to confer any rights, benefits, remedies, obligations or liabilities hereunder upon any Person other than the parties hereto and their respective successors and assigns.

Section 8.13. *Disclosure Schedule and Listing Document Reference.*

(a) The parties hereto agree that any reference in a particular section of the Company Disclosure Schedule shall only be deemed to be an exception to (or, as applicable, a disclosure for purposes of) (i) the representations and warranties (or covenants, as applicable) of the Company that are contained in the corresponding section of this Agreement and (ii) any other representations and warranties of such party that is contained in this Agreement or the other Transaction Documents but only if the relevance of that reference as an exception to (or a disclosure for purposes of) such representations and warranties would be readily apparent to a reasonable person who has read that reference and such representations and warranties, without any independent knowledge on the part of the reader regarding the matter(s) so disclosed.

(b) The parties hereto agree that any information contained in any part of the Listing Document shall only be deemed to be an exception to (or a disclosure for purposes of) the Company's representations and warranties if the relevance of that information as an exception to (or a disclosure for purposes of) such representations and warranties would be reasonably apparent to a person who has read that information concurrently with such representations and warranties, without any independent knowledge on the part of the reader regarding the matter(s) so disclosed.

Section 8.14. *Fees and Expenses.* All Taxes and Expenses incurred in connection with the Transaction Documents and the Transactions shall be paid by the party incurring such Taxes and Expenses, whether or not the Transactions are consummated. "**Expenses**", as used in this Agreement, shall include all reasonable out-of-pocket expenses (including, without limitation, all fees and expenses of counsel, accountants, investment bankers, experts, financing sources and consultants to a party hereto and its affiliates) incurred by a party or on its behalf in connection with or related to the authorization, preparation, negotiation, execution and performance of this Agreement, the solicitation of shareholder approvals, the filing of any required notices under applicable Law and all other matters related to the closing of the Transactions.

Section 8.15. *No Legal, Tax or Investment Advice.* The parties hereto understand that nothing in this Agreement or any other materials presented by or on behalf of the Company to any of them in connection with the Transactions constitutes legal, tax or investment advice. The parties hereto have each consulted such legal, tax and investment advisors as they, in their respective sole discretion, have each deemed necessary or appropriate in connection with the Transactions.

[Signature Pages Follow]

IN WITNESS WHEREOF, Parent, Merger Sub and the Company have caused this Agreement to be executed as of the date first written above by their respective officers thereunto duly authorized.

BAIDU (HONG KONG) LIMITED

By: /s/ Li Yanhong

Name: Li Yanhong

Title: Director

By: /s/ Li Mingyuan

Name: Li Mingyuan

Title: Director

By: /s/ Liu Dejian

Name: Liu Dejian

Title: Director

FACILITY AGREEMENT

dated 24th July 2013

in respect of

US\$150,000,000 Unsecured Term Loan Facility

FOR Baidu, Inc.

as Company

and

SUMITOMO MITSUI BANKING CORPORATION

as Lender

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THIS AGREEMENT is dated 24th July 2013 and is made **BETWEEN**:

- (1) **BAIDU, INC.**, a limited liability company incorporated under the laws of the Cayman Islands with registered number 96019 as borrower (the **Company**);
- (2) **SUMITOMO MITSUI BANKING CORPORATION** as lender (the **Lender**); and

IT IS AGREED as follows:

1. INTERPRETATION

1.1 Definitions

In this Agreement:

APLMA means the Asia Pacific Loan Market Association.

Availability Period means the period from and including the date of this Agreement to and including the date falling one month after the date of this Agreement.

Beijing Baidu Netcom means Beijing Baidu Netcom Science Technology Co., Ltd., a limited liability company established under the laws of the PRC.

Break Costs means the amount (if any) which the Lender is entitled to receive under Clause 22.3 (Break Costs).

Business Day means a day (other than a Saturday or a Sunday) on which banks are open for general business in Hong Kong and the PRC and, in relation to any day for the payment of US Dollars, New York City.

Commitment means US\$150,000,000, to the extent not cancelled, transferred or reduced under this Agreement.

Compliance Certificate means a certificate substantially in the form of Schedule 5 (Form of Compliance Certificate) setting out, among other things, calculations of the financial covenants.

Confidentiality Undertaking means a confidentiality undertaking substantially in a recommended form of the APLMA or in any other form agreed between the Company and the Lender.

Consolidated Assets means, at any time, the total assets of the Group as shown on the latest consolidated financial statements of the Company delivered to the Lender pursuant to the provisions of this Agreement.

Default means:

- (a) an Event of Default; or
- (b) an event or circumstance specified in Clause 19 (Default) which would be (with the expiry of a grace period, the giving of notice or the making of any determination under the Finance Documents or any combination of them) an Event of Default.

Disposal Threshold means, at any time, an amount equal to 30% of the Consolidated Assets.

Disruption Event means:

- (a) a material disruption to the payment or communications systems or to the financial markets which are required to operate in order for payments to be made (or other transactions to be carried out) in connection with the transactions contemplated by the Finance Documents, which is not caused by, and is beyond the control of, any of the Parties; or
- (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 it, or any other Party from:
 - (i) performing its payment obligations under the Finance Documents; or
 - (ii) communicating with other Parties under the Finance Documents,and which is not caused by, and is beyond the control of, the Party whose operations are disrupted.

Dollar, US\$ or US Dollar means the lawful currency for the time being of the United States of America.

Event of Default means an event or circumstance specified as such in Clause 19 (Default).

Existing Facility means the term loan facility borrowed by the Company pursuant to a credit agreement dated 14 July 2011 (as amended by an amendment request dated 5 November 2012, and as further amended, restated and/or supplemented from time to time) between the Company, Goldman Sachs (Asia) L.L.C. as arranger, Goldman Sachs Lending Partners LLC as original lender and The Bank of New York Mellon, Hong Kong Branch as facility agent.

Facility means the credit facility made available under this Agreement.

Facility Office means the office notified by the Lender to the Company through which the Lender will perform its obligations under this Agreement.

Final Maturity Date means the date falling on the second anniversary of the date of this Agreement.

Finance Document means:

- (a) this Agreement;
- (b) a Transfer Certificate; or
- (c) any other document designated as such by the Lender and the Company.

Financial Indebtedness means any indebtedness for or in respect of:

- (a) moneys borrowed;
- (b) any acceptance credit (including any dematerialised equivalent);
- (c) any bond, note, debenture, loan stock or other similar instrument;
- (d) any redeemable preference share;

- (e) any agreement treated as a finance or capital lease in accordance with GAAP;
- (f) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis);
- (g) the acquisition cost of any asset or service to the extent payable before or after its acquisition or possession by the party liable where the advance or deferred payment:
 - (i) is arranged primarily as a method of raising finance or of financing the acquisition of that asset or service or the construction of that asset or service; or
 - (ii) involves a period of more than six months before or after the date of acquisition or supply;
- (h) any derivative transaction protecting against or benefiting from fluctuations in any rate or price (and, except for non-payment of an amount, the then mark-to-market value of the derivative transaction will be used to calculate its amount);
- (i) any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing;
- (j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or any other instrument issued by a bank or financial institution; or
- (k) any guarantee, indemnity or similar assurance against financial loss of any person in respect of any item referred to in the above paragraphs, in each case, for the avoidance of doubt, excluding any indebtedness arising in the ordinary course of trading.

GAAP means generally accepted accounting principles in the United States of America.

Group means the Company and its Subsidiaries.

HKD mean the lawful currency of Hong Kong.

Holding Company of any other person, means a person in respect of which that other person is a Subsidiary.

Increased Cost means:

- (a) an additional or increased cost;
- (b) a reduction in the rate of return from a Facility or on the Lender's (or its Affiliate's) overall capital; or
- (c) a reduction of an amount due and payable under any Finance Document,

which is incurred or suffered by the Lender or any of its Affiliates but only to the extent attributable to the Lender having entered into any Finance Document or funding or performing its obligations under any Finance Document.

LIBOR means for a Term of the Loan or overdue amount:

- (a) the applicable Screen Rate; or
- (b) if no Screen Rate is available for the relevant currency or Term of the Loan or overdue amount, the rate quoted by the Lender to leading banks in the London interbank market,

as at 11.00 a.m. (London time) on the Rate Fixing Day for the offering of deposits in the currency of the Loan or overdue amount for a period comparable to that Term.

Loan means, unless otherwise stated in this Agreement, the principal amount of the borrowing under this Agreement or the principal amount outstanding of that borrowing.

London Business Day means a day (other than a Saturday or a Sunday) on which banks are open for general business in London.

Mandatory Prepayment Request has the meaning given to it in Clause 7.2(a) (Mandatory prepayment – disposals).

Margin means 0.65 per cent. per annum.

Material Adverse Effect means a material adverse effect on:

- (a) the business or financial condition of the Group as a whole;
- (b) the ability of the Company to perform its payment obligation or any other material obligation under any Finance Document (which, for the avoidance of doubt, includes but is not limited to its obligation under Clause 17 (Financial covenants) below); or
- (c) the validity or enforceability of any Finance Document.

NASDAQ means the NASDAQ Stock Market in the United States.

Original Financial Statements means the audited consolidated financial statements of the Company for the year ended 31 December 2012.

PRC means the People's Republic of China, but excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan.

Party means a party to this Agreement.

Permitted Transaction means:

- (a) an intra-Group re-organisation on a solvent basis and (if the Company is involved in such re-organisation) where the Company remains a surviving entity; or
- (b) any other transactions agreed by the Lender.

Quasi-Security Interest has the meaning given to it in Clause 18.5(a) (Negative pledge).

Rate Fixing Day means the second London Business Day before the first day of a Term or such other day as the Lender determines is generally treated as the rate fixing day by market practice in the relevant interbank market.

Repeating Representations means the representations and warranties set out in Clauses 15.2 (Status) to 15.11 (OFAC) (inclusive).

Request means a request for the Loan, substantially in the form of Schedule 2 (Form of Request).

Restricted Group means the Company and its Restricted Subsidiaries.

Restricted Subsidiary means, at any time, a Subsidiary of the Company if the gross Tangible Assets or turnover of that Subsidiary then equal to or exceed 10 per cent. of the gross Tangible Assets or turnover of the Group provided that in no circumstances shall Beijing Baidu Netcom be or become a Restricted Subsidiary.

For this purpose :

- (a) subject to paragraph (b) below:
 - (i) the contribution of a Subsidiary of the Company will be determined from its financial statements which were consolidated into the latest audited consolidated financial statements of the Company; and
 - (ii) the financial condition of the Group will be determined from the latest audited consolidated financial statements of the Company;
- (b) if a Subsidiary of the Company becomes a member of the Group after the date on which the latest audited consolidated financial statements of the Company were prepared:
 - (i) the contribution of the Subsidiary will be determined from its latest financial statements; and
 - (ii) the financial condition of the Group will be determined from the latest audited consolidated financial statements of the Company but adjusted to take into account any subsequent acquisition or disposal of a business or a company (including that Subsidiary);
- (c) the contribution of a Subsidiary will, if it has Subsidiaries, be determined from its consolidated financial statements;
- (d) if a Restricted Subsidiary disposes of all or substantially all of its assets to another member of the Group, it will immediately cease to be a Restricted Subsidiary and the other member of the Group (if it is not the Company or already a Restricted Subsidiary) will immediately become a Restricted Subsidiary;
- (e) a Subsidiary of the Company (if it is not already a Restricted Subsidiary) will become a Restricted Subsidiary on completion of any other intra-Group transfer or reorganisation if it would have been a Restricted Subsidiary had the intra-Group transfer or reorganisation occurred on the date of the latest audited consolidated financial statements of the Company; and
- (f) except as specifically mentioned in paragraph (d) above, a member of the Group will remain a Restricted Subsidiary until the next audited consolidated financial statements of the Company show otherwise under paragraph (a) above.

If there is a dispute as to whether or not a member of the Group is a Restricted Subsidiary, a certificate of the auditors of the Company will be, in the absence of manifest error, conclusive.

RMB means the lawful currency for the timing being of the PRC.

Screen Rate means the British Bankers Association Interest Settlement Rate for the relevant currency and Term, displayed on the appropriate page of the Reuters screen selected by the Lender. If the relevant page is replaced or the service ceases to be available, the Lender (after consultation with the Company) may specify another page or service displaying the appropriate rate.

Security Interest means any mortgage, pledge, lien, charge or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

Subsidiary means an entity of which a person has direct or indirect control or owns directly or indirectly more than 50 per cent. of the voting capital or similar right of ownership and **control** for this purpose means the power to direct the management and the policies of the entity whether through the ownership of voting capital, by contract or otherwise.

Tangible Assets of a person means its total assets, less:

- (a) its net intangible assets; and
- (b) goodwill.

Tax means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest).

Tax Deduction means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

Tax Payment means a payment made by the Company to the Lender in any way relating to a Tax Deduction or under any indemnity given by the Company in respect of Tax under any Finance Document.

Term means each period determined under this Agreement by reference to which interest on the Loan or an overdue amount is calculated.

Transaction Costs means, in respect of a disposal, all Taxes and reasonable costs and expenses incurred by any member of the Group in connection with such disposal.

Transfer Certificate means a certificate, substantially in the form of Schedule 3 (Form of Transfer Certificate), with such amendments as the Lender may approve or reasonably require or any other form agreed between the Lender and the Company.

Utilisation Date means the date on which the Facility is utilised.

1.2 Construction

- (a) In this Agreement, unless the contrary intention appears, a reference to:
- (i) an amendment includes a supplement, novation, extension (whether of maturity or otherwise), restatement, re-enactment or replacement (however fundamental and whether or not more onerous) and amended will be construed accordingly;
 - (ii) assets includes present and future properties, revenues and rights of every description;
 - (iii) an authorisation includes an authorisation, consent, approval, resolution, permit, licence, exemption, filing, registration or notarisation;
 - (iv) disposal means a sale, transfer, assignment, grant, lease, licence, declaration of trust or other disposal, whether voluntary or involuntary, and dispose will be construed accordingly (for the avoidance of doubt, the meaning of disposal does not include issue of new shares by a member of the Group);
 - (v) indebtedness includes any obligation (whether incurred as principal or as surety and whether present or future, actual or contingent) for the payment or repayment of money;
 - (vi) customer due diligence requirements are to the identification checks that the Lender requests in order to meet its obligations under any applicable law or regulation to identify a person who is (or is to become) its customer;
 - (vii) a person includes any individual, company, corporation, unincorporated association or body (including a partnership, trust, fund, joint venture or consortium), government, state, agency, organisation 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 but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, inter-governmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
 - (ix) a currency is a reference to the lawful currency for the time being of the relevant country;
 - (x) a Default or an Event of Default being outstanding means that it has not been remedied or waived;
 - (xi) a provision of law is a reference to that provision as extended, applied, amended or re-enacted and includes any subordinate legislation;
 - (xii) a Clause, a Subclause or a Schedule is a reference to a clause or subclause of, or a schedule to, this Agreement;
 - (xiii) a Party or any other person includes its successors in title, permitted assigns and permitted transferees;
 - (xiv) a Finance Document or other document or security includes (without prejudice to any prohibition on amendments) any amendment to that Finance Document or other document or security, including any change in the purpose of, any extension for or any increase in the amount of a facility or any additional facility; and
 - (xv) a time of day is a reference to Hong Kong time.

- (b) Unless the contrary intention appears, a reference to a **month** or **months** is a reference to a period starting on one day in a calendar month and ending on the numerically corresponding day in the next calendar month or the calendar month in which it is to end, except that:
 - (i) if the numerically corresponding day is not a Business Day, the period will end on the next Business Day in that month (if there is one) or the preceding Business Day (if there is not);
 - (ii) if there is no numerically corresponding day in that month, that period will end on the last Business Day in that month; and
 - (iii) notwithstanding subparagraph (i) above, a period which commences on the last Business Day of a month will end on the last Business Day in the next month or the calendar month in which it is to end, as appropriate.
- (c) Unless the contrary intention appears:
 - (i) a reference to a Party will not include that Party if it has ceased to be a Party under this Agreement;
 - (ii) a word or expression used in any other Finance Document or in any notice given in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement; and
 - (iii) any obligation of the Company under the Finance Documents which is not a payment obligation remains in force for so long as any payment obligation of the Company is, may be or is capable of becoming outstanding under the Finance Documents.
- (d) The headings in this Agreement do not affect its interpretation.

2. FACILITY

2.1 Amount

Subject to the terms of this Agreement, the Lender makes available to the Company a US\$ term loan facility in an amount equal to the Commitment in one lump sum.

3. PURPOSE

3.1 Loan

The Loan may only be used for:

- (a) refinancing the Existing Facility; and
- (b) general working capital requirements of the Group.

3.2 No obligation to monitor

The Lender is not bound to monitor or verify the utilisation of the Facility.

4. CONDITIONS PRECEDENT

4.1 Conditions precedent documents

- (a) A Request may not be given until the Lender has notified the Company that it has received (or waived receipt of) all of the documents and evidence set out in Part 1 (Conditions precedent) of Schedule 1 (Conditions precedent documents) in form and substance satisfactory to the Lender.
- (b) The Lender shall give this confirmation to the Company promptly upon being so satisfied.

4.2 Further conditions precedent

The obligations of the Lender to participate in the Loan are subject to the further conditions precedent that on both the date of the Request and the Utilisation Date for the Loan:

- (a) the Repeating Representations are correct in all material respects; and
- (b) no Default is outstanding or would result from the Loan.

5. UTILISATION – LOAN

5.1 Giving of Requests

- (a) The Company may borrow the Loan by giving to the Lender a duly completed Request.
- (b) Unless the Lender otherwise agrees, the latest time for receipt by the Lender of a duly completed Request is 11.00 a.m. one (1) Business Day before the Rate Fixing Date for the proposed borrowing.
- (c) Only one Request may be given under this Agreement. Only one Loan may be requested in the Request. The Request, once given, is irrevocable.

5.2 Completion of Requests

A Request for the Loan will not be regarded as having been duly completed unless:

- (a) the Utilisation Date is a Business Day falling within the Availability Period;
- (b) the amount of the Loan requested is:
 - (i) the amount of the Commitment; or
 - (ii) such other amount as the Lender may agree;
- (c) the proposed Term complies with this Agreement; and
- (d) the currency specified in the Request is US Dollars.

5.3 Availability of Loan

If the conditions set out in Clause 4 (Conditions Precedent), Clause 5.1 (Giving of Requests) and Clause 5.2 (Completion of Requests) have been met, the Lender shall make the Loan available to the Company directly from the Lender's Facility Office on the Utilisation Date.

6. REPAYMENT

The Company must repay the Loan in full on the Final Maturity Date.

7. PREPAYMENT AND CANCELLATION

7.1 Mandatory prepayment – illegality

- (a) The Lender must notify the Company promptly if it becomes aware that it is unlawful in any applicable jurisdiction for the Lender to perform any of its obligations under a Finance Document.
- (b) After notification under paragraph (a) above the Lender must notify the Company promptly that:
 - (i) the Company must repay or prepay the Loan on the date specified in paragraph (c) below; and
 - (ii) the Commitment of the Lender will be immediately cancelled.
- (c) The date for repayment or prepayment of the Loan will be:
 - (i) the last day of the current Term of the Loan; or
 - (ii) if earlier, the date specified by the Lender in the notification under paragraph (a) above and which must not be earlier than the last day of any applicable grace period allowed by law.

7.2 Mandatory prepayment – disposals

- (a) If a member of the Group (other than Beijing Baidu Netcom):
 - (i) in a single transaction or a series of transactions (whether related or not) sells, leases, transfers or otherwise disposes of any asset by means of any sale, lease, transfer or other disposal save for the ones allowed under sub-paragraphs (b)(ii) to (vi) (inclusive) of Clause 18.6 (Disposals); and
 - (ii) the consideration receivable for that disposal (when aggregated with the consideration receivable for any other sale, lease, transfer or other disposal by a member of the Group excluding those allowed under sub-paragraphs (b)(ii) to (vi) (inclusive) of Clause 18.6 (Disposals) exceeds the Disposal Threshold (such excess amount being the **Excess Amount**),

then the Company must (x) promptly notify the Lender of such a disposal and (y) if within 21 days of such notification, the Lender delivers a written request to the Company (a **Mandatory Prepayment Request**) procure that:

- (A) an amount equal to the Excess Amount less the Transaction Costs for that disposal is applied towards prepaying the Loan; and
 - (B) an amount equal to the net proceeds of any subsequent sale, lease, transfer or other disposal (other than any allowed under sub-paragraphs (b)(ii) to (vi) (inclusive) of Clause 18.6 (Disposals)) (a **Subsequent Disposal**) is applied towards prepaying the Loan.
- (b) The Company must promptly notify the Lender of any Subsequent Disposal.
 - (c) Any prepayment under this Clause 7.2 must be made within 45 days of the date of the relevant Mandatory Prepayment Request.

7.3 Voluntary prepayment

- (a) The Company may, by giving not less than three Business Days' prior notice to the Lender prepay the Loan in whole or in part on or at any time after (i) the first anniversary of the Utilisation Date; or (ii) the date on which a Market Disruption Event occurs.
- (b) A prepayment of part of the Loan must be in a minimum amount of US\$50,000,000 and an integral multiple of US\$10,000,000.

7.4 Automatic cancellation

Any part of the Commitment of the Lender which, at that time, is unutilised will be automatically cancelled at the close of business on the last day of the Availability Period and shall not be available for utilisation thereafter.

7.5 Right of repayment and cancellation of a single Lender

- (a) If the Company is, or will be, required to pay to the Lender:
 - (i) a Tax Payment; or
 - (ii) an Increased Cost,

the Company may, while the requirement continues, give notice to the Lender requesting prepayment and cancellation in respect of the Lender.

- (b) After notification under paragraph (a) above:
 - (i) the Company must repay or prepay the Loan on the date specified in paragraph (c) below; and
 - (ii) the Commitment of the Lender will be immediately cancelled.
- (c) The date for repayment or prepayment of the Loan will be:
 - (i) the last day of the current Term for the Loan ; or
 - (ii) if earlier, the date specified by the Company in its notification.

7.6 Partial prepayment of the Loan

No amount of the Loan prepaid under this Agreement may subsequently be re-borrowed.

7.7 Miscellaneous provisions

- (a) Any notice of prepayment and/or cancellation under this Agreement is irrevocable and must specify the date or dates upon which the relevant prepayment is to be made and the amount of that prepayment.
- (b) All prepayments under this Agreement must be made with accrued interest on the amount prepaid. No premium or penalty is payable in respect of any prepayment except for Break Costs.
- (c) The Lender may agree a shorter notice period for a voluntary prepayment.
- (d) No prepayment or cancellation is allowed except in accordance with the express terms of this Agreement.
- (e) No amount of the Commitment cancelled under this Agreement may subsequently be reinstated.

8. INTEREST

8.1 Calculation of interest

The rate of interest on the Loan for each Term is the percentage rate per annum equal to the aggregate of the applicable:

- (a) Margin; and
- (b) LIBOR.

8.2 Payment of interest

Except where it is provided to the contrary in this Agreement, the Company must pay accrued interest on the Loan made to it on the last day of each Term and also, if the Term is longer than three months, on the dates falling at three-monthly intervals after the first day of that Term.

8.3 Interest on overdue amounts

- (a) If the Company fails to pay any amount payable by it under the Finance Documents, it must immediately on demand by the Lender pay interest on the overdue amount from its due date up to the date of actual payment, both before, on and after judgment.
- (b) Interest on an overdue amount is payable at a rate determined by the Lender to be one per cent. per annum above the rate which would have been payable if the overdue amount had, during the period of non-payment, constituted the Loan in the currency of the overdue amount. For this purpose, the Lender may:
 - (i) select successive Terms of any duration of up to three months; and
 - (ii) determine the appropriate Rate Fixing Day for that Term.

- (c) Notwithstanding paragraph (b) above, if the overdue amount is a principal amount of the Loan and becomes due and payable before the last day of its current Term, then:
- (i) the first Term for that overdue amount will be the unexpired portion of that Term; and
 - (ii) the rate of interest on the overdue amount for that first Term will be one per cent. per annum above the rate then payable on the Loan.
- After the expiry of the first Term for that overdue amount, the rate on the overdue amount will be calculated in accordance with paragraph (b) above.
- (d) Interest (if unpaid) on an overdue amount will be compounded with that overdue amount at the end of each of its Terms but will remain immediately due and payable.

8.4 Notification of rates of interest

The Lender must promptly notify the Company of the determination of a rate of interest under this Agreement.

9. TERMS

9.1 Selection

- (a) The Loan has successive Terms. Each Term for the Loan will start on the Utilisation Date or on the expiry of its preceding Term.
- (b) Subject to the provisions of this Clause 9, each Term for the Loan shall be three months or any other period agreed by the Company and the Lender. If the length of a Term is not determined in accordance with this Clause 9, the Company shall be deemed to have selected a duration of three months for such Term.

9.2 No overrunning the Final Maturity Date

If a Term would otherwise overrun the Final Maturity Date, it will be shortened so that it ends on the Final Maturity Date.

9.3 Other adjustments

The Lender and the Company may enter into such other arrangements as they may agree for the adjustment of Terms and the consolidation and/or splitting of the Loan, but no Term in excess of six months may be agreed by the Lender.

9.4 Notification

The Lender must notify the Company of the duration of each Term promptly after ascertaining its duration.

10. MARKET DISRUPTION

10.1 Market disruption

- (a) In this Clause, each of the following events is a market disruption event:
 - (i) at or about 12:00 noon (London time) on the Rate Fixing Day for the relevant Term, the Screen Rate is not available or the Screen Rate is zero or negative and the Lender is unable to obtain a quotation to determine LIBOR for the relevant Term; or
 - (ii) by close of business on the Rate Fixing Day, the Company receives a notification from the Lender that the cost to it of funding the Loan from whatever source it may reasonably select would be in excess of LIBOR for the relevant Term.

- (b) The Lender must promptly notify the Company of a market disruption event.
- (c) Subject to any alternative basis agreed and consented to by the Company and the Lender as contemplated by Clause 10.2 (Alternative basis of interest or funding), after notification under paragraph (b) above, the rate of interest on the Loan for the relevant Term will be the aggregate of the applicable:
 - (i) Margin; and
 - (ii) the rate which expresses as a percentage rate per annum the cost to the Lender from whatever source it may reasonably select.

10.2 Alternative basis of interest or funding

If a market disruption event occurs and the Lender or the Company so requires, the Company and the Lender must enter into negotiations for a period of not more than 30 days with a view to agreeing an alternative basis for determining the rate of interest and/or funding for the affected Loan.

11. TAXES

11.1 General

In this Clause 11:

Tax Credit means a credit against any Tax or any relief or remission for Tax (or its repayment).

VAT means consumption tax, sales tax, value added tax or any other Tax of a similar nature which is imposed in any jurisdiction from time to time.

11.2 Tax gross-up

- (a) The Company must make all payments to be made by it under the Finance Documents without any Tax Deduction, unless a Tax Deduction is required by law.
- (b) If the Company is aware that the Company must make a Tax Deduction (or that there is a change in the rate or the basis of a Tax Deduction), it must promptly notify the Lender.
- (c) If a Tax Deduction is required by law to be made by the Company or the Lender, the amount of the payment due from the Company will be increased to an amount which (after making the Tax Deduction) leaves an amount equal to the payment which would have been due if no Tax Deduction had been required.
- (d) If the Company is required to make a Tax Deduction, it must make the minimum Tax Deduction allowed by law and must make any payment required in connection with that Tax Deduction within the time allowed by law.
- (e) Within 30 days of making either a Tax Deduction or a payment required in connection with a Tax Deduction, the Company must deliver to the Lender evidence satisfactory to the Lender (acting reasonably) that the Tax Deduction has been made or (as applicable) the appropriate payment has been paid to the relevant taxing authority.

11.3 Tax indemnity

- (a) Except as provided below, the Company must indemnify the Lender against any loss or liability or cost which the Lender determines will be or has been suffered (directly or indirectly) by the Lender for or on account of Tax in relation to a payment received or receivable (or any payment deemed to be received or receivable) under a Finance Document.
- (b) Paragraph (a) above does not apply with respect to any Tax assessed on the Lender under the laws of the jurisdiction in which:
 - (i) the Lender is incorporated or, if different, the jurisdiction (or jurisdictions) in which that Lender is treated as resident for tax purposes; or
 - (ii) the Lender's Facility Office is located in respect of amounts received or receivable in that jurisdiction,if that Tax is imposed on or calculated by reference to the net income received or receivable by the Lender. However, any payment deemed to be received or receivable, including any amount treated as income but not actually received by the Lender, such as a Tax Deduction, will not be treated as net income received or receivable for this purpose.
- (c) Paragraph (a) above does not apply to the extent a loss, liability or cost:
 - (i) is compensated for by an increased payment under Clause 11.2 (Tax gross-up); or
 - (ii) would have been compensated for by an increased payment under Clause 11.2 (Tax gross-up) but was not compensated solely because one of the exclusions in that Clause applied.
- (d) If the Lender makes or intends to make a claim under paragraph (a) above it must promptly notify the Company of the event which will give, or has given, rise to the claim.

11.4 Tax Credit

If the Company makes a Tax Payment and the Lender determines that:

- (a) a Tax Credit is attributable either to an increased payment of which that Tax Payment forms part, or to that Tax Payment; and
- (b) it has obtained, used and retained that Tax Credit,

the Lender must pay an amount to the Company which the Lender determines will leave it (after that payment) in the same after-Tax position as it would have been if the Tax Payment had not been required to be made by the Company.

11.5 Stamp taxes

The Company must pay and indemnify the Lender against any cost, loss or liability the Lender incurs in relation to all stamp duty, stamp duty land tax, registration or other similar Tax payable in connection with the entry into, performance or enforcement of the Lender, except for any such Tax payable in connection with the entry into of a Transfer Certificate.

11.6 Value added taxes

- (a) All amounts set out, or expressed to be payable under a Finance Document by the Lender which (in whole or in part) constitute the consideration for any supply for VAT purposes are deemed to be exclusive of any VAT which is or becomes chargeable on that supply, and accordingly, subject to paragraph (b) below, if VAT is chargeable on any supply made by the Lender to the Company under a Finance Document and the Lender is required to account for the VAT, the Company must pay to the Lender (in addition to and at the same time as paying the consideration for such supply) an amount equal to the amount of the VAT and the Lender shall promptly provide an appropriate VAT invoice to the Company.
- (b) Where a Finance Document requires any Party to reimburse or indemnify the Lender for any costs or expenses, that Party must also at the same time reimburse and indemnify (as the case may be) the Lender against all VAT incurred by the Lender in respect of those costs or expenses but only to the extent that the Lender (acting reasonably) determines that it is not entitled to credit or repayment from the relevant tax authority in respect of the VAT.
- (c) If VAT is chargeable on any supply made by the Lender to any Party under a Finance Document and if reasonably requested by the Lender, that Party must promptly give the Lender details of its VAT registration number (if applicable) and any other information as is reasonably requested in connection with the Lender's reporting requirements for the supply.

12. INCREASED COSTS

12.1 Increased Costs

Except as provided below in this Clause 12, the Company must pay to the Lender the amount of any Increased Cost incurred by the Lender or any of its Affiliates as a result of:

- (a) the introduction of, or any change in, or any change in the interpretation, administration or application of, any law or regulation; or
- (b) compliance with any law or regulation made after the date of this Agreement.

12.2 Exceptions

The Company need not make any payment for an Increased Cost to the extent that the Increased Cost is:

- (a) compensated for under another Clause or would have been but for an exception to that Clause;
- (b) attributable to the implementation of, or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 (Basel II) or any similar or related law or regulation which implements Basel II; or
- (c) attributable to the Lender or any Affiliate of the Lender wilfully failing to comply with any law or regulation.

12.3 Claims

- (a) If the Lender intends to make a claim for an Increased Cost it must notify the Company of the circumstances giving rise to and the amount of the claim.
- (b) The Lender must, as soon as practicable after making a demand, provide a certificate confirming the amount of its Increased Cost.

13. MITIGATION

13.1 Mitigation

- (a) The Lender must, in consultation with the Company, take all reasonable steps to mitigate any circumstances which arise and which result or would result in:
 - (i) any Tax Payment or Increased Cost being payable to the Lender;
 - (ii) the Lender being able to exercise any right of prepayment and/or cancellation under this Agreement by reason of any illegality; or
 - (iii) the Lender incurring any cost of complying with the minimum reserve requirements of the European Central Bank, including transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.
- (b) Paragraph (a) above does not in any way limit the obligations of the Company under the Finance Documents.
- (c) The Company must indemnify the Lender for all costs and expenses reasonably incurred by the Lender as a result of any step taken by it under this Subclause.
- (d) The Lender is not obliged to take any step under this Subclause if, in the opinion of the Lender (acting reasonably), to do so might be prejudicial to it.

13.2 Conduct of business by the Lender

No term of any Finance Document 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 in respect of Tax or the extent, order and manner of any claim; or
- (c) oblige the Lender to disclose any information relating to its affairs (Tax or otherwise) or any computation in respect of Tax.

14. PAYMENTS

14.1 Currency

- (a) Unless a Finance Document specifies that payments under it are to be made in a different manner, the currency of each amount payable under the Finance Documents is determined under this Subclause.
- (b) Amounts payable in respect of Taxes, fees, costs and expenses are payable in the currency in which they are incurred.
- (c) Each other amount payable under the Finance Documents is payable in US Dollars.

14.2 No set-off or counterclaim

All payments made by the Company under the Finance Documents must be calculated and made without (and free and clear of any deduction for) set-off or counterclaim.

14.3 Business Days

- (a) If a payment under the Finance Documents is due on a day which is not a Business Day, the due date for that payment will instead be the next Business Day in the same calendar month (if there is one) or the preceding Business Day (if there is not) or whatever day the Lender determines (acting reasonably) is market practice.
- (b) During any extension of the due date for payment of any principal under this Agreement interest is payable on that principal at the rate payable on the original due date.

14.4 Disruption to payment systems

If the Company receives a notification from the Lender that a Disruption Event has occurred or the Company notifies the Lender that a Disruption Event has occurred, the Lender may, and must if requested by the Company, enter into discussions with the Company for a period of not more than five days with a view to agreeing any changes to the operation or administration of the Facility as the Parties may decide are necessary, provided that the Lender is not obliged to agree to any changes if, in its reasonable opinion, it is not practicable to do so.

15. REPRESENTATIONS AND WARRANTIES

15.1 Representations and warranties

The representations and warranties set out in this Clause 15 are made by the Company to the Lender.

15.2 Status

- (a) It is a limited liability company, duly incorporated and validly existing under the laws of the Cayman Islands.
- (b) It and each of its Subsidiaries has the power to own its assets and carry on its business as it is being conducted.
- (c) It is acting as principal on its account and not as agent or trustee in any capacity on behalf of any party in relation to this Agreement.

15.3 Powers and authority

It has the power to enter into and perform, and has taken all necessary action to authorise the entry into and performance of, the Finance Documents to which it is or will be a party and the transactions contemplated by those Finance Documents.

15.4 Legal validity

- (a) Subject to any general principles of law limiting its obligations and referred to in any legal opinion required under this Agreement, each Finance Document to which it is a party is its legally binding, valid and enforceable obligation.
- (b) Each Finance Document to which it is a party is in the proper form for its enforcement in the jurisdiction of its incorporation.

15.5 Non-conflict

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not conflict with:

- (a) any law or regulation applicable to it;
- (b) its or any of its Subsidiaries' constitutional documents;
- (c) any document which is binding upon it or any of its Subsidiaries or any of its or its Subsidiaries' assets.

15.6 No default

- (a) No Event of Default is outstanding or will result from the entry into of, or the performance of any transaction contemplated by, any Finance Document; and
- (b) No other event or circumstance is outstanding which constitutes a default under any document which is binding on it or any of its Subsidiaries or any of its or its Subsidiaries' assets to an extent or in a manner which has or is reasonably likely to have a Material Adverse Effect.

15.7 Authorisations

All authorisations required to enable it to enter into and perform its obligations under, and for the validity and enforceability of, and the transactions contemplated by, the Finance Documents have been, or will, by the time required, have been obtained or effected (as appropriate) and are, or will, by the time required be, in full force and effect.

15.8 Financial statements

Its audited consolidated financial statements most recently delivered to the Lender (which, at the date of this Agreement, are the Original Financial Statements):

- (a) have been prepared in accordance with GAAP, consistently applied; and
- (b) give a true and fair view of its consolidated financial condition as at the date to which they were drawn up,

except, in each case, as disclosed to the contrary in those financial statements.

15.9 Litigation

No litigation, arbitration or administrative proceedings against any member of the Group has been started or, to its knowledge, threatened, which have or, if adversely determined, are reasonably likely to have a Material Adverse Effect.

15.10 Issued share capital

It has a paid up share capital of not less than HKD1,000,000 or an equivalent amount in any other approved currency.

For the purpose of this Subclause, **approved currency** means a currency which is freely convertible into Hong Kong dollars or a currency approved in writing by the Registrar of Money Lenders appointed under section 4 of the Money Lenders Ordinance (Cap. 163, Laws of Hong Kong) (the **MLO**) for the purpose of paragraph 12 of Part 2 of Schedule 1 to the MLO.

15.11 OFAC

No member of the Group will:

- (a) use (or otherwise make available) the proceeds of the Loan for the purpose of financing directly or indirectly the activities of any person or entity which is currently listed on the Specially Designated Nationals (the **SDN**) List or in a country which is subject to U.S. economic sanctions administered by the U.S. Treasury Department Office of Foreign Assets Control (the **OFAC Sanctions**) to the extent such financing would be prohibited by the OFAC Sanctions if conducted by a person in the United States of America; or
- (b) contribute or otherwise make available the proceeds of the Loan to any person or entity if the relevant member of the Group has actual knowledge that such party intends to use such proceeds for the purpose of financing the activities of any person or entity which is on the SDN List or in a country which is subject to the OFAC Sanctions, to the extent such financing would be prohibited by the OFAC Sanctions if conducted by a person in the United States of America.

15.12 No material adverse change

There has been no material adverse change in its consolidated financial condition since the date to which the Original Financial Statements were drawn up.

15.13 Information

All written, factual information supplied by the Company or on its behalf to the Lender in connection with the Finance Documents (including any information supplied prior to the date of this Agreement) is true and accurate in all material respects as at its date or (if appropriate) as at the date (if any) at which it is stated to be given and the Company has not omitted to supply any information which, if disclosed, might make the information supplied untrue or misleading in any material respect.

15.14 Restricted Group

The following is a complete list of all the members of the Restricted Group as of the date of this Agreement:

- (a) Baidu.com Times Technology (Beijing) Co., Ltd;
- (b) Baidu Online Network Technology (Beijing) Co., Ltd; and
- (c) Baidu (China) Co., Ltd.

15.15 Stamp duties

Except for any registration fees, stamp duty or other similar Tax or charge referred to in any legal opinion required under this Agreement (which will be paid within any applicable time limit), as at the date of this Agreement, no stamp or registration duty or similar Tax or charge is payable in its jurisdiction of incorporation in respect of any Finance Document.

15.16 Security Interest

As at the date of this Agreement, no Security Interest or Quasi-Security Interest exists over the assets of any member of the Restricted Group.

15.17 Times for making representations and warranties

- (a) The representations and warranties set out in this Clause are made by the Company on the date of this Agreement.
- (b) Each Repeating Representation is deemed to be repeated by the Company on the date of the Request and the first day of each Term.
- (c) When a representation and warranty is repeated, it is applied to the circumstances existing at the time of repetition.

16. INFORMATION COVENANTS

16.1 Financial statements

- (a) The Company must supply to the Lender:
 - (i) its audited consolidated financial statements for each of its financial years; and
 - (ii) its interim financial statements for the first half-year of each of its financial years.
- (b) All financial statements must be supplied as soon as they are available and:
 - (i) in the case of the Company's audited consolidated financial statements, within 180 days; and
 - (ii) in the case of the Company's interim financial statements, within 120 days,of the end of the relevant financial period.

16.2 Form of financial statements

- (a) The Company must ensure that each set of financial statements supplied under this Agreement gives (if audited) a true and fair view of, or (if unaudited) fairly represents, its financial condition (consolidated or otherwise) as at the date to which those financial statements were drawn up.
- (b) The Company must notify the Lender of any change to the manner in which its audited consolidated financial statements are prepared.
- (c) If requested by the Lender, the Company must supply to the Lender:
 - (i) a full description of any change notified under paragraph (b) above; and
 - (ii) sufficient information to enable the Lender to make a proper comparison between the financial position shown by the set of financial statements prepared on the changed basis and its most recent audited consolidated financial statements delivered to the Lender under this Agreement.

16.3 Compliance Certificate

- (a) The Company must supply to the Lender a Compliance Certificate with each set of its financial statements sent to the Lender under this Agreement.
- (b) A Compliance Certificate must be signed by two authorised signatories of the Company.

16.4 Information – miscellaneous

- (a) The Company must, subject to paragraph (b) below, supply to the Lender if the Lender so requests:
 - (i) copies of all documents despatched by the Company to its shareholders (or any class of them) or to its creditors generally at the same time as they are despatched;
 - (ii) promptly upon becoming aware of them, details of any litigation, arbitration or administrative proceedings against any member of the Group which are current, threatened or pending and which, if adversely determined, could reasonably be expected to have a Material Adverse Effect;
 - (iii) promptly on request, a list of the then current Restricted Subsidiaries; and
 - (iv) promptly on request, such further information regarding the financial condition, business and operations of any member of the Group as the Lender may reasonably request.
- (b) Nothing in paragraph (a) above shall require the Company to supply any document or information to the Lender if and for so long such disclosure will cause the Company to be in breach of the relevant listing rules of NASDAQ or any mandatory provisions of applicable laws or any confidentiality agreements or undertakings.

16.5 Notification of Default

- (a) The Company must notify the Lender of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- (b) Promptly on request by the Lender, the Company must supply to the Lender a certificate, signed by two of its authorised signatories on its behalf, certifying that no Default is outstanding or, if a Default is outstanding, specifying the Default and the steps, if any, being taken to remedy it.

16.6 Year end

The Company must not change its financial year end except with the prior written consent of the Lender (which consent shall not be unreasonably withheld or delayed).

17. FINANCIAL COVENANTS

17.1 Definitions

In this Clause 17:

Adjusted Consolidated EBITDA means, in relation to a Measurement Period, Consolidated EBITDA for the period adjusted by:

- (a) including the operating profit before interest, tax, depreciation, amortisation and impairment charges (EBITDA) of a member of the Group or attributable to a business or assets acquired during the Measurement Period for that part of the Measurement Period when it was not a member of the Group and/or the business or assets were not owned by a member of the Group; and
- (b) excluding the EBITDA attributable to any member of the Group or to any business or assets sold during that Measurement Period.

Consolidated EBIT means, in relation to a Measurement Period, the aggregate of:

- (a) the consolidated operating profits of the Group (including the results from discontinued operations) before finance costs and tax for that Measurement Period;
- (b) plus or minus the Group's share of the profits or losses of associates for that period (after finance costs and tax) and the Group's share of the profits or losses of any joint ventures;

adjusted by:

- (i) taking no account of any Exceptional Item;
- (ii) taking no account of any unrealised gains or losses on any derivative instrument or other financial instrument (other than any derivative instrument which is accounted for on a hedge accounting basis) which is reported through the income statement;
- (iii) taking no account of any income or charge attributable to a post-employment benefit scheme other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme;
- (iv) taking no account of any expense referable to equity-settled share-based compensation of employees.

Consolidated EBITDA means, in relation to a Measurement Period, Consolidated EBIT for that Measurement Period after adding back any depreciation and amortisation and taking no account of any charge for impairment or any reversal of any previous impairment charge made in the period.

Consolidated Tangible Net Worth means at any time the aggregate of:

- (a) the amount paid up or credited as paid up on the issued share capital of the Company; and
- (b) the net amount standing to the credit (or debit) of the consolidated reserves of the Company,

based on the latest published audited or unaudited consolidated balance sheet of the Company (the **latest balance sheet**) (and in each case, the balance sheet of the Company to be provided by the Company as at 31 December of each year shall always be audited) but adjusted by:

- (i) deducting any dividend or other distribution proposed, declared or made by the Company (except to the extent it has been taken into account in the latest balance sheet);
- (ii) deducting any amount attributable to goodwill or any other intangible asset;
- (iii) deducting any amount attributable to an upward revaluation of assets (other than financial instruments) after 31 December 2012 or, in the case of assets of a company which becomes a member of the Group after that date, the date on which that company becomes a member of the Group;

- (iv) reflecting any variation in the amount of the issued share capital of the Company after the date of the latest balance sheet (and any change in the consolidated reserves of the Group resulting from that variation);
- (v) reflecting any variation in the interest of the Company in any other member of the Group since the date of the latest balance sheet (to be calculated on the assumption that the variation had occurred immediately before the latest balance sheet date); and
- (vi) excluding any amounts debited or credited to deferred tax which relates to the revaluation of any item which is excluded from the calculation.

Consolidated Total Borrowings means, in respect of the Group, at any time, the aggregate of the following liabilities calculated at the nominal, principal or other amount at which the liabilities would be carried in a consolidated balance sheet of the Company drawn up at that time (or in the case of any guarantee, indemnity or similar assurance referred to in paragraph (i) below, the maximum liability under the relevant instrument):

- (a) any moneys borrowed;
- (b) any redeemable preference shares;
- (c) any acceptance under any acceptance credit (including any dematerialised equivalent);
- (d) any bond, note, debenture, loan stock or other similar instrument;
- (e) any indebtedness under a finance or capital lease in accordance with the GAAP;
- (f) any moneys owing in connection with the sale or discounting of receivables (except to the extent that there is no recourse);
- (g) any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset;
- (h) any indebtedness arising in connection with any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing; and
- (i) any indebtedness of any person of a type referred to in the above paragraphs which is the subject of a guarantee, indemnity or similar assurance against financial loss given by a member of the Group,

in each case, for the avoidance of doubt, excluding any indebtedness arising (a) in the ordinary course of trading and (b) between members of the Group.

Exceptional Item means any material item of income or expense that represents:

- (a) any gain or loss arising from:
 - (i) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, and reversals of such write-downs;
 - (ii) restructuring the activities of the Group or any member of the Group and any reversals of any provision for the costs of restructuring;
 - (iii) disposals of items of property, plant or equipment;
 - (iv) disposals of investments; or
 - (v) disposals or settlements of liabilities of any member of the Group that fall within the definition of Consolidated Total Borrowings; or
- (b) any gain of a highly unusual or non-recurring nature; or
- (c) any gain or loss arising from a transaction entered into otherwise than in the carrying on of the normal core business operations of the Group.

Measurement Period means the last four full financial quarters of the Company ending on the date of the latest balance sheet (as defined in **Consolidated Tangible Net Worth** above).

17.2 Interpretation

- (a) Except as provided to the contrary in this Agreement, an accounting term used in this Clause is to be construed in accordance with the principles applied in connection with the Original Financial Statements.
- (b) Any amount in a currency other than US Dollars is to be taken into account at its US Dollar equivalent calculated on the basis of:
 - (i) the Lender's spot rate of exchange for the purchase of the relevant currency in the London foreign exchange market with US Dollars at or about 11.00 a.m. on the day the relevant amount falls to be calculated; or
 - (ii) if the amount is to be calculated on the last day of a financial period of the Company, the relevant rates of exchange used by the Company in, or in connection with, its financial statements for that period.
- (c) No item must be credited or deducted more than once in any calculation under this Clause 17.

17.3 Consolidated Tangible Net Worth

The Company must ensure that Consolidated Tangible Net Worth is not at any time less than RMB 8 billion.

17.4 Gearing

The Company must ensure that Consolidated Total Borrowings do not at any time exceed 100 per cent. of Consolidated Tangible Net Worth at that time.

17.5 Leverage

The Company must ensure that Consolidated Total Borrowings do not, at the end of each Measurement Period, exceed two times of the Adjusted Consolidated EBITDA for that Measurement Period.

18. GENERAL COVENANTS

18.1 General

The Company agrees to be bound by the covenants set out in this Clause 18 relating to it and, where the covenant is expressed to apply to any other member of the Group, the Company must ensure that its relevant Subsidiaries perform that covenant.

18.2 Authorisations

The Company must promptly:

- (a) obtain, maintain and comply with the terms; and
- (b) if requested by the Lender, supply certified copies to the Lender,

of any authorisation required under any law or regulation to enable it to perform its obligations under, or for the validity or enforceability of, any Finance Document.

18.3 Compliance with laws

Each member of the Group must comply in all respects with all laws to which it is subject where failure to do so would have a Material Adverse Effect.

18.4 Pari passu ranking

The Company must ensure that its payment obligations under the Finance Documents at all times rank at least pari passu with all its other present and future unsecured payment obligations, except for obligations mandatorily preferred by law applying to companies generally.

18.5 Negative pledge

- (a) For the purpose of this Subclause, **Quasi-Security Interest** means an arrangement or transaction described in paragraph (c) below.
- (b) Except as provided below, no member of the Restricted Group may create or allow to exist any Security Interest on any of its assets.
- (c) No member of the Restricted Group may:
 - (i) sell, transfer or otherwise dispose of any of its assets on terms where it is or may be leased to or re-acquired or acquired by a member of the Restricted Group;
 - (ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
 - (iii) enter into 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; or
 - (iv) enter into any other preferential arrangement having a similar effect,in circumstances where the transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

- (d) Paragraphs (b) and (c) do not apply to:
- (i) any Security Interest or Quasi-Security Interest comprising a netting, set-off or cash-pooling arrangement entered into by a member of the Restricted Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
 - (ii) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by a member of the Restricted Group but excluding any Security Interest or Quasi-Security Interest under a credit support arrangement;
 - (iii) any lien arising by operation of law and in the ordinary course of business;
 - (iv) any Security Interest or Quasi-Security Interest on an asset, or an asset of any person, acquired by a member of the Restricted Group after the date of this Agreement but only for the period of 6 months from the date of acquisition and to the extent that the principal amount secured by that Security Interest has not been incurred or increased in contemplation of, or since, the acquisition;
 - (v) any Security Interest or Quasi-Security Interest arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to a member of the Restricted Group 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 any member of the Restricted Group;
 - (vi) any Security Interest or Quasi-Security Interest over goods or documents of title arising in the ordinary course of letter of credit transactions entered into in the ordinary course of trade;
 - (vii) any Security Interest or Quasi-Security Interest provided with the prior consent of the Lender; and
 - (viii) any Security Interest or Quasi-Security Interest securing indebtedness the amount of which (when aggregated with the amount of any other indebtedness which has the benefit of a Security Interest not allowed under the preceding sub-paragraphs) does not exceed RMB500,000,000 or its equivalent at any time;

18.6 Disposals

- (a) Except as provided below, no member of the Group (other than Beijing Baidu Netcom) may, either in a single transaction or in a series of transactions and whether related or not, dispose of all or any part of its assets without the prior written consent of the Lender.
- (b) Paragraph (a) above does not apply to any disposal:
- (i) where the consideration receivable of that disposal (when aggregated with the consideration for any other disposal of assets by any member of the Group not allowed under sub-paragraphs (ii) to (vi) below) (A) does not exceed the Disposal Threshold or (B) exceeds the Disposal Threshold but no Mandatory Prepayment Request has been delivered by the Lender to the Company within the applicable time period specified in Clause 7.2(a) (Mandatory prepayment – disposals); or (C) exceeds the Disposal Threshold where the net proceeds of that disposal are applied towards mandatory prepayment of the Loan in accordance with Clause 7.2(a) (Mandatory prepayment – disposals);
 - (ii) made to another member of the Group (other than Beijing Baidu Netcom);
 - (iii) made in the ordinary course of trading of the disposing entity;
 - (iv) of assets in exchange for other assets comparable or superior as to type, value and quality;
 - (v) of obsolete or redundant vehicles, plant or equipment for cash; or
 - (vi) arising as result of a Permitted Transaction.
- (c) Each disposal shall only be permitted under this Subclause if it is made (i) on arm's length commercial terms or (ii) (other than in respect of any disposal permitted under paragraph (b)(ii) above) on more favourable terms to the disposing entity than arms' length commercial terms and at least for fair market value.

18.7 Change of business

The Company must ensure that no substantial change is made to the general nature of the business of the Restricted Group from that carried on at the date of this Agreement.

18.8 Merger

The Company may not enter into any amalgamation, demerger, merger or reconstruction other than a Permitted Transaction.

18.9 Insurance

Each member of the Restricted Group must insure its business and assets with insurance companies to such an extent and against such risks as companies engaged in a similar business normally insure.

18.10 “Know Your Customer” Checks

The Company shall promptly upon the request of the Lender supply, or procure the supply of, such documentation and other evidence as is reasonably requested by the Lender (for itself or on behalf of any prospective assignee or transferee) in order for the Lender or any prospective assignee or transferee to carry out and be satisfied it has complied with all necessary “know your customer” or other similar checks under all applicable laws and regulations.

18.11 Anti-Money Laundering and Counter-Terrorist Financing

The Company shall comply in all respects with all anti-money laundering and counter-terrorist financing laws and regulations (“AML/CTF Laws”) to which it may be subject. The Company shall promptly provide all information to the Lender which the Lender may require in order to manage its money-laundering and terrorist-financing risks or to comply with AML/CTF Laws.

18.12 Anti-Corruption

None of the Company and its directors, and officers, and (to the best of its knowledge) agents, employees and any other persons acting for it or on its behalf (each a "Relevant Person") have:

- (a) violated (and will violate) any applicable anti-bribery or anti-corruption laws;
- (b) offered, paid, promised to pay or authorized the payment of (and will offer, pay, promise to pay or authorize the payment of) any money; or
- (c) offered, given, promised to give or authorized the giving of (and will offer, give, promise to give or authorize the giving of) anything of value to any Government Official ("Government Official" means any officer, employee or any other person acting in an official capacity for any government authority or any political party or any candidate for political office (both individually and collectively)) or to any person,

under circumstances where the Company or the Relevant Person knew or was aware of a high probability that all or a portion of such money or thing of value would be offered, given or promised, directly or indirectly, to any Government Official, in each case for the purpose of:

- a. any unlawful contribution, gift, entertainment or other unlawful expense relating to political activity;
- b. influencing any act or decision of such Government Official in his official capacity (including a decision to fail to perform his official function);
- c. inducing such Government Official to do any act in relation to his lawful duty;
- d. securing any improper advantage;
- e. inducing such Government Official to influence or affect any act or decision of any Government Entity ("Government Entity" means government or any department, agency or instrumentality thereof, including any entity or enterprise owned or controlled by a government, or a public international organisation); or
- f. assisting the Company or the Relevant Person in obtaining or retaining business for or with a Government Entity, or directing business to the Company or the Relevant Person (any such conduct a "Corrupt Activity"),

provided that the Company shall not be in breach of the representation in this Clause 18.12 if, within thirty (30) days of becoming aware of any Corrupt Activity, the Company takes appropriate action to remedy such Corrupt Activity.

18.13 Restrictions on Transactions

The Company agrees that the Lender may delay, block or refuse to process any transaction required by or in connection with this Agreement ("Transaction") without incurring any liability if the Lender has fair reason to suspect that:

- (a) the Transaction may breach any applicable laws or regulations;
- (b) the Transaction involves any person (natural, corporate or governmental) that is itself subject to any applicable sanction imposed by the United Nations or any relevant country or is connected, directly or indirectly, to any person that is subject to such sanction; or
- (c) the Transaction may directly or indirectly involve the proceeds of, or be applied for the purposes of, any unlawful conduct.

18.14 No Immunity

The Company agrees that in any legal action or proceedings against it or its assets in connection with this facility letter, no immunity from such legal action or proceedings shall be claimed by or on behalf of the Company or with respect to its assets, and the Company irrevocably waives any such right of immunity which it or its assets now has/have or may hereafter acquire or which may be attributed to it or its assets and consents generally in respect of any such legal action or proceedings to the giving of any relief or the issue of any process in connection with such action or proceedings including, without limitation, the making, enforcement or execution against any property whatsoever, of any order or judgment which may be made or given in such action or proceedings.

19. DEFAULT

19.1 Events of Default

Each of the events or circumstances set out in this Clause 19 (other than Clause 19.13 (Acceleration)) is an Event of Default.

19.2 Non-payment

The Company does not pay on the due date any amount payable by it under the Finance Documents in the manner required under the Finance Documents, unless the non-payment:

- (a) is caused by technical or administrative error and is remedied within five Business Days of the due date; or
- (b) is caused by a Disruption Event and is remedied within five Business Days of the due date.

19.3 Breach of other obligations

- (a) The Company does not comply with any term of Clause 17 (Financial covenants); or
- (b) the Company does not comply with any term of the Finance Documents (other than any term referred to in Clause 19.2 (Non-payment) or in paragraph (a) above), unless the non-compliance:
 - (i) is capable of remedy; and
 - (ii) is remedied within 20 Business Days of the earlier of the Lender giving notice of the failure to comply to the Company and the Company becoming aware of the non-compliance.

19.4 Misrepresentation

A representation or warranty made or deemed to be repeated by the Company in any Finance Document or in any document delivered by or on behalf of the Company under any Finance Document is incorrect or misleading in any material respect when made or deemed to be repeated, unless the circumstances giving rise to the misrepresentation or breach of warranty:

- (a) are capable of remedy; and
- (b) are remedied within 20 Business Days of the earlier of the Lender giving notice of the misrepresentation or breach of warranty to the Company and the Company becoming aware of the misrepresentation or breach of warranty.

19.5 Cross-default

Any of the following occurs in respect of a member of the Restricted Group:

- (a) any of its Financial Indebtedness is not paid when due (after the expiry of any originally applicable grace period);
- (b) any of its Financial Indebtedness:
 - (i) becomes prematurely due and payable;
 - (ii) is placed on demand; or
 - (iii) is capable of being declared by or on behalf of a creditor to be prematurely due and payable or of being placed on demand,

in each case, as a result of an event of default or any provision having a similar effect (howsoever described); or

- (c) any commitment for its Financial Indebtedness is cancelled or suspended as a result of an event of default or any provision having a similar effect (howsoever described),

unless the aggregate amount of Financial Indebtedness falling within all or any of paragraphs (a) to (c) above is less than US\$50,000,000 or its equivalent.

19.6 Insolvency

Any of the following occurs in respect of a member of the Restricted Group:

- (a) it is, or is deemed for the purposes of any applicable law to be, unable to pay its debts as they fall due or insolvent;
- (b) it admits its inability to pay its debts as they fall due;
- (c) it suspends making payments on its debts generally or announces an intention to do so;
- (d) by reason of actual or anticipated financial difficulties, it begins negotiations with any creditor for the rescheduling or restructuring of any of its indebtedness;
- (e) the value of its assets is less than its liabilities (taking into account contingent and prospective liabilities); or
- (f) any of its indebtedness is subject to a moratorium.

19.7 Insolvency proceedings

- (a) Except as provided below, any of the following occurs in respect of a member of the Restricted Group:
- (i) any corporate action or legal proceedings is taken with a view to the suspension of payments, a moratorium or a composition, assignment or similar arrangement with any of its creditors;
 - (ii) a meeting of its shareholders, directors or other officers resolves to petition for or to file documents with a court or any registrar for, its winding-up, administration or dissolution or any such resolution is passed;
 - (iii) any person presents a petition, or files documents with a court or any registrar, for its winding-up, administration, dissolution or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise);
 - (iv) any Security Interest is enforced over any of its assets having an aggregate value of at least US\$50,000,000;
 - (v) an order for its winding-up, administration or dissolution is made;
 - (vi) any liquidator, trustee in bankruptcy, judicial custodian, compulsory manager, receiver, administrative receiver, administrator or similar officer is appointed in respect of it or any of its assets; or
 - (vii) any analogous step or procedure is taken in any jurisdiction.
- (b) Paragraph (a) above does not apply to:
- (i) any step or procedure which is part of a Permitted Transaction; or
 - (ii) a petition for winding-up, administration or dissolution which is being contested in good faith and with due diligence and is discharged or struck out within 30 days.

19.8 Creditors' process

Any attachment, sequestration, distress, execution or analogous event affects any asset(s) of a member of the Restricted Group, having an aggregate value of at least US\$50,000,000 which is not discharged within 30 days.

19.9 Cessation of business

A member of the Restricted Group ceases, or threatens to cease, to carry on business except:

- (a) as part of a Permitted Transaction; or
- (b) as a result of any disposal allowed under this Agreement.

19.10 De-listing or suspension of shares trading

The shares in the Company cease to be listed on NASDAQ or trading of the shares in the Company has been suspended for more than five (5) consecutive Business Days on which NASDAQ is generally open for trading and such delisting or suspension has a Material Adverse Effect.

19.11 Effectiveness of Finance Documents

- (a) It is or becomes unlawful for the Company to perform any of its obligations under the Finance Documents.
- (b) The Company repudiates a Finance Document or evidences an intention to repudiate a Finance Document.

19.12 Material adverse change

Any event or series of events occurs which, in the opinion of the Lender (acting reasonably), would have a Material Adverse Effect.

19.13 Acceleration

If an Event of Default is outstanding, the Lender may by notice to the Company:

- (a) cancel all or any part of the Commitments; and/or
- (b) declare that all or part of any amounts outstanding under the Finance Documents are:
 - (i) immediately due and payable; and/or
 - (ii) payable on demand by the Lender.

Any notice given under this Subclause will take effect in accordance with its terms.

20. EVIDENCE AND CALCULATIONS

20.1 Accounts

Accounts maintained by the Lender in connection with this Agreement are prima facie evidence of the matters to which they relate for the purpose of any litigation or arbitration proceedings.

20.2 Certificates and determinations

Any certification or determination by the Lender of a rate or amount under the Finance Documents will be, in the absence of manifest error, conclusive evidence of the matters to which it relates.

20.3 Calculations

Any interest or fee accruing under this Agreement accrues from day to day and is calculated on the basis of the actual number of days elapsed and a year of 360 days or in any case where the London interbank market differs, in accordance with that market practice.

21. FEE

The Company shall pay to the Lender a front-end fee in an amount equal to USD 1,350,000.00 (or 0.9 per cent. of USD150,000,000) within fifteen (15) days of the Utilisation Date. The front-end fee shall be non-refundable whether or not any amount is drawn hereunder.

22. INDEMNITIES AND BREAK COSTS

22.1 Currency indemnity

- (a) The Company must, as an independent obligation, indemnify the Lender against any loss or liability which the Lender incurs as a consequence of:
 - (i) the Lender receiving an amount in respect of the Company's liability under the Finance Documents; or
 - (ii) that liability being converted into a claim, proof, judgment or order,in a currency other than the currency in which the amount is expressed to be payable under the relevant Finance Document.
- (b) Unless otherwise required by law, the Company waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency other than that in which it is expressed to be payable.

22.2 Other indemnities

- (a) The Company must indemnify the Lender (and its officers, employees, agents, delegates and nominees) against any fees, expenses (including those of legal counsel), loss or liability which the Lender incurs as a consequence of:
- (i) the occurrence of any Event of Default;
 - (ii) written information produced or approved by the Company being or being alleged to be misleading or deceptive in any respect;
 - (iii) any enquiry, investigation, subpoena (or similar order) or litigation with respect to the Company or with respect to the transactions contemplated or financed under the Finance Documents;
 - (iv) any failure by the Company to pay any amount due under a Finance Document on its due date;
 - (v) (other than by reason of gross negligence or wilful misconduct by the Lender) the Loan not being made after the Request has been delivered for the Loan; or
 - (vi) the Loan (or part of the Loan) not being prepaid in accordance with this Agreement.

The Company's liability in each case includes any loss or expense on account of funds borrowed, contracted for or utilised to fund any amount payable under any Finance Document or the Loan.

- (b) The Company must indemnify the Lender against any loss or liability incurred by the Lender as a result of:
- (i) investigating any event which the Lender believes to be a Default; or
 - (ii) acting or relying on any notice, request or instruction which the Lender believes to be genuine, correct and appropriately authorised.
- (c) The provisions of this Clause 22.2 shall survive the termination of the Finance Documents or the Lender ceasing to be a Party under the Finance Documents.

22.3 Break Costs

- (a) The Company must pay to the Lender its Break Costs if the Loan (or any part of it) or an overdue amount is repaid or prepaid otherwise than on the last day of any Term applicable to it.
- (b) Break Costs are the amount (if any) determined by the Lender by which:
- (i) the interest (excluding the Margin) which the Lender would have received for the period from the date of receipt of any part of its share in the Loan or an overdue amount to the last day of the applicable Term for the Loan or overdue amount if the principal or overdue amount received had been paid on the last day of that Term;
exceeds
 - (ii) the amount which the Lender would be able to obtain by placing an amount equal to the amount received by it on deposit with a leading bank in the appropriate interbank market for a period starting on the Business Day following receipt and ending on the last day of the applicable Term.
- (c) The Lender must supply to the Company details of the amount of any Break Costs claimed by it under this Subclause.

23. EXPENSES

23.1 Initial costs

The Company must pay the Lender the amount of all out-of-pocket costs and expenses reasonably incurred by it up to an agreed level in connection with the negotiation, preparation, or printing the Finance Documents.

23.2 Subsequent costs

The Company must pay to the Lender the amount of all costs and expenses (including reasonable legal fees) reasonably incurred by it in connection with:

- (a) the negotiation, preparation, printing and entry into of any Finance Document (other than a Transfer Certificate) entered into after the date of this Agreement; and
- (b) any amendment, waiver or consent requested by or on behalf of the Company or specifically allowed by a Finance Document.

23.3 Enforcement costs

The Company must pay to the Lender the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

24. AMENDMENTS AND WAIVERS

24.1 Procedure

- (a) Unless otherwise specified in the Finance Documents, any term of the Finance Documents may be amended or waived only with the consent of the Company and the Lender and any such amendment or waiver will be binding on all the Parties.

24.2 Change of currency

If a change in any currency of a country occurs (including where there is more than one currency or currency unit recognised at the same time as the lawful currency of a country), the Finance Documents will be amended to the extent the Lender reasonably determines after consultation with the Company is necessary to reflect the change.

24.3 Waivers and remedies cumulative

The rights of the Lender under the Finance Documents:

- (a) may be exercised as often as necessary;
- (b) are cumulative and not exclusive of its rights under the general law; and
- (c) may be waived only in writing and specifically.

Delay in exercising or non-exercise of any right is not a waiver of that right.

25. CHANGES TO THE PARTIES

25.1 Assignments and transfers by the Company

The Company may not assign or transfer any of its rights and obligations under the Finance Documents without the prior consent of the Lender.

25.2 Assignments and transfers by Lender

Subject to the following provisions of this Clause 25, the Lender (the **Existing Lender**) may at any time:

- (a) assign any of its rights; or
- (b) transfer by way of novation any of its rights or obligations under this Agreement,

to another bank or financial institution (the **New Lender**) without the consent of the Company provided that the Existing Lender has given the Company no less than 15 days prior written notice of such assignment or transfer.

25.3 Other conditions to assignment or transfer

- (a) The Lender is not obliged to enter into a Transfer Certificate or otherwise give effect to an assignment or transfer until it has completed all customer due diligence or any “know your customer” or other checks in relation to any relevant person or other legal requirements to its satisfaction.
- (b) any reference in this Agreement to the Lender includes a New Lender but excludes a Lender if no amount is or may be owed to or by it under this Agreement.

25.4 Procedure for transfer using a Transfer Certificate

- (a) In this Subclause:

Transfer Date means, in relation to a transfer, the later of:

- (i) the proposed Transfer Date specified in that Transfer Certificate; and
- (ii) the date on which the Existing Lender enters into that Transfer Certificate.

- (b) A transfer of rights or obligations using a Transfer Certificate will be effective if:
 - (i) the New Lender delivers to the Existing Lender a duly completed Transfer Certificate; and
 - (ii) the Existing Lender enters into it.
- (c) On the Transfer Date:
 - (i) the New Lender will assume the rights and obligations of the Existing Lender expressed to be the subject of the novation in the Transfer Certificate in substitution for the Existing Lender;
 - (ii) the Existing Lender will be released from those obligations and cease to have those rights; and
 - (iii) the New Lender will become the Lender under this Agreement and be bound by the terms of this Agreement as Lender.
- (d) The Existing Lender shall, subject to subclause 25.4, enter into a Transfer Certificate delivered to it and which appears on its face to be in order as soon as reasonably practicable and, as soon as reasonably practicable after it has entered into a Transfer Certificate, send a copy of that Transfer Certificate to the Company.

25.5 Original consents and waivers

The New Lender shall be bound by any consent, waiver, election or decision given or made by the Existing Lender under or pursuant to any Finance Document prior to the coming into effect of the relevant assignment or transfer to that New Lender.

25.6 Limitation of responsibility of Existing Lender

- (a) Unless expressly agreed to the contrary, the Existing Lender makes no representation or warranty and assumes no responsibility to the New Lender for:
 - (i) the financial condition of the Company; or
 - (ii) the legality, validity, effectiveness, enforceability, adequacy, accuracy, completeness or performance of:
 - (A) any Finance Document or any other document;
 - (B) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document, or
 - (C) any observance by the Company of its obligations under any Finance Document or other document, and any representations or warranties implied by law are excluded.

- (b) The New Lender confirms to the Existing Lender that it:
- (i) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in this Agreement;
 - (ii) has not relied on any information supplied to it by the Existing Lender in connection with any Finance Document;
 - (iii) has conducted its own investigation in connection with the Finance Documents and has not relied upon the Existing Lender to conduct any due diligence investigation on its behalf;
 - (iv) has access to all information that it believes is necessary or appropriate in connection with its participation of this Agreement and it is able to obtain or access business and financial information without undue difficulty;
 - (v) has consulted its own independent advisors or otherwise has satisfied itself concerning, without limitation, the tax, legal, currency and other economic considerations related to its participation in this Agreement, and has only relied on the advice of, or has only consulted with, such independent advisers;
 - (vi) has not relied and will not rely on any investigation or due diligence that the Existing Lender or any of its affiliates or employees or any person acting on behalf of the Existing Lender may have conducted in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets), and none of such persons has made any representation, warranty or recommendation to that New Lender, express or implied, in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) or the accuracy, completeness or adequacy of any information that New Lender obtain from public sources or from the Company in any form (including, without limitation, oral statements, written materials and electronic communications and data of any kind); and
 - (vii) will not hold the Existing Lender, its affiliates or the officers, directors or employees responsible for any misstatements in or omissions from information it obtains from public sources or from the Company in any form (including, without limitation, oral statements, written materials and electronic communications and data of any kind).
- (c) Nothing in any Finance Document requires the Existing Lender to:
- (i) accept a re-transfer from the New Lender of any of the rights and obligations assigned or transferred under this Clause; or
 - (ii) support any losses incurred by the New Lender by reason of the non-performance by the Company of its obligations under any Finance Document or otherwise.

25.7 Costs resulting from change of Lender or Facility Office

If:

- (a) the Lender assigns or transfers any of its rights and 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, the Company would be obliged to pay a Tax Payment or an Increased Cost,

then the Company needs only pay that Tax Payment or Increased Cost to the same extent that it would have been obliged to if no assignment, transfer or change had occurred.

26. DISCLOSURE OF INFORMATION

- (a) The Lender must keep confidential any information supplied to it by or on behalf of the Company in connection with the Finance Documents. However, the Lender is entitled to disclose information:
 - (i) which is publicly available, other than as a result of a breach by the Lender of this Clause;
 - (ii) to the extent required for the purpose of any legal or arbitration proceedings;
 - (iii) to the extent required to be disclosed under any law or regulation;
 - (iv) to a governmental, banking, taxation or other regulatory authority;
 - (v) to its professional advisers or any rating agency (provided that such person is under a duty of confidentiality to the Lender);
 - (vi) to the extent allowed under paragraph (b) below; or
 - (vii) with the agreement of the Company.
- (b) The Lender may disclose to an Affiliate, its head office and any representative or other branches or any person (a third party) with (or through) whom the Lender enters into (or may enter into) any kind of transfer, participation or hedge agreement in relation to this Agreement or any other transaction under which payments are to be made by reference to this Agreement or the Company:
 - (i) a copy of any Finance Document; and
 - (ii) any information which the Lender has acquired under or in connection with any Finance Document.However, before a third party may receive any confidential information, it must have entered into a Confidentiality Undertaking.
- (c) This Clause 26 supersedes any previous confidentiality undertaking given by the Lender in connection with this Agreement prior to it becoming a Party.

27. SET-OFF

The Lender may, for so long as an Event of Default is outstanding, set off any matured obligation owed to it by the Company 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 Company, 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.

28. SEVERABILITY

If a term of a Finance Document is or becomes illegal, invalid or unenforceable in any respect under any jurisdiction, that will not affect:

- (a) the legality, validity or enforceability in that jurisdiction of any other term of the Finance Documents; or
- (b) the legality, validity or enforceability in other jurisdictions of that or any other term of the Finance Documents.

29. COUNTERPARTS

Each Finance Document 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 the Finance Document.

30. NOTICES

30.1 In writing

- (a) Any communication in connection with a Finance Document must be in writing and, unless otherwise stated, may be given:
 - (i) in person, by post or fax; or
 - (ii) to the extent agreed by the Parties making and receiving communication, by e-mail or other electronic communication.
- (b) For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.
- (c) Unless it is agreed to the contrary, any consent or agreement required under a Finance Document must be given in writing.

30.2 Contact details

- (a) Except as provided below, the contact details of each Party for all communications in connection with the Finance Documents are those notified by that Party for this purpose to the any Party under this Agreement on or before the date it becomes a Party.
- (b) The contact details of the Company for this purpose are:
 - Address: Baidu Campus No. 10 Shangdi 10th Street, Haidian District, Beijing 100085, PRC
 - Fax number: +86 10 5992 0051
 - E-mail: zengying@baidu.com
 - Attention: Zeng Ying
- (c) The contact details of the Lender for this purpose are:
 - Address: 8/F., One International Finance Centre
 - 1 Harbour View Street Hong Kong
 - Fax number: +852 2206 2968
 - E-mail: charing.chung@smbc.com.hk
 - Attention: Ms. Charing Chung

Any Party may change its contact details by giving five Business Days' notice to the other Party.

- (d) Where a Party nominates a particular department or officer to receive a communication, a communication will not be effective if it fails to specify that department or officer.

30.3 Effectiveness

- (a) Except as provided below, any communication in connection with a Finance Document will be deemed to be given as follows:
 - (i) if delivered in person, at the time of delivery;
 - (ii) if posted, five Business Days after being deposited in the post, postage prepaid, in a correctly addressed envelope;
 - (iii) if by fax, when received in legible form; and
 - (iv) if by e-mail or any other electronic communication, when received in legible form.
- (b) A communication given under paragraph (a) above but received on a non-working day or after business hours in the place of receipt will only be deemed to be given on the next working day in that place.
- (c) A communication to the Lender will only be effective on actual receipt by it.

31. LANGUAGE

- (a) Any notice given in connection with a Finance Document must be in English.
- (b) Any other document provided in connection with a Finance Document must be:
 - (i) in English; or
 - (ii) (unless the Lender otherwise agrees) accompanied by a certified English translation. In this case, the English translation prevails unless the document is a statutory or other official document.

32. GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with it are governed by Hong Kong law.

33. ENFORCEMENT

33.1 Jurisdiction

- (a) The Hong Kong courts have non-exclusive jurisdiction to settle any dispute including a dispute relating to any non-contractual obligation arising out of or in connection with any Finance Document.
- (b) The Hong Kong courts are the most appropriate and convenient courts to settle any such dispute in connection with any Finance Document. The Company agrees not to argue to the contrary and waives objection to those courts on the grounds of inconvenient forum or otherwise in relation to proceedings in connection with any Finance Document.

- (c) This Clause is for the benefit of the Lender only. To the extent allowed by law, the Lender may take:
 - (i) proceedings in any other court; and
 - (ii) concurrent proceedings in any number of jurisdictions.
- (d) References in this Clause 33 to a dispute in connection with a Finance Document include any dispute as to the existence, validity or termination of that Finance Document.

33.2 Service of process

- (a) The Company irrevocably appoints Messrs. Li & Partners of 22nd Floor, World-Wide House, 19, Des Voeux Road, Central, Hong Kong as its agent under the Finance Documents for service of process in any proceedings before the Hong Kong courts in connection with any Finance Document.
- (b) If any person appointed as process agent under this Clause is unable for any reason to so act, the Company must immediately (in any event within 14 days of the event taking place) appoint another agent on terms acceptable to the Lender. Failing this, the Lender may appoint another process agent for this purpose.
- (c) The Company agrees that failure by a process agent to notify it of any process will not invalidate the relevant proceedings.
- (d) This Clause does not affect any other method of service allowed by law.

33.3 Waiver of immunity

The Company irrevocably and unconditionally:

- (a) agrees not to claim any immunity from proceedings brought by the Lender against the Company in relation to a Finance Document and to ensure that no such claim is made on its behalf;
- (b) consents generally to the giving of any relief or the issue of any process in connection with those proceedings; and
- (c) waives all rights of immunity in respect of it or its assets.

This Agreement has been entered into on the date stated at the beginning of this Agreement.

SCHEDULE 1
CONDITIONS PRECEDENT DOCUMENTS
PART 1 (CONDITIONS PRECEDENT)

Corporate documentation

1. A copy of the constitutional documents of the Company.
2. A copy of a resolution of the board of directors of the Company approving the terms of, and the transactions contemplated by, each Finance Document to which it is a party.
3. A copy of the certificate of good standing of the Company issued by the Registrar of Companies of the Cayman Islands within one month of the date of this Agreement.
4. A copy of the certificate of incumbency of the Company issued by its Cayman Islands registered office provider within one month of the date of this Agreement.
5. A copy of the Original Financial Statements.
6. A Director's Certificate for the Company substantially in the form of Part 2 of this Schedule.
7. Evidence that the agent of the Company under the Finance Documents for service of process in Hong Kong has accepted its appointment.

Legal opinions

8. A legal opinion of Maples and Calder, legal advisers in the Cayman Islands to the Company, substantially in the form distributed to the Lender prior to the signing of this Agreement.

Other documents and evidence

9. A copy of any other authorisation or other document, opinion or assurance which the Lender has notified the Company in writing prior to the date of this Agreement, is necessary in connection with the entry into and performance of, and the transactions contemplated by, any Finance Document or for the validity and enforceability of any Finance Document.

PART 2
FORM OF DIRECTOR'S CERTIFICATE

To: Sumitomo Mitsui Banking Corporation

BAIDU, INC. – US\$150,000,000 Facility Agreement dated 24th July, 2013 (the Agreement)

I refer to the Agreement. Terms defined in the Agreement have, unless defined in this certificate, the same meaning when used in this certificate.

I am a director of Baidu, Inc. (the **Company**), a company incorporated in the Cayman Islands with registered office at [—]. I am authorised to give this certificate and certify as follows:

1. Each [original] and copy document delivered by the Company to the Lender under Part 1 of Schedule 1 (Conditions precedent documents) to the Agreement (including the documents listed below and attached to this certificate) is true, complete and in full force and effect on the date of this certificate:
 - (a) the Amended and Restated Memorandum and Articles of Association of the Company;
 - (b) the Certificate of Incorporation of the Company;
 - (c) the Certificate of Incorporation on Change of Name of Company;
 - (d) the Certificate of Good Standing of the Company;
 - (e) the Certificate of Incumbency of the Company; and
 - (f) the minutes of a meeting of the Board of Directors of the Company held on [].
2. Borrowing the Commitments will not cause any borrowing or similar limit binding on the Company under its memorandum or articles of association or other constitutional documents or any law applicable to it to be exceeded.
3. Each resolution adopted at the meeting referred to in 1(f) above is in full force and effect without modification.
4. The resolutions adopted at the meeting referred to in 1(f) 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; and
 - (b) authorise the signing of, any communications and/or other action under or in connection with, the Finance Documents.
5. The following is a complete list of all persons who are directors and Company Secretary of the Company as at the date of this Certificate and who were Directors and Company Secretary on the date of the meeting referred to above.
[]

6. 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 the person duly authorised in the resolutions adopted at the meeting referred to in 1(f) above 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

7. Unless we notify you to the contrary in writing, you may assume that this Certificate remains true and correct up until the date of the first Utilisation by the Company under the Agreement.

For

BAIDU, INC.

Director

FORM OF REQUEST

To: Sumitomo Mitsui Bank Corporation
8/F., One International Finance Centre
1 Harbour View Street
Hong Kong

Attention: Head of Loan Operations Department

From: BAIDU, INC.

Date: 24th July 2013

**BAIDU, INC. – US\$150,000,000 Facility Agreement
dated 24th July, 2013 (the Agreement)**

1. We refer to the Agreement. This is a Request. Terms defined in the Agreement have the same meaning in this Request.
2. We wish to borrow the Loan on the following terms:
 - (a) Utilisation Date: 29th July, 2013;
 - (b) Amount: US\$150,000,000;
 - (c) Term: Three months.
3. The proceeds of the Loan should be credited to:
Account Name: Baidu, Inc.
Bank Name: Citibank (China) Co., Ltd. Beijing Branch
Account Number: 1733228918
Swift code: CITICNSXBJG
4. We confirm that each condition precedent specified in Clause 4.2 (*Further conditions precedent*) under the Agreement which must be satisfied on the date of this Request is so satisfied.
5. This Request is irrevocable.

By:
BAIDU, INC.

/s/ LI XIN ZHE

Name:
Chief Financial Officer

SCHEDULE 2
FORM OF TRANSFER CERTIFICATE

To: Sumitomo Mitsui Banking Corporation (the **Existing Lender**)
8/F., One International Finance Centre
1 Harbour View Street
Hong Kong

Attention: []

From: [NEW LENDER] (the **New Lender**)

Date: []

BAIDU, INC. – US\$150,000,000 Facility Agreement
dated 24th July, 2013 (the Agreement)

We refer to the Agreement. This is a Transfer Certificate. Terms defined in the Agreement have, unless defined in this certificate, the same meaning when used in this Transfer Certificate

1. The Existing Lender transfers by novation to the New Lender the Existing Lender's rights and obligations referred to in the Schedule below in accordance with the terms of the Agreement.
2. The proposed Transfer Date is [].
3. The administrative details of the New Lender for the purposes of the Agreement are set out in the Schedule.
4. The New Lender expressly acknowledges the limitations on the Existing Lender's obligations in respect of this Transfer Certificate contained in the Agreement.

In particular, the New Lender expressly acknowledges and confirms that:

- (a) the Existing Lender makes no representation or warranty and assumes no responsibility to the New Lender for:
 - (i) the financial condition of the Company; or
 - (ii) the legality, validity, effectiveness, enforceability, adequacy, accuracy, completeness or performance of:
 - (A) any Finance Document or any other document;
 - (B) any statement or information (whether written or oral) made in or supplied in connection with any Finance Document, or
 - (C) any observance by the Company of its obligations under any Finance Document or other document, and any representations or warranties implied by law are excluded; and

- (b) it:
- (i) has made, and will continue to make, its own independent appraisal of all risks arising under or in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) in connection with its participation in the Agreement;
 - (ii) has not relied on any information supplied to it by the Existing Lender in connection with any Finance Document;
 - (iii) has conducted its own investigation in connection with the Finance Documents and has not relied upon the Existing Lender to conduct any due diligence investigation on its behalf;
 - (iv) has access to all information that it believes is necessary or appropriate in connection with its participation of the Agreement and it is able to obtain or access business and financial information without undue difficulty;
 - (v) has consulted its own independent advisors or otherwise has satisfied itself concerning, without limitation, the tax, legal, currency and other economic considerations related to its participation in the Agreement, and has only relied on the advice of, or has only consulted with, such independent advisers;
 - (vi) has not relied and will not rely on any investigation or due diligence that the Existing Lender or any of its affiliates or employees or any person acting on behalf of the Existing Lender may have conducted in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets), and none of such persons has made any representation, warranty or recommendation to the New Lender, express or implied, in connection with the Finance Documents (including the financial condition and affairs of the Company and its related entities and the nature and extent of any recourse against any Party or its assets) or the accuracy, completeness or adequacy of any information the New Lender obtain from public sources or from the Company in any form (including, without limitation, oral statements, written materials and electronic communications and data of any kind); and
 - (vii) will not hold the Existing Lender, its affiliates or the officers, directors or employees responsible for any misstatements in or omissions from information it obtains from public sources or from the Company in any form (including, without limitation, oral statements, written materials and electronic communications and data of any kind).

5. This Transfer Certificate 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 the Transfer Certificate.

6. This Transfer Certificate and any non-contractual obligations arising out of or in connection with it are governed by Hong Kong law.

THE SCHEDULE

Rights and obligations to be transferred by novation

[insert relevant details, including applicable Commitment (or part)]

Administrative details of the New Lender

[insert details of Facility Office, address for notices, *fax number and attention details* and account details for payment etc.]

[EXISTING LENDER]

[NEW LENDER]

By: _____

By: _____

The Transfer Date is confirmed by the Lender as [].

[—]

By:

Note: The New Lender is alone responsible for checking whether any further formalities should be complied with. An assignment may give rise to a stamp duty or transfer tax issues.

SCHEDULE 3
FORM OF COMPLIANCE CERTIFICATE

To: Sumitomo Mitsui Banking Corporation as Lender

From: BAIDU, INC.

Date: []

BAIDU, INC. – US\$150,000,000 Facility Agreement
dated 24th July, 2013 (the Agreement)

1. We refer to the Agreement. This is a Compliance Certificate. Terms defined in the Agreement have the same meanings in this Compliance Certificate.
2. We confirm that as at [relevant testing date]:
 - (a) Consolidated Tangible Net Worth is []; and
 - (b) Consolidated Total Borrowings are [] and therefore, Consolidated Total Borrowings are [] per cent. ([]%) of Consolidated Tangible Net Worth.
 - (c) Adjusted Consolidated EBITDA is [] and therefore, Consolidated Total Borrowings are [] per cent. ([]%) of Consolidated EBITDA.
3. We set out below calculations establishing the figures in paragraph 2 above:
[].
4. We confirm that as at [relevant testing date] [no Default is outstanding]/[the following Default[s] [is/are] outstanding and the following steps are being taken to remedy [it/them]:
[]].

BAIDU, INC.

By:

SIGNATORIES

Company

Baidu, Inc.

By: _____ /s/ LI XIN ZHE

Lender

SUMITOMO MITSUI BANKING CORPORATION

By: _____ /s/ SHIGERU YUNO

AU\$235,000,000 TERM LOAN FACILITY AGREEMENT

BAIDU, INC.

(as Borrower)

and

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
HONG KONG BRANCH**

(as Lender)

Dated 13 August 2013



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THIS AGREEMENT is dated 13 August 2013 and made between:

- (1) Baidu, Inc., a company incorporated under the laws of the Cayman Islands with registration number 96019, as borrower (the “**Borrower**”); and
- (2) Australia and New Zealand Banking Group Limited, a company incorporated in Australia (Australian business number 11 005 357 522), whose registered office is at ANZ Centre Melbourne, Level 9, 833 Collins Street, Docklands, Victoria 3008, acting through its Hong Kong branch at 22/Floor, Three Exchange Square, 8 Connaught Place, Central, Hong Kong, as lender (the “**Lender**”).

IT IS AGREED as follows:

SECTION 1 INTERPRETATION

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

“**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.

“**AU dollars**” and “**AUS**” mean the lawful currency of Australia.

“**Authorisation**” means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisation, lodgement or registration;

“**Availability Period**” means the period from and including the date of this Agreement to and including the earlier of:

- (a) the date falling three (3) Months from the date of this Agreement; and
- (b) the date on which the Facility is fully utilised, cancelled or terminated under the provisions of this Agreement.

“**Available Commitment**” means at any time the Lender’s Commitment minus:

- (a) the aggregate amount of any outstanding Loans under the Facility; and
- (b) in relation to any proposed Utilisation, any Loans that are due to be made under the Facility on or before the proposed Utilisation Date.

“**BBSW**” means, in relation to the Loan:

- (a) the applicable Screen Rate; or
- (b) (if no Screen Rate is available for AU dollars for the relevant Interest Period of that Loan) the rate as quoted by the Lender to lending banks in Australia interbank market at or about 10:10 a.m. (Sydney Time) on the Quotation Day for which an interest rate is to be determined for the offering of deposits in AU dollars and for a period comparable to the relevant Interest Period for that Loan.

“**Beijing Baidu Netcom**” means Beijing Baidu Netcom Science Technology Co., Ltd., a limited liability company established under the laws of the PRC.

“**Break Costs**” means the amount (if any) by which:

- (a) the interest (excluding the Margin) which the Lender should have received pursuant to the terms of this Agreement for the period from the date of receipt of all or any part of the principal amount of a Loan or Unpaid Sum to the last day of the applicable 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 of interest 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 in the relevant interbank market for a period starting on the Business Day following receipt or recovery and ending on the last day of the applicable Interest Period.

“**Business Day**” means a day (other than a Saturday or Sunday) on which banks are open for general business in Hong Kong, London, New York and Sydney (Australia).

“**China**” means the People’s Republic of China.

“**Commitment**” means the amount of the Lender’s commitment for this Facility, being AU\$235,000,000 (Two Hundred and Thirty-Five Million AU dollars), to the extent not cancelled, reduced or transferred by the Lender.

“**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.

“**Consolidated Assets**” means, at any time, the total assets of the Group as shown on the latest consolidated financial statements of the Borrower delivered to the Lender pursuant to the provisions of this Agreement.

“**Default**” means an Event of Default or any event or circumstance specified in Clause 21 (*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.

“**Disruption Event**” means:

- (a) a material disruption to the payment or communications systems or to the financial markets which are required to operate in order for payments to be made (or other transactions to be carried out) in connection with the transactions contemplated by the Finance Documents, which is not caused by, and is beyond the control of, any of the Parties; or
- (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 it, or any other Party from:
 - (i) performing its payment obligations under the Finance Documents; or
 - (ii) communicating with other Parties under the Finance Documents,and which is not caused by, and is beyond the control of, the Party whose operations are disrupted.

“**Environmental Claim**” means any claim, proceeding or investigation by any person in respect of any Environmental Law.

“Environmental Law” means any applicable law, regulation or practice in any jurisdiction in which any member of the Group conducts business which relates to:

- (a) the pollution or protection of the environment or harm to or the protection of human health or the health of animals or plants; or
- (b) the creation, storage, handling and disposal of industrial waste and hazardous substances.

“Environmental Permit” means any Authorisation and the filing of any notification, report or assessment required at any time under any Environmental Law for the operation of the business of any member of the Group.

“Event of Default” means any event or circumstance specified as such in Clause 21 (*Events of Default*).

“Existing Facility” means the term loan facility borrowed by the Borrower pursuant to a credit agreement dated 14 July 2011 (as amended by an amendment request dated 5 November 2012, and as further amended, restated and/or supplemented from time to time) between the Borrower, Goldman Sachs (Asia) L.L.C. as arranger, Goldman Sachs Lending Partners LLC as original lender and The Bank of New York Mellon, Hong Kong Branch as facility agent.

“Facility” means the term loan facility made available under this Agreement as described in Clause 2 (*Facility*).

“Facility Office” means the Hong Kong office of the Lender or such other office or offices notified by the Lender to the Borrower from time to time by not less than five (5) Business Days’ written notice as the office or offices through which it will perform its obligations under this Agreement.

“Finance Document” means this Agreement, any Utilisation Request and any other document designated as such by the Lender and the Borrower.

“Financial Indebtedness” means any indebtedness for or in respect of:

- (a) moneys 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 finance or capital lease;
- (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) having the commercial effect of a borrowing;
- (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 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, in each case, for the avoidance of doubt, excluding any indebtedness arising in the ordinary course of trading.

“**GAAP**” means generally accepted accounting principles, standards and practices 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 the Borrower and its Subsidiaries from time to time.

“**Holding Company**” means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

“**Hong Kong**” means the Hong Kong Special Administrative Region of the People’s Republic of China.

“**Interest Period**” means, in relation to a Loan, each period determined in accordance with Clause 9 (*Interest Periods*) and, in relation to an Unpaid Sum, each period determined in accordance with Clause 8.3 (*Default interest*).

“**Laws**” means any law including any statute, regulation or subordinate legislation or other document enforceable under any statute, regulation or subordinate legislation.

“**Legal Reservations**” means:

1. the principle that equitable remedies may be granted or refused at the discretion of a court;
2. the limitation of enforcement by laws relating to insolvency, liquidation, reorganisation, penalties and other laws generally affecting the rights of creditors;
3. the time barring of claims under the statutes of limitation;
4. the possibility that an undertaking to assume liability for or indemnify a person against non-payment of stamp duty may be void;
5. defences of set-off or counterclaim; and
6. any principles which are set out in the qualifications as to matters of law in any legal opinions which would be delivered by appropriately qualified law firms in relation to any of the Finance Documents.

“**Lender**” means:

- (a) the Lender; and
- (b) any person who becomes a Party as a New Lender in accordance with Clause 22.4 (*Assignments and transfers by the Lender*),

which in each case has not ceased to be a Party in accordance with the terms of this Agreement.

“**Liabilities**” means all present and future moneys, debts and liabilities due, owing or incurred by the Borrower to the Lender under or in connection with any Finance Document (in each case, whether alone or jointly, or jointly or severally, with any other person, whether actually or contingently and whether as principal, surety or otherwise).

“**Loan**” means, as the context requires, a loan made or to be made under the Facility or the principal amount outstanding at any time of the loan, and “**Loans**” shall be construed accordingly.

“**Margin**” means one cent. (1.0%) per annum.

“Material Adverse Effect” means, a material adverse effect on:

- (a) the business or financial condition of the Group taken as a whole;
- (b) the ability of the Borrower to perform its payment obligations or any other material obligation under the Finance Documents; or
- (c) the validity or enforceability of any Finance Documents.

“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) 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; and
- (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.

The above rules will only apply to the last Month of any period.

“NASDAQ” means the NASDAQ Stock Market in the United States.

“New Lender” has the meaning given to such term in Clause 22.1 (*Assignments and transfers by the Lender*).

“Original Financial Statements” means the audited consolidated financial statements of the Borrower for its financial year ended 31 December 2012.

“Party” means a party to this Agreement.

“Permitted Transaction” means:

- (a) an intra-Group re-organisation on a solvent basis and (if the Borrower is involved in such re-organisation) where the Borrower remains a surviving entity; or
- (b) any other transaction agreed by the Lender.

“Quotation Day” means:

- (a) in relation to any period for which an interest rate is to be determined, the first day of that period unless market practice differs in the relevant interbank market in which case the Quotation Day will be determined by the Lender in accordance with market practice in the relevant interbank market (and if quotations would normally be given by leading banks in the relevant interbank market on more than one day, the Quotation Day will be the last of those days); and
- (b) in relation to any Interest Period the duration of which is selected by the Lender pursuant to Clause 8.3 (*Default interest*), such date as may be determined by the Lender (acting reasonably).

“Repayment Date” means, for each Loan made under the Facility, the date falling 24 months after the Utilisation Date of the first Loan to be advanced under this Agreement.

“Repeating Representations” means each of the representations set out in Clauses 16.1 (Status), 16.2 (Binding obligations), 16.3 (Non-conflict with other obligations), 16.4 (Power and authority), 16.5 (Validity and admissibility in evidence), 16.8 (No Default) and 16.10 (*Financial statements*).

“Restricted Group” means the Borrower and its Restricted Subsidiaries.

“Restricted Subsidiary” means, at any time, a Subsidiary of the Borrower if the gross Tangible Assets or turnover of that Subsidiary then equal to or exceed 10 per cent. of the gross Tangible Assets or turnover of the Group provided that in no circumstances shall Beijing Baidu Netcom be or become a Restricted Subsidiary.

For this purpose:

- (a) subject to paragraph (b) below:
 - (i) the contribution of a Subsidiary of the Borrower will be determined from its financial statements which were consolidated into the latest audited consolidated financial statements of the Borrower; and
 - (ii) the financial condition of the Group will be determined from the latest audited consolidated financial statements of the Borrower;
- (b) if a Subsidiary of the Borrower becomes a member of the Group after the date on which the latest audited consolidated financial statements of the Borrower were prepared:
 - (i) the contribution of the Subsidiary will be determined from its latest financial statements; and
 - (ii) the financial condition of the Group will be determined from the latest audited consolidated financial statements of the Borrower but adjusted to take into account any subsequent acquisition or disposal of a business or a company (including that Subsidiary);
- (c) the contribution of a Subsidiary will, if it has Subsidiaries, be determined from its consolidated financial statements;
- (d) if a Restricted Subsidiary disposes of all or substantially all of its assets to another member of the Group, it will immediately cease to be a Restricted Subsidiary and the other member of the Group (if it is not the Borrower or already a Restricted Subsidiary) will immediately become a Restricted Subsidiary;
- (e) a Subsidiary of the Borrower (if it is not already a Restricted Subsidiary) will become a Restricted Subsidiary on completion of any other intra-Group transfer or reorganisation if it would have been a Restricted Subsidiary had the intra-Group transfer or reorganisation occurred on the date of the latest audited consolidated financial statements of the Borrower; and
- (f) except as specifically mentioned in paragraph (d) above, a member of the Group will remain a Restricted Subsidiary until the next audited consolidated financial statements of the Borrower show otherwise under paragraph (a) above.

If there is a dispute as to whether or not a member of the Group is a Restricted Subsidiary, a certificate of the auditors of the Borrower will be, in the absence of manifest error, conclusive.

As at the date of this Agreement, the only Restricted Subsidiaries are Baidu.com Times Technology (Beijing) Co. Ltd., Baidu Online Network Technology (Beijing) Co. Ltd. and Baidu (China) Co., Ltd.

“**RMB**” means the lawful currency for the time being of China.

“**Screen Rate**” means the “AVG” rate for the relevant period displayed, as of 11:00 a.m. Sydney time on the relevant Quotation Day, on Thomson Reuters page “BBSW”. If the agreed page or service is replaced or ceases to be available, the Lender may, after consultation with the Borrower, specify another page or service displaying the appropriate rate.

“**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.

“**Subsidiary**” means in relation to any company or corporation, a company or corporation:

- (a) which is controlled, directly or indirectly, by the first mentioned company or corporation;
- (b) more than half the issued share capital of which is beneficially owned, directly or indirectly by the first mentioned company or corporation; or
- (c) which is a Subsidiary of another Subsidiary of the first mentioned company or corporation,

and for this purpose, a company or corporation shall be treated as being controlled by another if that other company or corporation is able to direct its affairs and/or to control the composition of its board of directors or equivalent body.

“**Tangible Assets**” of a person means its total assets, less

- (a) its net intangible assets; and
- (b) goodwill.

“**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) and “**Taxation**” shall be construed accordingly.

“**Tax Deduction**” means a deduction or withholding for or on account of Tax from a payment under a Finance Document.

“**Tax Payment**” means a payment made by the Borrower to the Lender in any way relating to a Tax Deduction or under any indemnity given by the Borrower in respect of Tax under any Finance Document.

“**Unpaid Sum**” means any sum due and payable but unpaid by the Borrower under the Finance Documents.

“**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 Part I of Schedule 2(*Requests*).

1.2 Construction

(a) Unless a contrary indication appears, any reference in this Agreement to:

- (i) the “**Lender**”, the “**Borrower**” or any “**Party**” shall be construed so as to include its successors in title, permitted assigns and permitted transferees;
- (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, novated, supplemented, extended or restated;
- (iv) “**including**” shall be construed as “including without limitation” (and cognate expressions shall be construed similarly);
- (v) “**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;
- (vi) a “**person**” includes any individual, firm, company, corporation, government, state or agency of a state or any association, trust, joint venture, consortium or partnership (whether or not having separate legal personality);
- (vii) a “**regulation**” includes any regulation, rule, official directive, request or guideline (whether or not having the force of law but, if not having the force of law, being of a type with which any person to which it applies is accustomed to comply) of any governmental, intergovernmental or supranational body, agency, department or regulatory, self-regulatory or other authority or organisation;
- (viii) a provision of law is a reference to that provision as amended or re-enacted; and
- (ix) a time of day is a reference to Hong Kong time.

(b) Unless a contrary indication appears, references to Clauses and Schedules are to be construed as references to clauses of, and schedules to, this Agreement. 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 or certificate given under or in connection with any Finance Document has the same meaning in that Finance Document, notice or certificate as in this Agreement.
- (d) A Default (other than an Event of Default) is “**continuing**” if it has not been remedied or waived and 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 for the purchase of the specified currency with that other currency at or about 11 a.m. on the relevant date, is equal to the relevant amount in the specified currency.
- (f) In this Agreement, unless a contrary indication appears, words importing the plural include the singular and vice versa, and words importing a gender include every gender.

SECTION 2
THE FACILITY

2. THE FACILITY

Subject to the terms of this Agreement, the Lender makes available to the Borrower an AU dollar term loan facility in an aggregate amount equal to the Commitment.

3. PURPOSE

3.1 Purpose

The Borrower shall apply all amounts borrowed by it under the Facility to refinance the Existing Facility and for the general working capital requirements of the Group.

3.2 No investigation

The Lender is not obliged to monitor or verify the application of any amount borrowed pursuant to this Agreement.

4. CONDITIONS OF UTILISATION

4.1 Initial conditions precedent

Unless otherwise agreed by the Lender, 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*), in form and substance satisfactory to the Lender (acting reasonably). The Lender shall notify the Borrower promptly upon receiving such documents and other evidence.

4.2 Further conditions precedent

In addition to the requirements of Clause 4.1 (*Initial conditions precedent*), the Lender will only be obliged to comply with Clause 5.4 (*Availability of Loans*) if 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.

4.3 Maximum number of Loans

The Borrower may not deliver a Utilisation Request if as a result of the proposed Utilisation five (5) or more Loans would be outstanding.

**SECTION 3
UTILISATION**

5. UTILISATION

5.1 Delivery of 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. (Hong Kong time) on the 2nd Business Day before the proposed Utilisation Date.

5.2 Completion of Utilisation Request

- (a) Each Utilisation Request is irrevocable and will not be regarded as having been duly completed unless:
- (i) the proposed Utilisation Date is a Business Day within the Availability Period;
 - (ii) the currency and amount of the Utilisation comply with Clause 5.3 (*Currency and amount*); and
 - (iii) the Utilisation Request specifies the account and bank (which must be in Hong Kong) to which the proceeds of the Utilisation are to be credited or the party to whom the proceeds of the Utilisation are to be paid.
- (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 AU dollars.
- (b) The amount of a proposed Loan must be an amount which is not more than the Available Commitment and which is a minimum of AU\$10,000,000 (Ten Million AU dollars) or, if less, the amount of the Available Commitment.

5.4 Availability of Loans

If the conditions set out in Clauses 4 (*Conditions of Utilisation*) and 5.1 (*Delivery of Utilisation Request*) to 5.3 (*Currency and amount*) above have been met, the Lender shall make each Loan available by the Utilisation Date through its Facility Office.

5.5 Automatic Cancellation of Available Commitment

The Available Commitment shall be immediately cancelled at the end of the Availability Period.

SECTION 4
REPAYMENT, PREPAYMENT AND CANCELLATION

6. REPAYMENT

6.1 Repayment of Loans

Subject to the other provisions of this Agreement, the Borrower shall repay all Loans on the Repayment Date.

7. PREPAYMENT AND CANCELLATION

7.1 Mandatory prepayment – Illegality

If, at any time, it is 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:

- (a) the Lender shall promptly notify the Borrower upon becoming aware of that event;
- (b) upon the Lender notifying the Borrower, the Commitment will be immediately cancelled; and
- (c) the Borrower shall repay each Loan 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 – disposals

If a member of the Group (other than Beijing Baidu Netcom):

- (a) in a single transaction or a series of transactions (whether related or not) sells, leases, transfers or otherwise disposes of any asset by means of any sale, lease, transfer or other disposal save for the ones allowed under Clause 20.5 (*Disposals*); and
- (b) the consideration receivable for that disposal (when aggregated with the consideration receivable for any other sale, lease, transfer or other disposal by a member of the Group excluding those allowed under sub-paragraphs (b)(iii) to (vii) (inclusive) of Clause 20.5 (*Disposals*)) exceeds thirty per cent. (30%) of Consolidated Assets; and
- (c) the Borrower has not obtained the consent of the Lender prior to such sale, lease, transfer or other disposal pursuant to Clause 20.5(b)(ii), then the Borrower shall prepay all outstanding Loans no later than 60 (sixty) calendar days after the date of such sale, lease, transfer or other disposal.

7.3 Voluntary cancellation

The Borrower may, if it gives the Lender not less than five (5) Business Days' (or such shorter period as the Lender may agree) prior notice, reduce the Available Commitment to zero or by such amount (being a minimum amount of AU\$10,000,000 (Ten Million AU dollars) and an integral multiple of AU\$5,000,000 (Five Million AU dollars)) as the Borrower may specify in such notice.

7.4 Voluntary prepayment of Loans

- (a) The Borrower may, if it gives the Lender not less than Five (5) Business Days' (or such shorter period as the Lender may agree) prior notice, prepay the whole or any part of any Loan (but, if in part, being an amount that reduces the amount of the Loan by a minimum amount of AU\$10,000,000 (Ten Million AU dollars) and an integral multiple of AU\$10,000,000 (Ten Million AU dollars)).
- (b) A Loan may only be prepaid after the last day of the Availability Period (or, if earlier, the day on which the Available Commitment is zero).

7.5 Right of prepayment and cancellation

- (a) If any sum payable to the Lender by the Borrower is required to be increased under Clause 11 (*Payments*) or Clause 12 (*Increased Costs*), the Borrower may, whilst the circumstance giving rise to the requirement for that increase continues, give the Lender notice of cancellation of the Commitment and its intention to prepay a Loan.
- (b) On receipt of a notice of cancellation referred to in paragraph (a) above, the Commitment of the Lender shall immediately be reduced to zero.
- (c) The Borrower shall prepay a Loan on the last day of each 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).

7.6 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 under this Agreement.
- (d) The Borrower shall not repay or prepay all or any part of any Loan or reduce any part of the Commitment except at the times and in the manner expressly provided for in this Agreement.
- (e) If any part of the Commitment is reduced in accordance with this Agreement, the amount of such reduction may not be subsequently reinstated.

**SECTION 5
COSTS OF UTILISATION**

8. INTEREST

8.1 Calculation of interest

The rate of interest on each Loan for each Interest Period is the percentage rate per annum which is the aggregate of the applicable:

- (a) Margin; and
- (b) BBSW.

8.2 Payment of interest

The Borrower shall pay accrued interest on each Loan on the last day of each Interest Period relating to that Loan.

8.3 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 up to the date of actual payment (both before and after judgment) at a rate which, subject to paragraph (b) below, is one per cent. (1.0%) higher than the rate which would have been payable if the Unpaid Sum had, during the period of non-payment, constituted a Loan in the currency of the Unpaid Sum for successive Interest Periods, each of a duration up to three (3) months selected by the Lender (acting reasonably). Any interest accruing under this Clause 8.3 shall be immediately payable by the Borrower on demand by the Lender.
- (b) If any Unpaid Sum consists of principal of all or 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 one per cent. (1.0%) 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.

8.4 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

9.1 Interest Periods

- (a) Subject to the provisions of this Clause 9, each Interest Period for a Loan shall be three (3) Months or any other period agreed by the Borrower and the Lender.
- (b) An Interest Period for a Loan shall not extend beyond the Repayment Date of that Loan.
- (c) Each Interest Period for a Loan shall start on the Utilisation Date of such Loan or (if such Loan has already been made) on the last day of the preceding Interest Period of such Loan.

9.2 Non-Business Days

If an Interest Period would otherwise end on a day which is not a Business Day, that Interest Period will instead end on the next Business Day in that calendar month (if there is one) or the preceding Business Day (if there is not).

10. CHANGES TO THE CALCULATION OF INTEREST

10.1 Market disruption

- (a) Subject to any alternative basis agreed and consented to as contemplated by paragraphs (a) and (b) of Clause 10.2 (*Alternative basis of interest or funding*), if a Market Disruption Event occurs in relation to a Loan for any Interest Period, then the rate of interest on that Loan for the 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 as soon as practicable and in any event before interest is due to be paid in respect of that Interest Period, 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) In this Agreement:

“**Market Disruption Event**” means:

- (i) at or about noon (Hong Kong time) on the Quotation Day for the relevant Interest Period the Screen Rate is not available or the Screen Rate is zero or negative and the Lender is unable to obtain a quotation to determine BBSW for the relevant Interest Period; or
- (ii) before noon in Hong Kong on the Business Day immediately following the Quotation Day for the relevant Interest Period, the Borrower receives a notification from the Lender that the cost to it of funding that Loan from whatever source it may reasonably select would be in excess of BBSW.

10.2 Alternative basis of interest or funding

- (a) If a Market Disruption Event occurs and the Lender or the Borrower so requires, the Lender and the Borrower shall enter into negotiations (for a period of not more than thirty (30) days) with a view to agreeing a substitute basis for determining the rate of interest.
- (b) Any alternative basis agreed pursuant to paragraph (a) above shall, with the prior consent of the Lender and the Borrower, be binding on all Parties.
- (c) For the avoidance of doubt, in the event that no substitute basis is agreed at the end of the thirty (30) day period, the rate of interest shall continue to be determined in accordance with the terms of this Agreement.

10.3 Break Costs

- (a) The Borrower shall, promptly on demand by the Lender, pay to the Lender its Break Costs attributable to all or any part of a Loan or an Unpaid Sum being paid by the Borrower on a day other than the last day of an Interest Period for that Loan or Unpaid Sum.
- (b) The Lender shall, promptly on demand by the Borrower, provide a certificate confirming the amount of its Break Costs for any Interest Period in which they accrue.

SECTION 6
ADDITIONAL PAYMENT OBLIGATIONS

11. PAYMENTS

- 11.1 All amounts set out or expressed in a Finance Document to be payable by the Borrower to the Lender shall be paid (i) in immediately available, freely transferable funds to such account(s) with such bank(s) as the Lender may notify the Borrower; (ii) exclusive of any Tax; (iii) without any set-off or counter-claim and free and clear of any Tax Deduction except as required by law. If any Tax Deduction is made, the amount of payment due shall be increased to an amount which, after making such Tax Deduction, leaves an amount equal to the payment which would have been due if no deduction had been required. The Borrower shall provide the Lender with evidence (including certified copies of all relevant receipts) that such deduction or payment has been made to the relevant authority.
- 11.2 Unless otherwise agreed between the Borrower and the Lender, all fees payable are non-refundable and exclusive of any Tax.

12. INCREASED COSTS

- 12.1 The Borrower shall promptly on demand pay to the Lender the amount of any Increased Costs incurred by the Lender or any of its Affiliates which is attributable to the Commitment or the Lender's funding or performance of its obligations under the Finance Documents 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. For the purposes of this Agreement, "**Increased Costs**" means (i) a reduction in the rate of return from the Facility on the Lender's (or its Affiliate's) overall capital, (ii) an additional or increased cost or (iii) a reduction of any amount due and payable under any Finance Document, and a "**law**" and "**regulation**" shall include, without limitation, any law or regulation concerning taxation, capital adequacy, liquidity, reserve assets, cash ratio deposits, special deposits or prudential limits.
- 12.2 The Borrower need not make any payment for Increased Costs to the extent that the Increased Costs are:
- (a) compensated for under another Clause or would have been but for an exception to that Clause;
 - (b) attributable to the implementation of, or compliance with the "International Convergence of Capital Measurement and Capital Standards, a Revised Framework" published by the Basel Committee on Banking Supervision in June 2004 (Basel II) or any similar or related law or regulation which implements Basel II; or
 - (c) attributable to the Lender or its Affiliate wilfully failing to comply with any law or regulation.
- 12.3 The Lender must, as soon as practicable after a demand by the Borrower, provide a certificate confirming the amount of its Increased Costs.

13. OTHER INDEMNITIES

13.1 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, promptly on demand by the Lender, indemnify 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 the Lender 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.

13.2 Other indemnities

The Borrower shall, promptly on demand by the Lender, indemnify the Lender and its agents, employees, officers and servants against any cost, loss or liability incurred by the Lender as a result of:

- (a) the occurrence of any Event of Default;
- (b) any written information produced or approved by the Borrower in relation to the Facility being or being alleged to be misleading or deceptive 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 the Finance Documents;
- (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);
- (f) a Loan (or part of a Loan) not being prepaid in accordance with a notice of prepayment given by the Borrower;
- (g) investigating any event which it reasonably believes is a Default;
- (h) acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised.

14. MITIGATION

14.1 Mitigation

- (a) The Lender must, in consultation with the Borrower, take all reasonable steps to mitigate any circumstances which arise and which result or would result in any Tax Payment or Increased Cost being payable to the Lender or the Lender being able to require the Borrower to repay the Loan under this Agreement by reason of any illegality, including (but not limited to) transferring its rights and obligations under the Finance Documents to an Affiliate or changing its Facility Office.
- (b) Paragraph (a) above does not in any way limit the obligations of the Borrower under the Finance Documents.
- (c) The Borrower must indemnify the Lender for all costs and expenses reasonably incurred by the Lender as a result of any step taken by it under this Clause 14.1.
- (d) The Lender is not obliged to take any step under this Clause 14.1 if, in the opinion of the Lender (acting reasonably), to do so might be prejudicial to it.

14.2 Conduct of Business by the Lender

No provision in 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; or
- (c) oblige the Lender to disclose any information relating to its affairs (Tax or otherwise) or any computations in respect of Tax.

15. COSTS AND EXPENSES

15.1 Amendment costs

If the Borrower requests an amendment, waiver or consent under any Finance Document, the Borrower shall, promptly on demand by the Lender, reimburse the Lender for the amount of all costs and expenses (including legal fees) reasonably incurred by it in responding to, evaluating, negotiating or complying with that request or requirement.

15.2 Enforcement costs

The Borrower shall, promptly on demand by the Lender, pay to the Lender the amount of all costs and expenses (including legal fees) incurred by it in connection with the enforcement or preservation of any rights under any Finance Document.

SECTION 7
REPRESENTATIONS, UNDERTAKINGS AND EVENTS OF DEFAULT

16. REPRESENTATIONS

The Borrower makes the representations and warranties set out in this Clause 16 to the Lender on the date of this Agreement.

16.1 Status

- (a) The Borrower is a company or, as the case may be, a corporation, duly incorporated and validly existing under the laws of its jurisdiction of incorporation.
- (b) It and each of its Subsidiaries has the power to own its assets and carry on its business as it is being conducted.

16.2 Binding obligations

Subject to the Legal Reservations, the obligations expressed to be assumed by the Borrower in each Finance Document to which it is a party are legal, valid, binding and enforceable obligations.

16.3 Non-conflict with other obligations

The entry into and performance by the Borrower of, and the transactions contemplated by, the Finance Documents do not conflict with:

- (a) any law or regulation applicable to it;
- (b) its and each of its Subsidiaries' constitutional documents; or
- (c) any agreement or instrument binding upon it or any of its Subsidiaries or any of its or any of its Subsidiaries' assets.

16.4 Power and authority

- (a) The Borrower 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 Finance Documents to which it is a party and the transactions contemplated by those Finance Documents.
- (b) No limit placed on the Borrower or the powers of the Borrower or its directors will be exceeded as a result of the borrowing or giving of indemnities contemplated by the Finance Documents to which it is a party.

16.5 Validity and admissibility in evidence

All Authorisations required to enable the Borrower lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents to which it is a party, and for the validity and enforceability of such Finance Documents, have been obtained or effected and are, or will, by the time required be, in full force and effect.

16.6 Governing law and enforcement

- (a) The choice of Hong Kong law as the governing law of the Finance Documents will be recognised and enforced in the jurisdiction of incorporation of the Borrower.
- (b) Each Finance Document to which the Borrower is a party is in the proper form for its enforcement in the jurisdiction of its incorporation.

16.7 No filing or stamp taxes

As at the date of this Agreement, under the law of the jurisdiction of incorporation of the Borrower no stamp, registration or similar Tax is payable on or in relation to the Finance Documents.

16.8 No Default

- (a) No Event of Default is continuing or will result from the entry into, the performance of, or any transaction contemplated by, any Finance Document.
- (b) No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on the Borrower or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject and which has or is reasonably likely to have a Material Adverse Effect.

16.9 No misleading information

- (a) All written, factual information provided by or on behalf of the Borrower 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 to be given.
- (b) The Borrower has not omitted to supply any information which, if disclosed, might make the information supplied untrue or misleading in any material respect.

16.10 Financial statements

- (a) The Borrower's audited consolidated financial statements most recently supplied to the Lender (which, at the date of this Agreement, are the Original Financial Statements) were prepared in accordance with GAAP consistently applied save to the extent expressly disclosed in such financial statements.
- (b) The Borrower's financial statements most recently supplied to the Lender (which, at the date of this Agreement, are the Original Financial Statements) give a true and fair view of its consolidated financial condition as at the date to which they were drawn up save to the extent expressly disclosed in such financial statements.
- (c) There has been no material adverse change in the Borrower's consolidated financial condition since the date to which its Original Financial Statements were drawn up.

16.11 Pari passu ranking

The payment obligations of the Borrower under the Finance Documents rank at least pari passu with the claims of all its other unsecured and unsubordinated creditors, except for obligations mandatorily preferred by law applying to companies generally.

16.12 No proceedings spending or threatened

No litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency which, if adversely determined, are reasonably likely to have a Material Adverse Effect have (to the best of its knowledge and belief) been started or threatened against the Borrower or any member of the Group.

16.13 Authorised signatures

Any person specified as an authorised signatory of the Borrower under Schedule 1 (*Conditions Precedent*) or in any other provision in this Agreement is authorised to sign Utilisation Requests and other notices on its behalf.

16.14 No immunity

Subject to the Legal Reservations, neither the Borrower nor any of its assets is entitled to immunity on the grounds of sovereignty or otherwise from any legal action or proceeding (including suit, attachment prior to judgment, execution or other enforcement).

17. REPETITION AND ACKNOWLEDGEMENT OF RELIANCE

- (a) The Repeating Representations are deemed to be made by the Borrower by reference to the facts and circumstances then existing on the date of each Utilisation Request and the first day of each Interest Period for so long as any Liability is outstanding or any Commitment is in force.
- (b) The Borrower acknowledges that the Lender has entered into this Agreement in full reliance upon the representations and warranties made or deemed to be made and repeated under this Clause 17.

18. INFORMATION UNDERTAKINGS

The undertakings in this Clause 18 remain in force from the date of this Agreement for so long as any Liability is outstanding or any Commitment is in force.

18.1 Financial Statements

The Borrower shall provide to the Lender its audited consolidated financial statements for each of its financial years within 180 days of the end of such financial year.

18.2 Other Information

The Borrower shall provide to the Lender all documents dispatched by the Borrower to its shareholders (or any class of them) or its creditors generally at the same time as they are despatched.

18.3 Information

The Borrower shall upon demand by the Lender supply to the Lender with such information relating to its business, finances and operation from time to time in such form as the Lender may reasonably require.

18.4 Notification of Default

- (a) The Borrower shall notify the Lender in writing of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence.
- (b) Promptly upon a request by the Lender, the Borrower shall supply to the Lender a certificate signed by two of its authorised signatories on its behalf certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

18.5 Notification of litigation

The Borrower shall promptly upon becoming aware of them notify the Lender in writing of any material litigation, arbitration or administrative proceedings started or threatened against it which, if adversely determined, might reasonably be expected to have a Material Adverse Effect.

18.6 “Know your customer” checks

The Borrower shall promptly upon the request of the Lender supply such documentation and other evidence as is reasonably requested by the Lender (for itself or on behalf of any prospective new Lender) in order for the Lender or any prospective new Lender to conduct any “know your customer” or other similar procedures under applicable laws and regulations.

18.7 Limits on information undertakings

Nothing in this Clause 18 shall require the Borrower to supply any document or information to the Lender if and for so long as such disclosure would cause the Borrower to be in breach of the relevant listing rules of NASDAQ or any mandatory provisions of applicable laws or any confidentiality agreements or undertakings.

19. FINANCIAL COVENANTS

19.1 Financial Condition

The Borrower shall ensure that the following financial conditions are complied with for so long as any Liability is outstanding or any Commitment is in force and shall supply the Lender with such information as the Lender may reasonably require from time to time to verify compliance with such conditions:

- (a) Consolidated Tangible Net Worth shall not be less than RMB8,000,000,000;

- (b) Consolidated Total Borrowings shall not be more than one hundred per cent. (100%) of Consolidated Tangible Net Worth;
- (c) The ratio of Consolidated Total Borrowings to Adjusted Consolidated EBITDA shall not be more than 2:1;
- (d) The ratio of Consolidated Total Onshore Subsidiaries Borrowings to Adjusted Consolidated EBITDA shall not be more than 1:1.

For the purpose of this Clause 19:

“**Adjusted Consolidated EBITDA**” means, in relation to a Measurement Period, Consolidated EBITDA for the period adjusted by:

- (a) including the operating profit before interest, tax, depreciation, amortisation and impairment charges (“**EBITDA**”) of a member of the Group or attributable to a business or assets acquired during the Measurement Period for that part of the Measurement Period when it was not a member of the Group and/or the business or assets were not owned by a member of the Group; and
- (b) excluding the EBITDA attributable to any member of the Group or to any business or assets sold during that Measurement Period.

“**Consolidated EBIT**” means, in relation to a Measurement Period, the aggregate of:

- (a) the consolidated operating profits of the Group (including the results from discontinued operations) before finance costs and tax for that Measurement Period;
- (b) plus or minus the Group’s share of the profits or losses of associates for that period (after finance costs and tax) and the Group’s share of the profits or losses of any joint ventures;

adjusted by:

- (i) taking no account of any Exceptional Item;
- (ii) taking no account of any unrealised gains or losses on any derivative instrument or other financial instrument (other than any derivative instrument which is accounted for on a hedge accounting basis) which is reported through the income statement;
- (iii) taking no account of any income or charge attributable to a post-employment benefit scheme other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme;
- (iv) taking no account of any expense referable to equity-settled share-based compensation of employees.

“**Consolidated EBITDA**” means, in relation to a Measurement Period, Consolidated EBIT for that Measurement Period after adding back any depreciation and amortisation and taking no account of any charge for impairment or any reversal of any previous impairment charge made in the period.

“**Consolidated Tangible Net Worth**” means at any time the aggregate of the amounts paid up or credited as paid up on the issued share capital of the Borrower, and the net amount standing to the credit (or debit) of the consolidated reserves of the Borrower, based on the latest published audited or unaudited consolidated balance sheet of the Borrower (the “**latest balance sheet**”) (and in each case, the balance sheet of the Borrower to be provided by the Borrower as at 31 December of each year shall always be audited) but adjusted by:

- (i) deducting any dividend or other distribution proposed, declared or made by the Borrower (except to the extent it has been taken into account in the latest balance sheet);
- (ii) deducting any amount attributable to goodwill or any other intangible asset;
- (iii) deducting any amount attributable to an upward revaluation of assets (other than financial instruments) after 31 December 2012 or, in the case of assets of a company which becomes a member of the Group after that date, the date on which that company becomes a member of the Group;
- (iv) reflecting any variation in the amount of the issued share capital of the Borrower after the date of the latest balance sheet (and any change in the consolidated reserves of the Group resulting from that variation);
- (v) reflecting any variation in the interest of the Borrower in any other member of the Group since the date of the latest balance sheet (to be calculated on the assumption that the variation had occurred immediately before the latest balance sheet date); and
- (vi) excluding any amounts debited or credited to deferred tax which relates to the revaluation of any item which is excluded from the calculation.

“**Consolidated Total Borrowings**” means, in respect of the Group, at any time, the aggregate of the following liabilities calculated at the nominal, principal or other amount at which the liabilities would be carried in a consolidated balance sheet of the Borrower drawn up at that time (or in the case of any guarantee, indemnity or similar assurance referred to in paragraph (i) below, the maximum liability under the relevant instrument):

- (a) any moneys borrowed;
- (b) any redeemable preference shares;
- (c) any acceptance under any acceptance credit (including any dematerialized equivalent);
- (d) any bond, note, debenture, loan stock or other similar instrument;

- (e) any indebtedness under a finance or capital lease in accordance with the GAAP;
- (f) any moneys owing in connection with the sale or discounting of receivables (except to the extent that there is no recourse);
- (g) any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset;
- (h) any indebtedness arising in connection with any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing; and
- (i) any indebtedness of any person of a type referred to in the above paragraphs which is the subject of a guarantee, indemnity or similar assurance against financial loss given by a member of the Group,

in each case, for the avoidance of doubt, excluding any indebtedness arising (a) in the ordinary course of trading and (b) between members of the Group.

“Consolidated Total Onshore Subsidiaries Borrowings” means, in respect of the **Onshore Subsidiaries**, at any time, the aggregate of the following liabilities of the **Onshore Subsidiaries** calculated at the nominal, principal or other amount at which the liabilities would be carried in a consolidated balance sheet of the Borrower drawn up at that time (or in the case of any guarantee, indemnity or similar assurance referred to in paragraph (i) below, the maximum liability under the relevant instrument):

- (a) any moneys borrowed;
- (b) any redeemable preference shares;
- (c) any acceptance under any acceptance credit (including any dematerialized equivalent);
- (d) any bond, note, debenture, loan stock or other similar instrument;
- (e) any indebtedness under a finance or capital lease in accordance with the GAAP;
- (f) any moneys owing in connection with the sale or discounting of receivables (except to the extent that there is no recourse);
- (g) any indebtedness arising from any deferred payment agreements arranged primarily as a method of raising finance or financing the acquisition of an asset;
- (h) any indebtedness arising in connection with any other transaction (including any forward sale or purchase agreement) which has the commercial effect of a borrowing; and
- (i) any indebtedness of any person of a type referred to in the above paragraphs which is the subject of a guarantee, indemnity or similar assurance against financial loss, in each case, for the avoidance of doubt, excluding any indebtedness arising (a) in the ordinary course of trading and (b) between members of the Group.

“**Exceptional Item**” means any material item of income or expense that represents:

- (a) any gain or loss arising from:
 - (i) write-downs of inventories to net realisable value or of property, plant and equipment to recoverable amount, and reversals of such write-downs;
 - (ii) restructuring the activities of the Group or any member of the Group and any reversals of any provision for the costs of restructuring;
 - (iii) disposals of items of property, plant or equipment;
 - (iv) disposals of investments; or
 - (v) disposals or settlements of liabilities of any member of the Group that fall within the definition of Consolidated Total Borrowings; or
- (b) any gain of a highly unusual or non-recurring nature; or
- (c) any gain or loss arising from a transaction entered into otherwise than in the carrying on of the normal core business operations of the Group.

“**Measurement Period**” means the last four full financial quarters of the Borrower ending on the date of the latest balance sheet (as defined in Consolidated Tangible Net Worth above).

“**Onshore Subsidiaries**” means each Subsidiary of the Borrower if (i) it is incorporated in China; and (ii) its financial results are consolidated into the Borrower’s financial results in accordance with GAAP.

19.2 Financial Testing

The Financial covenants set out in Clause 19.1 (*Financial Condition*) shall be tested by reference to the consolidated financial statements of the Borrower in respect of the relevant Measurement Period. No item must be credited or deducted more than once in any calculation under this Clause 19.

19.3 Interpretation

Except as provided to the contrary in this Agreement, an accounting term used in this Clause 19 is to be construed in accordance with the principles applied in connection with the Original Financial Statements.

20. GENERAL UNDERTAKINGS

The undertakings in this Clause 20 remain in force from the date of this Agreement for so long as any Liability is outstanding or any Commitment is in force.

20.1 Authorisations

The Borrower shall promptly:

- (a) obtain, comply with and do all that is necessary to maintain in full force and effect; and
- (b) if requested by the Lender, supply certified copies to the Lender of,

any Authorisation required under any law or regulation to enable it to perform its obligations under the Finance Documents and to ensure the legality, validity, enforceability or admissibility in evidence in its jurisdiction of incorporation of any Finance Document to which it is subject.

20.2 Legal opinion

The Borrower shall, within 60 days from the date of acceptance of this Agreement, provide a legal opinion from Maples and Calder to the Lender in respect of the laws of the Cayman Islands, substantially in the form agreed by the Lender prior to signing this Agreement.

20.3 Compliance with laws

The Borrower shall (and it shall ensure that each other Group member will) comply in all respects with all laws to which it (or they) may be subject where failure to do so would have a Material Adverse Effect.

20.4 Negative pledge

- (a) The Borrower shall not, and the Borrower shall ensure that no other member of the Restricted Group will, create or permit to subsist any Security over any of its revenues, undertaking or assets.
- (b) The Borrower shall not, and the Borrower shall ensure that no other member of the Restricted Group will:
 - (i) sell, transfer or otherwise dispose of any of its revenues, undertaking or assets on terms whereby they are or may be leased to or re-acquired by a member of the Restricted Group;
 - (ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;
 - (iii) 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; or
 - (iv) enter into or permit to subsist any other preferential arrangement having a similar effect,

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. For the purposes of this Clause 20.4, "**Quasi-Security Interest**" means any arrangement or transaction described in this Clause 20.4(b).

- (c) Paragraphs (a) and (b) above do not apply to:
- (i) any Security or Quasi-Security Interest existing as of the date of this Agreement;
 - (ii) any Security or Quasi-Security Interest created solely for the purpose of securing the refinancing of any indebtedness secured by any Security or Quasi-Security Interest existing as of the date of this Agreement where the principal amount secured has not been increased above the amount of such indebtedness secured as of the date of this Agreement;
 - (iii) any Security or Quasi-Security Interest comprising a netting, set-off or cash-pooling arrangement entered into by a member of the Restricted Group in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances;
 - (iv) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by a member of the Restricted Group but excluding any Security or Quasi-Security Interest under a credit support arrangement;
 - (v) any lien arising by operation of law and in the ordinary course of business;
 - (vi) any Security or Quasi-Security Interest on an asset, or an asset of any person, acquired by a member of the Restricted Group after the date of this Agreement but only for a period of six (6) Months from the date of acquisition and to the extent that the principal amount secured by that Security or Quasi-Security Interest has not been incurred or increased in contemplation of, or since, the acquisition;
 - (vii) any Security or Quasi-Security Interest arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to a member of the Restricted Group 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 a member of the Restricted Group;
 - (viii) any Security or Quasi-Security Interest over goods or documents of title arising in the ordinary course of letter of credit transactions entered into in the ordinary course of trade;
 - (ix) any Security or Quasi-Security Interest provided with the prior consent of the Lender; and
 - (x) any Security or Quasi-Security Interest securing indebtedness the principal amount of which (when aggregated with the principal amount of any other indebtedness which has the benefit of any Security given by any member of the Restricted Group other than any Security permitted under the preceding sub-paragraphs) does not exceed RMB700,000,000 (or its equivalent in another currency or currencies).

20.5 Disposals

- (a) No member of the Group (other than Beijing Baidu Netcom) shall enter into a single transaction or a series of transactions (whether related or not) to sell, lease, transfer or otherwise dispose of any asset without the prior written consent of the Lender.
- (b) Paragraph (a) above does not apply to any sale, lease, transfer or other disposal:
 - (i) where the consideration receivable for that disposal (when aggregated with the consideration receivable for any other sale, lease, transfer or other disposal by a member of the Group excluding those allowed under sub-paragraphs (iii) to (vii) (inclusive) below) does not exceed thirty per cent. (30%) of Consolidated Assets;
 - (ii) where the consideration receivable for that disposal (when aggregated with the consideration receivable for any other sale, lease, transfer or other disposal by a member of the Group excluding those allowed under sub-paragraphs (iii) to (vii) (inclusive) of this Subclause) exceeds thirty per cent. (30%) of Consolidated Assets and the Borrower has obtained the consent of the Lender prior to such sale, lease, transfer or other disposal, provided that, if the Lender does not give its consent, the Borrower shall be entitled to effect such disposal but the Borrower shall, following the sale, lease, transfer or other disposal, prepay the Loan in accordance with the provisions of Clause 7.2 (*Mandatory prepayment – disposals*);
 - (iii) made to another member of the Group (other than Beijing Baidu Netcom);
 - (iv) made in the ordinary course of trading of the disposing entity;
 - (v) of assets in exchange for other assets comparable or superior as to type, value and quality;
 - (vi) of obsolete or redundant vehicles, plant or equipment for cash; or
 - (vii) arising as result of a Permitted Transaction.
- (c) Each disposal shall only be permitted under this Subclause if it is made (i) on arm's length commercial terms or (ii) (other than in respect of any disposal permitted under paragraph (b)(iii) above) on more favourable terms to the disposing entity than arms' length commercial terms and at least for fair market value.

20.6 Merger

The Borrower shall not enter into any amalgamation, demerger, merger or corporate reconstruction, other than a Permitted Transaction unless the Borrower prepays all of the Loans within ninety (90) days of such event.

20.7 Change of business

The Borrower shall procure that no substantial change is made to the general nature of the business of the Restricted Group from that carried on at the date of this Agreement.

20.8 Insurance

The Borrower shall, and the Borrower shall ensure that each other member of the Restricted Group will, 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.

20.9 Listing

The Borrower shall ensure that it will at all times for so long as any Liability is outstanding or any Commitment is in force remain listed on NASDAQ.

21. EVENTS OF DEFAULT

Each of the events or circumstances set out in the following sub-clauses of this Clause 21 (other than Clause 21.13 (*Acceleration*)) is an Event of Default.

21.1 Non-payment

The Borrower 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, unless the non-payment:

- (a) is caused by technical or administrative error and is remedied within five (5) Business Days of the due date; or
- (b) is caused by a Disruption Event and is remedied within five (5) Business Days of the due date.

21.2 Financial covenants

Any requirement of Clause 19 (*Financial covenants*) is not satisfied.

21.3 Other obligations

- (a) The Borrower does not comply with any provision of the Finance Documents (other than those referred to in Clause 21.1 (*Non-payment*) or Clause 19 (*Financial covenants*)).
- (b) No Event of Default under paragraph (a) above will occur if the failure to comply is capable of remedy and is remedied within twenty (20) Business Days of the earlier of (i) the Lender giving notice of the failure to comply to the Borrower; or (ii) the Borrower becoming aware of the failure to comply.

21.4 Misrepresentation

Any representation or warranty made or deemed to be made by the Borrower in the Finance Documents or any other document delivered by or on behalf of the Borrower under any Finance Document is or proves to have been incorrect or misleading in any material respect when made or deemed to be made, unless the circumstances giving rise to the misrepresentation or breach of warranty:

- (a) are capable of remedy; and
- (b) are remedied within twenty (20) Business Days of the earlier of (i) the Lender giving notice of the misrepresentation or breach of warranty to the Borrower; or (ii) the Borrower becoming aware of the misrepresentation or breach of warranty.

21.5 Cross default

- (a) Any Financial Indebtedness of a member of the Restricted Group is not paid when due nor within any originally applicable grace period.
- (b) Any Financial Indebtedness of a member of the Restricted Group 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 commitment for any Financial Indebtedness of a member of the Restricted Group is cancelled or suspended by a creditor of such member of the Restricted Group as a result of an event of default (however described).
- (d) Any creditor of a member of the Restricted Group becomes entitled to declare any Financial Indebtedness of such member of the Restricted Group due and payable prior to its specified maturity as a result of an event of default (however described).
- (e) No Event of Default under this Clause 21.5 will occur unless the aggregate amount of Financial Indebtedness falling within all or any of paragraphs (a) to (d) above exceeds US\$50,000,000 or its equivalent.

21.6 Insolvency

- (a) A member of the Restricted Group is or is presumed or deemed to be unable, or admits 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 indebtedness.
- (b) The value of the assets of a member of the Restricted Group is less than its liabilities (taking into account contingent and prospective liabilities).
- (c) A moratorium is declared in respect of any indebtedness of a member of the Restricted Group.

21.7 Insolvency proceedings

- (a) Any corporate action, legal proceedings or other procedure or step is taken in relation to:
 - (i) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration, provisional supervision or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of a member of the Restricted Group;
 - (ii) a composition, assignment or similar arrangement with any creditor of a member of the Restricted Group;
 - (iii) the appointment of a liquidator, receiver, administrator, administrative receiver, compulsory manager, provisional supervisor or other similar officer in respect of a member of the Restricted Group or any of its assets; or
 - (iv) enforcement of any Security over any assets of a member of the Restricted Group having an aggregate value of at least US\$50,000,000, or any analogous procedure or step is taken in any jurisdiction.
- (b) Paragraph (a) above does not apply to:
 - (i) any step or procedure which is part of a Permitted Transaction; or
 - (ii) a petition for winding-up, administration or dissolution which is being contested in good faith and with due diligence and is discharged or struck out within 30 days.

21.8 Creditors' process

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of a member of the Restricted Group, having an aggregate value of at least US\$50,000,000 and which is not discharged within 30 days.

21.9 Cessation of business

A member of the Restricted Group ceases, abandons or threatens to cease or abandon to carry on business except:

- (a) as part of a Permitted Transaction; or
- (b) as a result of any disposal allowed under this Agreement.

21.10 Unlawfulness

It is or becomes unlawful for the Borrower to perform any of its obligations under the Finance Documents.

21.11 Repudiation

The Borrower repudiates a Finance Document or evidences an intention to repudiate a Finance Document.

21.12 Material adverse change

To the extent not covered by any other provision of this Clause 21, any material adverse change occurs in relation to the Borrower which has or, in the opinion of the Lender (acting reasonably), would have a Material Adverse Effect.

21.13 Acceleration

If an Event of Default has occurred and is continuing, the Lender may by notice to the Borrower:

- (a) without prejudice to the funding by the Lender of any Loans then outstanding:
 - (i) cancel the Commitments (and reduce them to zero), whereupon they shall immediately be cancelled (and reduced to zero); or
 - (ii) cancel any part of any Commitment (and reduce such Commitment accordingly), whereupon the relevant part shall immediately be cancelled (and the relevant Commitment shall be immediately reduced accordingly); and/or
- (b) 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
- (c) declare that all or part of the Loan be payable on demand, whereupon they shall immediately become payable on demand by the Lender.

**SECTION 8
CHANGES TO PARTIES**

22. CHANGES TO THE PARTIES

22.1 Assignments and transfers by the Lender

Subject to this Clause 22, the Lender and any New Lender which has become a Lender pursuant to this Agreement (each an “Existing Lender”) may:

- (a) assign any of its rights; or
- (b) transfer by novation any of its rights and obligations,

22.2 under the Finance Documents to another bank or financial institution (a “New Lender”). Conditions of assignment or transfer

The consent of the Borrower is not required for an assignment or transfer by an Existing Lender, but an Existing Lender shall provide the Borrower with prior written notice of any assignment or transfer by such Existing Lender.

22.3 Procedure for Transfer

Subject to Clause 22.2 (*Conditions of assignment or transfer*), the procedure for any transfer or assignment of any rights and/or obligations of an Existing Lender under the Finance Documents to a New Lender pursuant to Clause 22.1 (*Assignments and transfers by the Lender*) shall be agreed between the Existing Lender and the New Lender prior to such transfer or assignment taking into account prevailing market practice. A transfer or assignment under Clause 22.1 (*Assignments and transfers by the Lender*) will be effective only if such procedure is complied with. The Borrower shall agree to make such amendments or to execute such new documents as the Existing Lender or the New Lender deems reasonably necessary to give effect to such transfer or assignment or create, perfect, maintain or protect the interest of the Existing Lender or the New Lender under the Finance Document. All costs and expenses of any such amendments shall be borne by the New Lender.

22.4 Original consents and waivers

A New Lender shall be bound by any consent waiver, election or decision given or made by an Existing Lender under or pursuant to any Finance Document prior to the coming into effect of the relevant assignment or transfer to that New Lender.

22.5 Costs resulting from change of Lender or Facility Office

If:

- (a) a Lender assigns or transfers any of its rights and 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, the Borrower would be obliged to pay a Tax Payment or an Increased Cost, then the Borrower needs only pay that Tax Payment or Increased Cost to the same extent that it would have been obliged to if no assignment, transfer or change had occurred.

22.6 Assignments and transfers by the Borrower

The Borrower may not assign or transfer any of its rights or obligations under any Finance Document, except with the prior written consent of the Lender.

23. DISCLOSURE OF INFORMATION

- (a) The Lender must keep confidential any information supplied to it by or on behalf of the Company in connection with the Finance Documents. However, the Lender is entitled to disclose information:
- (i) which is publicly available, other than as a result of a breach by the Lender of this Clause 23;
 - (ii) to the extent required for the purpose of any legal or arbitration proceedings;
 - (iii) to the extent required to be disclosed under any law or regulation;
 - (iv) to a governmental, banking, taxation or other regulatory authority;
 - (v) to its professional advisers or any rating agency (provided that such person is under a duty of confidentiality to the Lender);
 - (vi) to the extent allowed under paragraph (b) below; or
 - (vii) with the agreement of the Borrower.
- (b) Without detracting from the Lender's rights of disclosure under any law, the Lender and its officers may disclose to any of its Affiliates, branches or associates or any person (a "**third party**") with (or through) whom the Lender enters into (or may enter into) any kind of transfer, participation or hedge agreement in relation to this Agreement or any other transaction under which payments are to be made by reference to this Agreement or the Borrower:
- (i) a copy of any Finance Document; and
 - (ii) any information which Lender has acquired under or in connection with any Finance Document.

However, before a third party may receive any confidential information, it must have entered into a Confidentiality Undertaking.

This Clause 23 supersedes any previous agreement relating to the confidentiality of such information.

**SECTION 9
ADMINISTRATION**

24. PAYMENT MECHANICS

24.1 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 (unless a contrary indication appears in a Finance Document) 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 Hong Kong with such bank as the Lender specifies.
- (c) The Borrower may swap any amounts borrowed by it under the Facility into any other currency prior to applying it in accordance with Clause 3.1 (*Purpose*).

24.2 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, costs and expenses of the Lender under the Finance Documents;
 - (ii) secondly, in or towards payment pro rata of any accrued interest, fee (other than as provided in (i) above) or commission due but unpaid under this Agreement;
 - (iii) thirdly, in or towards payment pro rata of any principal due but unpaid under this Agreement; and
 - (iv) fourthly, in or towards payment pro rata of any other sum due but unpaid under the Finance Documents.
- (b) The Lender (acting reasonably) may at its discretion vary the order set out in paragraph (a) above.
- (c) Paragraphs (a) and (b) above will override any appropriation made by the Borrower.

24.3 No set-off by 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.

24.4 Business Days

- (a) Any payment 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 paragraph (a) above, interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

24.5 Currency of account

- (a) Subject to paragraphs (b) and (c) below, AU 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 AU dollar shall be paid in that other currency.

24.6 Change of currency

- (a) Unless otherwise prohibited by law, if more than one currency or currency unit are at the same time recognised by the central bank of any country as the lawful currency of that country, then:
 - (i) any reference in the Finance Documents to, and any obligations arising under the Finance Documents in, the currency of that country shall be translated into, or paid in, the currency or currency unit of that country designated by the Lender (after consultation with the Borrower); and
 - (ii) any translation from one currency or currency unit to another shall be at the official rate of exchange recognised by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by the Lender (acting reasonably).
- (b) If a change in any currency of a country occurs, this Agreement will, to the extent the Lender (acting reasonably and after consultation with the Borrower) specifies to be necessary, be amended to comply with any generally accepted conventions and market practice in the relevant interbank market and otherwise to reflect the change in currency.

25. SET OFF

The Lender may, for so long as an Event of Default is continuing, set off any matured obligation due from the Borrower under the Finance Documents (to the extent beneficially owned by the Lender) against any matured obligation 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.

26. NOTICES

26.1 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 in person, by fax, letter or, to the extent agreed by the Parties making and receiving communications, by email or other electronic communication, to the fax number, name and address or email address (as applicable) set out in the signature block of each party to this Agreement. A party may notify the other of any change in such notice details with five (5) Business Days prior written notice. Any communication or document made or delivered under or in connection with the Finance Documents will be effective (i) if by way of fax, only when received in legible form; (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.; or (iii) if by e-mail or other electronic communication, when received in legible form.

For the purpose of the Finance Documents, an electronic communication will be treated as being in writing.

Any notice given under or in connection with the Finance Documents must be in English or, if not in English, accompanied by a certified English translation as any Party may request, in which case the English translation will prevail unless agreed otherwise by the Parties.

27. CALCULATIONS AND CERTIFICATES

27.1 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.

27.2 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.

27.3 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 365 days.

28. 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.

29. 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, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

30. AMENDMENTS AND WAIVERS

Any term of a Finance Document may be amended or waived only with the written consent of the parties to such document.

31. 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 the Finance Document.

32. ENTIRE AGREEMENT

This Agreement together with the Schedules set out the entire agreement between the Parties and supersede any prior oral and/or written understandings or arrangements relating to the Facilities.

33. THIRD PARTY AND MARKET FAILURE

The Lender shall not be responsible (unless due to the Lender's wilful misconduct or gross negligence) for any cost, loss or liability (including loss of profit) which the Borrower may incur in connection with the Facility as a result of:

- (a) any error, delay, breakdown or failure of any equipment, communication facilities, computer hardware or software or any other event or matter which is beyond the Lender's reasonable control; or
- (b) any action, omission or other matter by or on account of any third party (including any Governmental Agency).

34. ANTI-MONEY LAUNDERING AND OTHER LAWS

34.1 The Borrower agrees that the Lender may delay, block or refuse to process any transaction without incurring any liability if the Lender reasonably suspects or has reasonable grounds to suspect that:

- (a) the transaction may breach any laws or regulations in any country;
- (b) the transaction involves or may involve any person (natural, corporate, governmental, trust, partnership or any other person) that is itself sanctioned or is connected, directly or indirectly, to any person that is sanctioned under economic and trade sanctions imposed by the United States, the United Nations, the European Union, supra-national organisation, official body or any country; or
- (c) the transaction may directly or indirectly involve the proceeds of, or be applied for the purposes of, conduct which is unlawful in any country.

- 34.2 The Borrower must provide all information to the Lender which the Lender reasonably requires in order to:
- (a) manage its money-laundering, terrorism-financing or economic and trade sanctions risk;
 - (b) comply with any laws or regulations in any country; or
 - (c) comply with any applicable direction, request or requirement (whether or not having the force of law) of any competent government or other authority.
- 34.3 The Borrower agrees that the Lender and any of the Lender's Affiliates may, with prior notice to the Borrower, disclose any information concerning the Borrower:
- (a) to any law enforcement, regulatory agency or court where required by any such law or regulation in any country;
 - (b) where the Lender or any of the Lender's Affiliates is required to do so pursuant to any direction, request or requirement (whether or not having the force of Law) of any competent government or other authority in any country; and
 - (c) to any of the Lender's Affiliates or service provider of the Lender to perform administrative and operational tasks (including risk management, debt recovery, exposure aggregation, data processing, systems development and test, credit scoring, staff training and market or customer satisfaction research).
- 34.4 Unless the Borrower has disclosed that it is acting in a trustee capacity or on behalf of another party, the Borrower warrants that it is acting on its own behalf in entering into this Agreement. If the Borrower is acting on behalf of another party (such as a trustee), the Borrower agrees to provide the details of the beneficial owner of the funds to the Lender, as may be required by the Lender from time to time.
- 34.5 The Borrower declares and undertakes to the Lender that the processing of any transaction by the Lender in accordance with the Borrower's instructions will not breach any laws or regulations in any country.

SECTION 10
GOVERNING LAW AND ENFORCEMENT

35. GOVERNING LAW

This Agreement and any non-contractual obligations arising out of or in connection with it is governed by Hong Kong law.

36. ENFORCEMENT

36.1 Jurisdiction of Hong Kong courts

- (a) The courts of Hong Kong shall have exclusive jurisdiction to settle disputes solely arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement) or any non-contractual obligations arising out of or in connection with this Agreement (a “**Dispute**”).
- (b) The Parties agree that the courts of Hong Kong are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.

36.2 Service of process

Without prejudice to any other mode of service allowed under any relevant law, the Borrower:

- (a) irrevocably appoints **Li & Partners** at 22nd Floor, World-Wide House, 19 Des Voeux Road, Central, Hong Kong as its agent for service of process solely in relation to a Dispute arising out of or in connection with this Agreement (the “**Service Purpose**”);
- (b) agrees that if any person appointed as process agent is unable to act as process agent for the Service Purpose, the Borrower must promptly appoint a new process agent and notify the Lender of its name and address; and
- (c) save for an act of force majeure, agrees that failure by a process agent to notify the Borrower of the process will not invalidate the proceedings concerned.

36.3 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).

This Agreement has been entered into on the date stated at the beginning of this Agreement.

SCHEDULE 1
Conditions Precedent

1. BORROWER

- (a) This Agreement duly executed by the Borrower.
- (b) A certificate of a director of the Borrower:
 - (i) confirming its current directors;
 - (ii) certifying that the certificate of incorporation dated 18 January 2000, the certificate of incorporation on change of name dated 2 January 2009 and the third amended and restated memorandum and articles of association of the Company as registered or adopted on 16 December 2008 of the Borrower provided to the Lender on 21 September 2012 are true, complete and up-to-date copies and are in full force and effect as at a date no earlier than the date of this Agreement and there has been no change in the constitutional documents since they were last provided to the Lender;
 - (iii) confirming that borrowing the Commitment would not cause any borrowing or similar limit binding on it to be exceeded; and
 - (iv) certifying that each copy document relating to it specified in this Schedule 1 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.
- (c) A copy of a resolution of the board of directors of the Borrower:
 - (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.
- (d) A specimen of the signature of each person authorised by the resolution referred to in paragraph (b) above.

2. OTHER DOCUMENTS AND EVIDENCE

- (a) A copy of any other Authorisation or other document, opinion or assurance which the Lender considers to be necessary (if it has notified the Borrower accordingly prior to the date of this Agreement) 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.
- (b) The Original Financial Statements of the Borrower.
- (c) Evidence that the fees, costs and expenses then due from the Borrower pursuant to Clause 15 (*Costs and expenses*) have been paid or will be paid by the first Utilisation Date.
- (d) The completion by the Lender, the results of which are to the Lender's satisfaction, of all necessary "know your customer" or other similar procedures under all applicable laws and regulations pursuant to the transactions contemplated in the Finance Documents.

SCHEDULE 2
Utilisation Request

From: Baidu, Inc. as Borrower

To: Australia and New Zealand Banking Group Limited
Hong Kong Branch, as Lender

Dated:

Dear Sirs

Baidu, Inc. — AU\$235,000,000 Committed Term Loan Facility Agreement
dated 13 August 2013 (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)

Amount: [] or, if less, the Available Commitment

Interest Period: Three (3) Months

3. We confirm that each condition specified in Clause 4.2 (*Further conditions precedent*) is satisfied on the date of this Utilisation Request, and that there has been no change to our financial condition since the date of our latest audited financial statements, which change, would [or might reasonably be expected to] have or constitute a Material Adverse Effect.

4. We confirm that this Loan will be used for the purpose of refinancing the Existing Facility and for the general working capital requirements of the Group.

5. The proceeds of this Loan should be credited to [*specify account*].

6. This Utilisation Request is irrevocable.

Yours faithfully

/s/ Li Xin Zhe

authorised signatory for

Baidu, Inc.

Executed by the parties

The Borrower

For and on behalf of)
BAIDU, INC.)
by)
) /s/ Li Xin Zhe

Address: Baidu Campus, No. 10 Shangdi 10th Street Haidian District, Beijing 100085, The People's Republic of China

Attention: Zeng Ying

Telephone: +86 10 59926613

E-mail: zengying@baidu.com

The Lender

For and on behalf of) /s/ Richard Yeung
AUSTRALIA AND NEW ZEALAND) Executive Director
BANKING GROUP LIMITED,) Property Sector, NEA
HONG KONG BRANCH) /s/ Amanda Liu
) Head of Large Corporates

Attention: Tandy Chu

Address: 14/F Three Exchange Square, 8 Connaught Place, Central, Hong Kong

Tel: 852 3918 2182

Fax: 852 3918 7143

List of Principal Subsidiaries and Consolidated Affiliated Entities**Subsidiaries:**

Baidu Online Network Technology (Beijing) Co., Ltd. — Incorporated in the PRC
Baidu Holdings Limited — Incorporated in the British Virgin Islands
Baidu (China) Co., Ltd. — Incorporated in the PRC
Baidu.com Times Technology (Beijing) Co., Ltd. — Incorporated in the PRC
Baidu Japan Inc. — Incorporated in Japan
Baidu (Hong Kong) Limited — Incorporated in Hong Kong
Qunar Cayman Islands Limited — Incorporated in the Cayman Islands
Qiyi.com, Inc. — Incorporated in the Cayman Islands
B.D. Mobile Telecommunications Limited — Incorporated in the Cayman Islands
Baidu Cloud Computing Technology (Beijing) Co., Ltd.— Incorporated in the PRC
Baidu Cloud Computing Technology (Shanxi) Co., Ltd.— Incorporated in the PRC
91 Wireless Websoft Limited — Incorporated in the Cayman Islands

Consolidated Affiliated Entities:

Beijing Baidu Netcom Science Technology Co., Ltd. — Incorporated in the PRC
Beijing Perusal Technology Co., Ltd. — Incorporated in the PRC
Beijing BaiduPay Science and Technology Co., Ltd. — Incorporated in the PRC

**Certification by the Principal Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Robin Yanhong Li, certify that:

1. I have reviewed this annual report on Form 20-F of Baidu, Inc.;

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 company as of, and for, the periods presented in this report;

4. The company's other certifying officer 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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

(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 company'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 company's internal control over financial reporting.

Date: March 28, 2014

By: /s/ Robin Yanhong Li

Name: Robin Yanhong Li

Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jennifer Xinzhe Li, certify that:

1. I have reviewed this annual report on Form 20-F of Baidu, Inc.;

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 company as of, and for, the periods presented in this report;

4. The company's other certifying officer 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 Rule 13a-15(f) and 15d-15(f)) for the company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

Date: March 28, 2014

By: /s/ Jennifer Xinzhe Li

Name: Jennifer Xinzhe Li

Title: Chief Financial Officer

**Certification by the Principal Executive Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Baidu, Inc. (the "Company") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Robin Yanhong Li, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (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 and results of operations of the Company.

Date: March 28, 2014

By: /s/ Robin Yanhong Li

Name: Robin Yanhong Li

Title: Chief Executive Officer

**Certification by the Principal Financial Officer
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report of Baidu, Inc. (the "Company") on Form 20-F for the year ended December 31, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Jennifer Xinzhe Li, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (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 and results of operations of the Company.

Date: March 28, 2014

By: /s/ Jennifer Xinzhe Li

Name: Jennifer Xinzhe Li

Title: Chief Financial Officer

[Maples and Calder Letterhead]

Baidu, Inc.
Baidu Campus
No. 10 Shangdi 10th Street
Haidian District, Beijing 100085
The People's Republic of China

28 March 2014

Dear Sirs

Baidu, Inc.

We consent to the reference to our firm under the heading “Item 10.E. Additional Information—Taxation—Cayman Islands Taxation” and “Item 16G. Corporate Governance” in Baidu Inc.’s Annual Report on Form 20-F for the year ended 31 December 2013 (the “**Annual Report**”), which will be filed with the Securities and Exchange Commission (the “**SEC**”) in the month of March 2014, and further consent to the incorporation by reference into the Registration Statement (Form S-8 No. 333-129374) pertaining to Baidu, Inc.’s 2000 Option Plan, Registration Statement (Form S-8 No. 333-158678) pertaining to Baidu, Inc.’s 2008 Share Incentive Plan, and Registration Statement (Form F-3 No. 333-184757) of Baidu, Inc. of the summary of our opinion under the heading “Item 10.E. Additional Information—Taxation—Cayman Islands Taxation” and “Item 16G. Corporate Governance” in the Annual Report. We also consent to the filing with the SEC of this consent letter as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ Maples and Calder

[Han Kun Law Offices Letterhead]

March 28, 2014

Baidu, Inc.
Baidu Campus
No. 10 Shangdi 10th Street
Haidian District, Beijing
People's Republic of China 100085

Dear Sir/Madam:

We hereby consent to the reference of our name under the heading "Item 4.B. Information on the Company—Business Overview—Regulation" in Baidu, Inc.'s Annual Report on Form 20-F for the year ended December 31, 2013 (the "**Annual Report**"), which will be filed with the Securities and Exchange Commission (the "**SEC**") in the month of March 2014, and further consent to the incorporation by reference into the Registration Statement (Form S-8 No. 333-129374) pertaining to Baidu, Inc.'s 2000 Option Plan, Registration Statement (Form S-8 No. 333-158678) pertaining to Baidu, Inc.'s 2008 Share Incentive Plan, and Registration Statement (Form F-3 No. 333-184757) of Baidu, Inc. of the summary of our opinion under the heading "Item 4.B. Information on the Company—Business Overview—Regulation" in the Annual Report. We also consent to the filing of this consent letter with the SEC as an exhibit to the Annual Report.

In giving such consent, we do not thereby admit that we come within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, or under the Securities Exchange Act of 1934, in each case, as amended, or the regulations promulgated thereunder.

Very truly yours,

/s/ Han Kun Law Offices

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-8 No. 333-129374) pertaining to Baidu, Inc.'s 2000 Option Plan,
- (2) Registration Statement (Form S-8 No. 333-158678) pertaining to Baidu, Inc.'s 2008 Share Incentive Plan, and
- (3) Registration Statement (Form F-3 No. 333-184757) of Baidu, Inc.;

of our reports dated March 28, 2014, with respect to the consolidated financial statements of Baidu, Inc. and the effectiveness of internal control over financial reporting of Baidu, Inc. included in this Annual Report (Form 20-F) of Baidu, Inc. for the year ended December 31, 2013.

/s/ Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China
March 28, 2014