

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

**FORM F-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

BAIDU.COM, INC.

(Exact name of Registrant as specified in its charter)

Not Applicable

(Translation of Registrant's name into English)

7370

(Primary Standard Industrial
Classification Code Number)

12/F, Ideal International Plaza

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Beijing 100080, People's Republic of China

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

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Approximate date of commencement of proposed sale to the public:

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price (1)(2)	Amount of registration fee
Class A Ordinary Shares, par value US\$0.00005 per share(3)	US\$ 80,000,000	US\$ 9,416

- (1) Estimated solely for the purpose of determining the amount of registration fee in accordance with Rule 457(o) under the Securities Act of 1933.
- (2) Includes Class A ordinary shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the shares are first bona fide offered to the public, and also includes Class A ordinary shares that may be purchased by the underwriters pursuant to an over-allotment option. These Class A ordinary shares are not being registered for the purpose of sales outside the United States.
- (3) American depositary shares issuable upon deposit of the Class A ordinary shares registered hereby will be registered under a separate registration statement on Form F-6 (Registration No. 333-_____). Each American depositary share represents one Class A ordinary share.

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

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The information in this prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated _____, 2005.



This is an initial public offering of American depositary shares, or ADSs, of Baidu.com, Inc., or Baidu. Baidu is offering _____ ADSs, and the selling shareholders disclosed in this prospectus are offering an additional _____ ADSs. Each ADS represents one Class A ordinary share. The ADSs are evidenced by American depositary receipts, or ADRs. We anticipate that the initial public offering price will be between US\$ _____ and US\$ _____ per ADS.

Prior to this offering, there has been no public market for the ADSs or the shares. We have applied to have the ADSs quoted on the Nasdaq National Market under the symbol "BIDU."

See "[Risk Factors](#)" beginning on page 10 to read about risks you should consider before buying the ADSs.

Neither the United States Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Initial public offering price	US\$	US\$
Underwriting discount	US\$	US\$
Proceeds, before expenses, to Baidu	US\$	US\$
Proceeds, before expenses, to the selling shareholders	US\$	US\$

The underwriters have an option to purchase up to an additional _____ ADSs from Baidu and an additional _____ ADSs from the selling shareholders at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the ADSs evidenced by the ADRs against payment in U.S. dollars in New York, New York on _____, 2005.

Goldman Sachs (Asia) L.L.C.

Credit Suisse First Boston

Piper Jaffray

Prospectus dated _____, 2005.

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the ADSs offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information in this prospectus is current only as of the date of this prospectus.

In connection with this offering, Goldman Sachs (Asia) L.L.C., Credit Suisse First Boston LLC or any person acting for either of them may over-allot or effect transactions with a view to supporting the market price of the ADSs at a level higher than that which might otherwise prevail for a limited period of time after the issue date. However, there is no obligation on Goldman Sachs (Asia) L.L.C., Credit Suisse First Boston LLC or their respective agent to do this. Such stabilization, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

This prospectus contains translations of certain RMB amounts into U.S. dollars at specified rates solely for the convenience of the reader. Unless otherwise noted, all translations from RMB to U.S. dollars were made at the noon buying rate in The City of New York for cable transfers in RMB per U.S. dollar as certified for customs purposes by the Federal Reserve Bank of New York, or the noon buying rate, as of June 30, 2005, which was RMB8.2765 to US\$1.00. We make no representation that RMB or U.S. dollar amounts referred to in this prospectus 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. On July 11, 2005, the noon buying rate was RMB8.2765 to US\$1.00.

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements appearing elsewhere in this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks of investing in our ordinary shares and ADSs discussed under "Risk Factors," before deciding whether to purchase our ordinary shares or ADSs.

Our Business

We are the leading Chinese language Internet search provider. Our search engine was the most frequently used search engine in China in 2004, according to a survey conducted by Shanghai iResearch Co., Ltd., or iResearch, a market research firm specializing in China's Internet industry. Our Baidu.com website was the second largest website in China and the sixth largest website globally, as measured by user traffic that reflects page views and reach during the three-month period ended July 9, 2005, according to Alexa.com. We offer a unique Chinese language search platform for both users and customers. Our platform consists of our websites and Baidu Union, which is our network of third-party websites.

Our services are designed to enable Internet search users to find relevant information online, including Chinese language web pages, news, images and multimedia files, through links provided on our websites. We provide our users with easy access to an index of over 690 million web pages, 80 million images and 10 million multimedia files. We also offer a query-based online community, Baidu Post Bar, which currently consists of over 820,000 message boards.

Our auction-based pay-for-performance, or 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 online advertising services allow customers to use both query sensitive and non-query sensitive advertising services, including text links, graphical advertisements and other forms of online advertising. We design and deliver our services to our P4P and tailored solutions customers based on their online marketing requirements. Our P4P customers are those who primarily use our auction-based P4P services, and our tailored solutions customers are those to whom we provide marketing solutions, which may consist of one or more forms of our online advertising services as well as P4P services. In 2004, we had over 34,600 online marketing customers.

Founded in January 2000, we launched Internet search services on our Baidu.com website and began generating revenues from P4P services in September 2001. We began offering other online marketing services in July 2003. We have grown significantly since we commenced operations. Our total net revenues increased from RMB10.5 million in 2002 to RMB110.9 million (US\$13.4 million) in 2004, representing a compound annual growth rate, or CAGR, of 224.6%. In the three months ended March 31, 2005, we generated total net revenues of RMB42.6 million (US\$5.2 million).

Our Industry

The Internet search industry in China is evolving rapidly as an increasing number of people seek information, products and services via the Internet. According to iResearch, the number of Internet search users in China is projected to grow from 115 million in 2005 to 187 million in 2007, representing a CAGR of 27.5%. With the growth of Internet usage and the rapid development of China's Internet search market, online marketing has become more widely adopted. According to a 2003 report published by IDC, a leading market research firm, total online marketing revenues in China would amount to approximately US\$130 million in 2004. The paid search market is expected to be the fastest growing segment of online marketing in the Asia Pacific region (excluding Japan) through 2007.

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China's Internet search industry presents unique challenges and opportunities. Chinese language search engines must address the needs of Internet users in China, who generally search online for a broad variety of information, including Chinese language web pages, news, multimedia files and images. Chinese language search engines must also develop special language processing technologies to generate relevant results due to the complexities associated with the Chinese language and Chinese keyword searches. Moreover, Chinese language search engines providing paid search services must develop an effective distribution network to acquire customers, collect payments and provide customer service since China's paid search customers are largely comprised of a broad and fragmented base of small to medium-sized enterprises, or SMEs.

Our Strengths, Strategies and Risks

We believe that our leading position in China is primarily attributable to the following strengths:

- largest Chinese language search audience as measured by user traffic;
- first P4P service provider in China with an extensive customer base across industries;
- one of the most widely recognized Internet search brands in China, enhancing our ability to attract both users and customers;
- local market experience and expertise in introducing and expanding our services across China and operating in China's rapidly evolving Internet industry;
- leading technology with a proven platform providing users with relevant search results and customers with a cost-effective way to reach potential consumers; and
- extensive and effective nationwide network of over 200 regional distributors, providing high-quality and consistent customer services.

Our goal is to become a platform that provides Internet users with the best way to find information and allows businesses to reach a broad base of potential customers. We intend to achieve our goal by implementing the following strategies:

- enhancing user experience and increasing traffic through the development and introduction of new search-related features and functions;
- growing our online marketing business by attracting potential customers and increasing per-customer spending on our services;
- expanding Baidu Union by leveraging our brand and offering competitive economic arrangements to Baidu Union members; and
- pursuing selective strategic acquisitions and alliances that will allow us to increase user traffic, enlarge our customer base, expand our product offerings and reduce customer acquisition costs.

The successful execution of our strategies is subject to certain risks and uncertainties, including our ability to:

- maintain our leading position in the Internet search industry in China;

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- offer new and innovative products and services to attract and retain a larger user base;
- attract additional customers and increase per-customer spending;
- increase awareness of our brand and continue to develop user and customer loyalty;
- respond to competitive market conditions;
- respond to changes in our regulatory environment;
- manage risks associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- raise sufficient capital to sustain and expand our business;
- attract, retain and motivate qualified personnel; and
- upgrade our technology to support increased traffic and expanded services.

Please see “Risk Factors” and other information included in this prospectus for a discussion of these risks.

Our Corporate Information

We were incorporated in the Cayman Islands in January 2000. Since our inception, we have conducted our operations principally through Baidu Online Network Technology (Beijing) Co., Ltd., or Baidu Online, our wholly owned subsidiary in Beijing, China. In addition, we have conducted part of our operations through Baidu Netcom Science and Technology Co., Ltd., or Baidu Netcom, a limited liability company in Beijing, China, which holds the licenses and approvals necessary to operate our websites and provide online advertising services. See “Corporate Structure” for a description of the contractual arrangements among Baidu Online and Baidu Netcom and its shareholders. In June 2005, we established Baidu (China) Co., Ltd., or Baidu China, a wholly owned subsidiary in Shanghai, China. We intend to manage our business and operations in the southern part of China through Baidu China in the future.

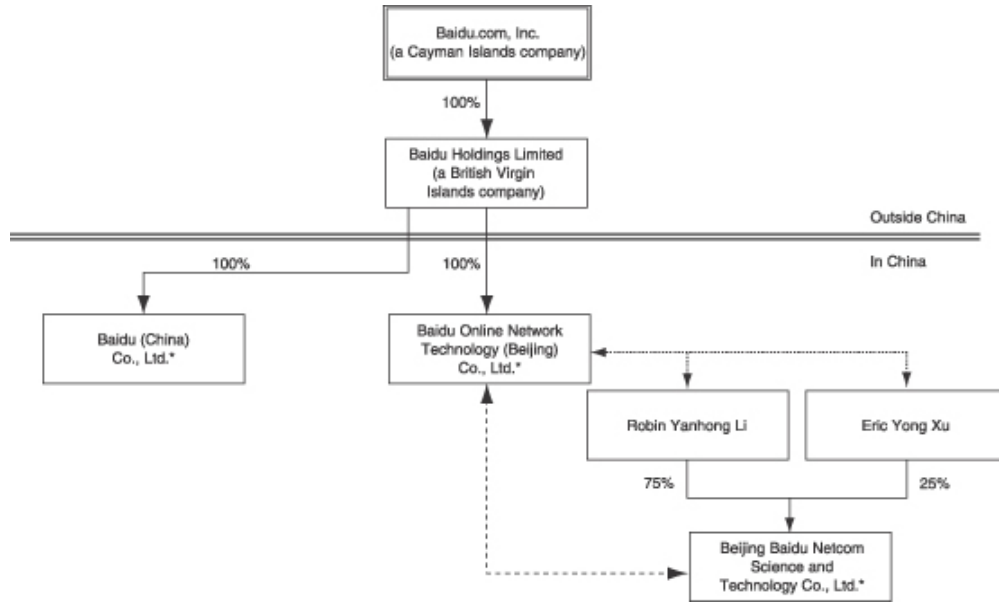
Our principal executive offices are located at 12/F, Ideal International Plaza, No. 58 West-North 4th Ring, Beijing 100080, People’s Republic of China. Our telephone number at this address is +86 (10) 8262-1188. Our registered office in the Cayman Islands is located at M&C Corporate Services Limited, P.O. Box 309 GT, Uglan House, South Church Street, George Town, Grand Cayman, Cayman Islands. Our telephone number at this address is +1 (345) 949-8066. We also have regional offices in Shanghai and Shenzhen, PRC.

Investors should submit any inquiries to the address and telephone number of our principal executive offices set forth above. Baidu.com is our website and the information contained on this website is not a part of this prospectus. Our agent for service of process in the United States is CT Corporation System, located at 111 Eighth Avenue, New York, New York 10011.

Our Corporate Structure

PRC law currently limits foreign ownership of companies that provide Internet content and advertising services. To comply with these foreign ownership restrictions, we operate our websites and provide online advertising services in China through Baidu Netcom, a PRC limited liability company wholly owned by our co-founder and chief executive officer, Robin Yanhong Li, and our co-founder, Eric Yong Xu, both of whom are PRC citizens. Baidu Netcom holds the licenses and approvals necessary to operate our websites and to provide online advertising services in China. We have contractual arrangements with Baidu Netcom and its shareholders pursuant to which we provide technology consulting services and license our registered domain names, trademarks and certain software to Baidu Netcom. Through these contractual arrangements, we also have the ability to substantially influence Baidu Netcom’s daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholder approval. As a result of these contractual arrangements, which enable us to control Baidu Netcom, we are considered the primary beneficiary of Baidu Netcom. Accordingly, we consolidate Baidu Netcom’s results, assets and liabilities in our financial statements. For a description of these contractual arrangements, see “Corporate Structure—Contractual Arrangements with Baidu Netcom and its Shareholders.”

The following diagram illustrates our current corporate structure and the place of formation, ownership interest and affiliation of each of our subsidiaries and Baidu Netcom as of the date of this prospectus.



* A limited liability company incorporated in the PRC

→ Equity interest

⇌ Contractual arrangements including business cooperation agreement, operating agreement, license agreements, proxy agreement and exclusive technology consulting service agreement. For a description of these agreements, see “Corporate Structure—Contractual Arrangements with Baidu Netcom and its Shareholders.”

⇌ Contractual arrangements including proxy agreement, equity pledge agreement, option agreement, operating agreement, loan agreement and irrevocable power of attorney. For a description of these agreements, see “Corporate Structure—Contractual Arrangements with Baidu Netcom and its Shareholders.”

The Offering

The following information assumes that the underwriters will not exercise their option to purchase additional ADSs in the offering, unless otherwise indicated.

Offering price	US\$	per ADS
ADSs offered by us		ADSs
ADSs offered by the selling shareholders		ADSs
Class A ordinary shares outstanding immediately after this offering		shares
Class B ordinary shares outstanding immediately after this offering		shares
ADSs to Class A ordinary share ratio	Each ADS represents one Class A ordinary share.	
Listing	We have applied to have the ADSs quoted on the Nasdaq National Market under the symbol “BIDU.” The ordinary shares and the ADSs will not be listed on any other exchange or traded on any other automated quotation system.	
Ordinary shares	Holders of Class A ordinary shares and Class B ordinary shares have the same rights except for voting and conversion rights. Each Class A ordinary share shall be entitled to one vote on all matters subject to shareholders’ vote, and each Class B ordinary share shall be entitled to 10 votes on all matters subject to shareholders’ vote. 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. 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 shall be automatically and immediately converted into the equal number of Class A ordinary shares.	
The ADSs	The ADSs will be evidenced by ADRs. <ul style="list-style-type: none">• The depositary will hold the shares underlying your ADSs. You will have rights as provided in the deposit agreement.• We do not expect to pay dividends in the foreseeable future. If, however, we declare dividends on our ordinary shares, the depositary will pay you the cash dividends and other distributions it receives on our Class A ordinary shares, after deducting its fees and expenses.	

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- You may turn in your ADSs to the depository in exchange for Class A ordinary shares. The depository will charge you fees for any such exchange.
- We may amend or terminate the deposit agreement without your consent. If you continue to hold your ADSs, you agree to be bound by the deposit agreement as amended.

To better understand the terms of the ADSs, you should carefully read the “Description of American Depositary Shares” section of this prospectus. You should also read the deposit agreement, which is filed as an exhibit to the registration statement that includes this prospectus.

Depository	The Bank of New York
Options to purchase additional ADSs	We and certain selling shareholders have granted to the underwriters an option, which is exercisable within 30 days from the date of this prospectus, to purchase up to an addition ADSs.
Timing and settlement for ADSs	The ADSs are expected to be delivered against payment on , 2005. The ADRs evidencing the ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC, in New York, New York. DTC, and its direct and indirect participants, will maintain records that will show the beneficial interests in the ADSs and facilitate any transfer of the beneficial interests.
Use of proceeds	Our net proceeds from this offering are expected to be approximately US\$ million, assuming an initial public offering price per ADS of US\$, which is the mid-point of the estimated public offering price range. We plan to use the net proceeds we receive from this offering: (i) to enhance our user experience; (ii) to expand our customer base; and (iii) for general corporate purposes. See “Use of Proceeds” for additional information. We will not receive any of the proceeds from the sale of ADSs by the selling shareholders.
Lock-up	We have agreed with the underwriters on a lock-up of ADSs or ordinary shares or securities convertible into or exchangeable or exercisable for any ADSs or ordinary shares for a period of 180 days after the date of this prospectus. In addition, our executive officers, directors and certain existing shareholders, who collectively hold approximately 94.8% of our outstanding shares immediately before this offering, have also agreed with the underwriters to a lock-up of ADSs or ordinary shares or securities convertible into or exchangeable or exercisable for any ADSs or ordinary shares for a period of 180 days after the date of this prospectus. Other than Google Inc., which holds approximately 2.6% of our total outstanding shares immediately before this offering, shareholders with ownership of 2% or more of our total outstanding ordinary shares on a fully-diluted basis immediately after the closing of this offering have also agreed with the underwriters to be subject to the lock-up restrictions

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for an additional 540-day period commencing on the date of the expiration of the 180-day lock-up period. Commencing on the date of the expiration of the 180-day lock-up period and at the beginning of each 180-day period thereafter until the expiration of the 540-day extended lock-up period, 25% of the shares held immediately after the completion of this offering of such shareholder will be released from the lock-up restrictions. See “Shares Eligible for Future Sale” and “Underwriting.”

In addition, we have instructed The Bank of New York, as depositary, and The Bank of New York has agreed, not to accept any deposit of any ordinary shares or issue any ADSs for 180 days after the date of this prospectus (other than in connection with this offering), unless we otherwise instruct. As a result, ADS holders who cancel their ADSs and withdraw the underlying ordinary shares will not be able to re-deposit such shares for issuance of ADSs until the expiration of the 180-day period described above. See “Shares Eligible for Future Sale” and “Underwriting.”

Risk factors

See “Risk Factors” and other information included in this prospectus for a discussion of risks you should carefully consider before investing in our ADSs.

The number of Class A ordinary shares that will be outstanding immediately after this offering:

- excludes 1,963,996 Class A ordinary shares issuable upon the exercise of options outstanding as of the date of this prospectus, at a weighted average exercise price of US\$4.432 per share; and
- excludes Class A ordinary shares reserved for issuance under our 2005 share incentive plan.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated statement of operations data for the years ended December 31, 2002, 2003 and 2004 and the summary consolidated balance sheet data as of December 31, 2004 have been derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statement of operations data for the three months ended March 31, 2004 and 2005 and the summary consolidated balance sheet data as of March 31, 2005 have been derived from our unaudited consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited consolidated financial information on the same basis as our audited consolidated financial statements. The unaudited financial information includes all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the periods presented. Our historical results do not necessarily indicate results expected for any future periods. In addition, our unaudited results for the three months ended March 31, 2005 may not be indicative of our results for the full year ended December 31, 2005.

You should read the summary consolidated financial information for those periods and as of those dates in conjunction with those statements and the accompanying notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Our consolidated financial statements are prepared and presented in accordance with generally accepted accounting principles in the United States, or U.S. GAAP.

	For the Year Ended December 31,				For the Three Months Ended March 31,		
	2002	2003	2004		2004	2005	
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
<i>(in thousands except for per share and per ADS data)</i>							
Consolidated Statement of Operations Data							
Net revenues	10,524	38,638	110,909	13,401	17,150	42,628	5,151
Operating costs and expenses(1)	(29,567)	(47,933)	(99,905)	(12,071)	(16,208)	(39,889)	(4,819)
Operating (loss)/profit	(19,043)	(9,295)	11,004	1,330	942	2,739	332
Net (loss)/income	(18,577)	(8,885)	12,005	1,450	1,038	2,501	303
Net (loss)/earnings per share							
Basic	(2.44)	(0.87)	1.09	0.13	0.10	0.22	0.03
Diluted	(2.44)	(0.87)	0.43	0.05	0.04	0.08	0.01
Net (loss)/income per ADS(2)							
Basic							
Diluted							
Weighted average number of ordinary shares used in per share calculations							
Basic	7,622	10,189	10,983	10,983	10,876	11,508	11,508
Diluted	7,622	10,189	28,124	28,124	26,930	29,808	29,808
Pro forma net earnings per share on an US Converted basis							
Basic			0.45	0.05		0.09	0.01
Diluted			0.43	0.05		0.08	0.01
Pro forma weighted average number of ordinary shares on an as converted basis used in per share calculation							
Basic			26,696	26,696		28,157	28,157
Diluted			28,124	28,124		29,808	29,808

(1) Include share-based compensation expenses as follows:

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(in thousands)	For the Year Ended December 31,				For the Three Months Ended March 31,		
	2002	2003	2004		2004	2005	
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
Share-based compensation expenses	(4,233)	(5,109)	(16,510)	(1,995)	(2,607)	(6,142)	(741)

(2) Each ADS represents one Class A ordinary share.

The following table presents a summary of our consolidated balance sheet data as of December 31, 2004 and March 31, 2005:

- on an actual basis;
- on a pro forma basis to give effect to the automatic conversion of all of our outstanding preferred shares into 16,648,877 Class B ordinary shares immediately prior to the closing of this offering; and
- on a pro forma as-adjusted basis to give effect to the automatic conversion of all of our outstanding preferred shares into 16,648,877 Class B ordinary shares immediately prior to the closing of this offering, and the issuance and sale by us of _____ ADSs representing our Class A ordinary shares in this offering, assuming an initial public offering price of US\$ _____ per ADS (which is the mid-point of the estimated public offering price range), after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

(in thousands)	As of December 31, 2004		As of March 31, 2005					
	Actual		Actual		Pro Forma		Pro Forma As Adjusted	
	RMB	US\$	RMB	US\$	RMB	US\$	RMB	US\$
Consolidated Balance Sheet Data								
Cash and cash equivalents	200,196	24,188	194,255	23,471	194,255	23,471		
Total assets	262,206	31,680	284,296	34,350	284,296	34,350		
Total current liabilities	54,192	6,548	67,602	8,168	67,602	8,168		
Redeemable convertible preferred shares	211,352	25,536	211,352	25,536	—	—		
Total shareholders' (deficit)/equity	(3,338)	(404)	5,342	646	216,694	26,184		
Total liabilities, redeemable convertible preferred shares and shareholders' equity	262,206	31,680	284,296	34,350	284,296	34,350		

RISK FACTORS

You should consider carefully all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in our ordinary shares and ADSs. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our ordinary shares and ADSs could decline, and you may lose all or part of your investment.

Risks Related to Our Business

Our limited operating history makes it difficult to evaluate our future prospects and results of operations.

We have a limited operating history. We commenced operations in 2000 and first achieved profitability in the quarter ended March 31, 2004. Accordingly, you should consider our future prospects in light of the risks and uncertainties experienced by early stage companies in evolving industries such as the Internet industry in China. Some of these risks and uncertainties relate to our ability to:

- maintain our leading position in the Internet search market in China;
- offer new and innovative products and services to attract and retain a larger user base;
- attract additional customers and increase spending per customer;
- increase awareness of our brand and continue to develop user and customer loyalty;
- respond to competitive market conditions;
- respond to changes in our regulatory environment;
- manage risks associated with intellectual property rights;
- maintain effective control of our costs and expenses;
- raise sufficient capital to sustain and expand our business;
- attract, retain and motivate qualified personnel; and
- upgrade our technology to support increased traffic and expanded services.

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

We sustained losses in the past and our historical financial information may not be representative of our future results of operations.

We began achieving profitability in the quarter ended March 31, 2004. As of March 31, 2005, we had accumulated losses of approximately RMB44.6 million (US\$5.4 million). We have experienced growth in recent periods in part due to the growth in China's online marketing industry, which may not be representative of future growth or be sustainable. We cannot assure you that our historical financial information is indicative of our future operating results or financial performance, or that our profitability will be sustained.

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If the Internet and, in particular, online marketing are not broadly adopted in China, our ability to increase revenue and sustain profitability could be materially and adversely affected.

The use of the Internet as a marketing channel is at an early stage in China. Internet and broadband penetration rates in China are both relatively low compared to those in most developed countries. Many of our current and potential customers have limited experience with the Internet as a marketing channel, and have not historically devoted a significant portion of their marketing budgets to online marketing and promotion. As a result, they may not consider the Internet effective in promoting their products and services as compared to traditional print and broadcast media. Our ability to generate significant revenues may be negatively 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 customers;
- increased competition and potential downward pressure on online marketing prices;
- higher customer acquisition costs due in part to SMEs' limited experience 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
- lack of increase in Internet usage in China.

We face significant competition and may suffer from a 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. Our main competitors include U.S.-based Internet search providers such as Google, Yahoo! and Microsoft, as well as Chinese Internet companies. These Chinese competitors include Internet portals such as Netease, Sina and Sohu, other Internet search service providers such as Sougou, Yisou and Zhong Sou, and business-to-business, or B2B, service providers such as Alibaba. We compete with these entities for both users and customers on the basis of user traffic, quality (relevance) and quantity (index size) of the search results, availability and ease restriction of use of products and services, the number of customers, distribution channels and the number of associated third-party websites. In addition, we may face greater competition from our U.S. competitors as a result of, among other things, a relaxation on the foreign ownership restrictions of PRC Internet content and advertising companies, improvements in online payment systems and Internet infrastructure in China and our U.S. competitors' increased business activities in China.

Many of these competitors have significantly greater financial resources than we do. They also have longer operating histories and more experience in attracting and retaining users and managing customers than we do. 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 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, result in loss of customers and users and have a material adverse effect on our results of operations.

We also face competition from traditional advertising media, such as newspapers, magazines, yellow pages, billboards and other forms of outdoor media, television and radio. Most large companies in China allocate, and will likely continue to allocate, most of their marketing budgets to traditional advertising media and only a small

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portion of their budgets to online marketing. 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 future growth prospects could be adversely affected.

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

We believe that recognition of 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 expanding our base of users, customers and Baidu Union members. As our market becomes increasingly competitive, maintaining and enhancing our brand will depend largely on our ability to remain as an Internet search leader in China, which may be increasingly difficult and expensive.

We have developed our user base primarily by word-of-mouth and incurred limited brand promotion expenses. We have recently initiated brand promotion efforts, but we cannot assure you that our new marketing efforts will be successful in further promoting our brand. If we fail to promote and maintain the “Baidu” brand, or if we incur excessive expenses in this effort, our business and results of operations could be materially and adversely affected.

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

Our success depends on providing products and services that people use for a high-quality Internet experience. Our competitors are constantly developing innovations in Internet search and online marketing as well as enhancing users’ online experience. As a result, we must continue to invest significant resources in research and development to enhance our Internet search technology and our existing products and services and introduce additional high quality products and services to attract and retain users. 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 and customers. Our operating results would also suffer if our innovations do not respond to the needs of our users and customers, are not appropriately timed with market opportunities or are not effectively brought to market. As search technology continues to develop, our competitors may be able to offer search results that are, or that are perceived to be, substantially similar to or better than those generated by our search services. This may force us to expend significant resources in order to remain competitive.

If we fail to keep up with rapid technological changes, our future success may be adversely affected.

The online marketing industry is subject to rapid technological changes. Our future success will depend on our ability to respond to rapidly changing technologies, adapt our services to evolving industry standards and improve the performance and reliability of our services. Our failure to adapt to such changes could harm our business. New marketing media could also adversely affect us. For example, the number of people accessing the Internet through devices other than personal computers, including mobile telephones and hand-held devices, has increased in recent years. If we are slow to develop products and technologies that are more compatible with non-PC communications devices, we may not be successful in capturing a significant share of this increasingly important market for media and other services. In addition, the widespread adoption of new Internet, networking or telecommunications technologies or other technological changes could require substantial expenditures to modify or adapt our products, services or infrastructure. If we fail to keep up with rapid technological changes to remain competitive in our rapidly evolving industry, our future success may be adversely affected.

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We may face intellectual property infringement claims and other related claims, particularly in light of the recent Grokster decision, that could be time-consuming and costly to defend and may result in our inability to continue providing certain of our existing services.

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 third-party rights. The validity, enforceability and scope of protection of intellectual property in Internet-related industries, particularly in China, are uncertain and still evolving. In addition, many parties are actively developing and seeking protection for Internet-related technologies, including seeking patent protection. There may be patents issued or pending that are held by others that cover significant aspects of our technologies, products, business methods or services. 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.

Our products and services link to materials in which third parties may claim ownership of trademarks, copyrights or other rights. From time to time, we may be subject to trademark or copyright infringement or related claims, in China and/or internationally. For example, we provide search engine facilities capable of finding and accessing links to downloadable MP3 music, movies, images and other multimedia files and/or other items hosted on third-party websites, which may be protected by copyright, including search facilities enabling our users to search for MP3 music files in various ways such as by artist, title, or via lists of most-searched-for titles and artists. In the United States, the legal standards for determining indirect liability for copyright infringement have recently been strengthened by the United States Supreme Court in the decision *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, No. 04-480, 2005 WL 1499402 (June 27, 2005), or *Grokster*. The implications of the *Grokster* decision for search engine services such as our MP3 search service are uncertain and may increase the risk of legal liability. While we conduct our business operations outside the United States, we cannot assure you that we would not be subject to U.S. copyright laws, including the legal standards established by *Grokster*. Moreover, we cannot assure you that *Grokster* will not influence the legal standards for determining indirect copyright infringement in other jurisdictions, including China. In light of *Grokster* and the associated publicity, copyright owners may monitor their copyrighted materials more closely worldwide and may seek to enforce their rights under theories of indirect liability or otherwise. As a result, we face increased risks of being subject to copyright infringement claims relating to our MP3 search service. Furthermore, this same consideration may also lead to decreased availability of third-party MP3 websites. A significant portion of our traffic is generated by users of our MP3 search service. According to Alexa.com, 22% of our traffic went to mp3.baidu.com, our MP3 search platform, as of July 9, 2005. Should we face (as a result of the foregoing considerations or otherwise) a need or decision to substantially modify, limit, or terminate our MP3 search service, our business, financial condition or results of operations could be materially and adversely affected.

In addition, as do many Internet websites, we host certain song lyrics on our websites which may be protected by copyright. As a result, we may be subject to copyright infringement claims. We have received several notice letters from parties asserting trademark and copyright infringement claims against us. Moreover, we may be subject to administrative actions brought by the PRC State Copyright Bureau for alleged copyright infringement, and as a result may be subject to fines and/or other penalties and be required to discontinue infringing activities. In addition, we provide links to images of celebrities and other persons, and may face claims for misappropriation of publicity rights. Finally, since a substantial portion of our search results links to MP3 files and other materials in which third parties may claim to own trademarks, copyrights or publicity rights and since we host certain song lyrics on our websites which may be protected by copyright, we may be required to change our business model and service offerings to minimize this risk, which would adversely affect our business prospects. See “Regulation—Regulations on Intellectual Property Rights.”

Intellectual property litigation is expensive and time consuming and could divert resources and management attention from the operations of our business. We were recently named as a defendant in two copyright infringement suits in China in connection with our MP3 and movie search services, respectively, and the courts have not ruled on these cases. See “Business—Legal Proceedings.” If there is a successful claim of infringement,

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we may be required to pay substantial fines and damages 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 could have a material adverse effect on our business, financial condition or results of operations.

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. Overture Services Inc., a subsidiary of Yahoo!, had applied for a patent in China relating to a P4P platform prior to our patent application in China covering a P4P platform. We have been advised by East Associates, our special PRC patent counsel, that neither Overture's nor our patent application (nor any similar patent applications relating to a P4P platform) is likely to be granted in China as a P4P platform is regarded by the Chinese patent authorities to be a business method which is not patentable in China. We have been further advised by East Associates that, as of July 12, 2005, no patents relating to a P4P platform had been issued in China. However, the application and interpretation of China's patent laws and the procedures and standards for granting patents in China are still evolving and involve a certain degree of uncertainty. We cannot assure you that Overture or any other party would not obtain a patent covering a P4P platform in China. If Overture obtains a patent covering a P4P platform in China, it may seek to bring a claim against us alleging our infringement of its patent rights in China. We cannot assure you that we will be successful in defending against any such claims relating to the P4P platform used by us because Overture's patent application in China was filed prior to ours and there may be similarities between certain claims covered by the two patent applications.

Moreover, certain U.S.-based companies, including Overture, have been granted patents in the United States relating to P4P platforms or technologies and similar business methods and related technologies. Based on publicly available information, we are aware that Overture has brought a patent infringement claim against Findwhat.com in the United States District Court, Central District of California (Case No. 8:03-cv-00685-CJC-E) related to Overture's United States Patent No. 6,269,361 entitled "System and Method for Influencing a Position on a Search Result List Generated by a Computer Network Search Engine," or Patent '361, and the lawsuit is currently pending at the trial court. Patent '361 relates to Overture's P4P platform. We are also aware that Overture filed a patent infringement claim in the U.S. against Google in 2002 related to Patent '361 and that the parties settled this lawsuit in 2004. While we believe that we are not subject to U.S. patent laws since we conduct our business operations outside of the U.S., 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. Any patent infringement claims, regardless of their merits, could be time-consuming and costly to us. If we were sued for patent infringement claims in the United States or China relating to our P4P platform, and we were found to infringe such patents and were not able to adopt non-infringing technologies, we may be severely limited in our ability to operate our P4P business, which would have a material adverse effect on our results of operations and business prospects.

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 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 Chinese language search, Baidu Post Bar, P4P or online advertising services that are comparable to or better than ours, which could harm our business and competitive position. From time to time, we may have to enforce our intellectual property rights through litigation. Such litigation may result in substantial costs and diversion of resources and management attention.

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

In 2004 and the three months ended March 31, 2005, we generated approximately 91.0% and 94.2% of our total revenues from online marketing services, respectively, a substantial majority of which was generated from our 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. Failure to retain our existing online marketing customers or attract new customers for our online marketing services could seriously harm our business and growth prospects.

Because we primarily rely on distributors in providing our P4P services, our failure to retain key distributors or attract additional distributors could materially and adversely affect our business.

Online marketing is at an early stage of development 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 heavily 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. We do not have long-term agreements with any of our distributors, including our key distributors, and cannot assure you that we will continue to maintain favorable relationships with them. Our distribution arrangements, except for those with our key distributors, are non-exclusive. Furthermore, some of our distributors also contract with our competitors or potential competitors and may not renew their distribution agreements with us. In addition, as new methods for accessing the Internet, including the use of wireless devices, become available, we may need to expand our distribution network. 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.

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 revenues and growth may be adversely affected.

We pay our Baidu Union members a portion of our revenues generated from click-throughs by users of our Baidu Union websites. In 2004, approximately a quarter of our total revenues was generated from click-throughs by users of our Baidu Union websites. 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 websites to join our Baidu Union, our revenue growth may be adversely affected.

Our strategy of acquiring complementary businesses, assets and technologies may fail.

As part of our business strategy, we have pursued, and intend to continue to pursue, selective strategic acquisitions of businesses, assets and technologies that complement our existing business. For example, in August 2004, we acquired the domain name Hao123.com, at that time the largest traffic contributor to our Baidu.com website among our Baidu Union members. In February 2005, we acquired the business of Shanghai Qilang Science and Technology Co. Ltd., or Qilang, at that time the largest distributor of our P4P services in Shanghai. We may make other acquisitions in the future if suitable opportunities arise. Acquisitions involve uncertainties and risks, including:

- potential ongoing financial obligations and unforeseen or hidden liabilities;
- failure to achieve the intended objectives, benefits or revenue-enhancing opportunities;

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- costs and difficulties of integrating acquired businesses and managing a larger business; and
- diversion of resources and management attention.

Our failure to address these risks successfully may have a material adverse effect on our financial condition and results of operations. Any such acquisition 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 acquisitions, we may dilute the value of your ADSs and the underlying ordinary shares. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that could, among other things, restrict us from distributing dividends. Such acquisitions may also generate significant amortization expenses related to intangible assets.

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

We commenced operations in 2000 and have expanded our operations rapidly. We anticipate significant continued expansion of our business as we address growth in our user and customer base and market opportunities. To manage the potential growth of our operations and personnel, we will be required to improve operational and financial systems, procedures and controls, and expand, train and manage our growing employee base. Furthermore, our management will be required to maintain and expand our relationships with other websites, Internet companies and other third parties. We cannot assure you that our current and planned personnel, systems, procedures and controls will be adequate to support our future operations.

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

Our operating results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results 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 rates. Our operating results 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 risk factors, could cause our operating results to fluctuate from quarter to quarter:

- general economic conditions in China and economic conditions specific to the Internet, Internet search and online marketing;
- our ability to continue to attract users to our website;
- 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;
- PRC regulations or actions pertaining to activities on the Internet, including gambling, online games and other forms of entertainment; and
- geopolitical events or natural disasters such as war, threat of war, Severe Acute Respiratory Syndrome, or SARS, or other epidemics.

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Because of our limited operating history and our rapidly growing business, our historical operating results may not be useful to you in predicting our future operating results. Our user traffic tends to be seasonal. For example, we generally experience less user traffic during public holidays in China. In addition, advertising 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 operating results to fluctuate.

Our business may be adversely affected by third-party software applications that interfere with our receipt of information from, and 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 that users may associate with Baidu.com. These software applications may be difficult or impossible to remove or disable, may reinstall themselves and may circumvent other applications' efforts to block or remove them. The ability to provide a superior user experience is critical to our success. If our efforts to combat these software applications are unsuccessful, our reputation may be harmed. This could result in a decline in user traffic and, consequently, our revenues.

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 Information Industry of China. 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. We cannot assure you that 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.

We also rely on China Telecommunications Corporation, or China Telecom, and China Netcom Corporation Ltd., or China Netcom, to provide us with data communications capacity primarily through local telecommunications lines and Internet data centers to host our servers. We do not have access to alternative services in the event of disruptions, failures or other problems with the fixed telecommunications networks of China Telecom and China Netcom, or if China Telecom or China Netcom otherwise fail to provide such services. In March 2004, due to a power outage at China Netcom's Internet data center that hosted our servers, we were unable to provide Internet search service for approximately five hours. 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 China Telecom and China Netcom. 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.

Our success depends on the continuing efforts of our senior 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 the members of our senior management team, in particular our chairman and chief executive officer, Robin Yanhong Li, our chief financial officer,

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Shawn Wang, our chief operating officer, David Hongbo Zhu, our vice president of engineering, Jerry Jianguo Liu, and our vice president of marketing, Dong Liang. If one or more of our senior 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 senior management and key personnel is intense, the pool of qualified candidates is very limited, and we may not be able to retain the services of our senior executives or key personnel, or attract and retain high-quality senior executives or key personnel in the future.

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

The initial option grants to many of our senior management and key employees are fully vested. Therefore, these employees may not have sufficient financial incentive to continue to work for our company, and our ability to execute our business model could be impaired if we cannot replace departing senior management and key employees in a timely manner.

Many of our senior management personnel and other key employees have become, or will soon become, substantially vested in their initial share option grants under our 2000 Option Plan. While we often grant additional share options to management personnel and other key employees after their hire dates, the initial grants are usually much larger than subsequent grants. Employees may be more likely to leave us after their initial option grant fully vests, especially if the shares underlying the options have significantly appreciated in value relative to the option exercise price. If any member of our senior management team or other key personnel leaves our company, our ability to successfully operate our business and execute our business strategy could be impaired. We may also have to incur significant costs in identifying, hiring, training and retaining replacements for departing employees.

We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel or hire qualified personnel, we may not be able to grow effectively.

Our performance and future success depends 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. Competition in our 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 our 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.

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 numbers 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 customers using our P4P services increases. We may be required to upgrade our technology infrastructure to keep up with the increasing traffic on our websites, such as increasing the capacity of our hardware 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 click-through fraud, 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 to generate the revenues we pay to our Baidu Union members or our customers rather than to view the content of search results. If we find evidence of past fraudulent clicks, we may have to issue refunds to our customers. 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 their investment in our online marketing services and lose confidence in the integrity of our systems. If this happens, we may be unable to retain existing customers and attract new customers for our online marketing services and our online marketing revenues could decline.

Interruption or failure of our information technology and communications systems could impair our ability to effectively provide our products and services, which could damage our reputation and harm our operating results.

Our ability to provide our 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 service. Service interruptions could reduce our revenues and profits, and damage our brand if our system is perceived to be unreliable. Our systems are vulnerable to damage or interruption as a result of terrorist attacks, war, earthquakes, floods, fires, power loss, telecommunications failures, 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. Our servers, which are hosted at third-party Internet data centers, are also vulnerable to break-ins, sabotage and vandalism. Some of our systems are not fully redundant, and our disaster recovery planning does not account for all possible scenarios. The occurrence of a natural disaster or a closure of an Internet data center by a third-party provider without adequate notice could result in lengthy service interruptions.

In April 2004, we failed to provide Internet search results for approximately four hours as a result of an error in operations. If we experience frequent or persistent system failures on our website, our reputation and brand could be permanently harmed. The steps we plan to take to increase the reliability and redundancy of our systems are expensive, reduce our operating margin and may not be successful in reducing the frequency or duration of service interruptions.

Our business could be adversely affected if our software contains bugs.

Our online systems, including our websites, our enterprise search software and other software applications and products, could contain undetected errors or “bugs” that could adversely affect their performance. We regularly update and enhance our website and our other online systems and introduce new versions of our software products and applications. The occurrence of errors in any of these may cause us to lose market share, damage our reputation and brand name, and materially and adversely affect our business.

Concerns about the security of electronic commerce transactions and confidentiality of information on the Internet may reduce use of our network and impede our growth.

A significant barrier to electronic commerce and communications over the Internet in general has been a public concern over security and privacy, including the transmission of confidential information. If these concerns are not adequately addressed, they may inhibit the growth of the Internet and other online services generally, especially as a means of conducting commercial transactions. If a well-publicized Internet breach of security were to occur, general Internet usage could decline, which could reduce traffic to our destination websites and impede our growth.

We have limited business insurance coverage.

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

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 such PRC laws and regulations may materially and adversely affect our business.

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 affiliated Chinese entity, Baidu Netcom, and its shareholders. We and Baidu Online are considered foreign persons or foreign invested enterprises under PRC law. As a result, we and Baidu Online are subject to PRC law limitations on foreign ownership of Internet and advertising companies. These laws and regulations are relatively new and may be subject to change, and their official interpretation and enforcement may involve substantial uncertainty. The effectiveness of newly enacted laws, regulations or amendments may be delayed, resulting in detrimental reliance by foreign investors. New laws and regulations that affect existing and proposed future businesses may also be applied retroactively.

PRC laws currently provide limited guidance as to whether an Internet search provider that provides search result links to domestic news websites is required to obtain an approval from the State Council News Office. PRC laws also do not provide clear guidance as to whether an Internet search provider that provides links to online audio/video products is required to obtain an Internet culture permit from the Ministry of Culture or a license for broadcasting audio/video programs from the State Administration of Radio, Film and Television. If the interpretation of existing laws and regulations changes or new regulations come into effect requiring us to obtain any such licenses, permits or approvals, we cannot assure you that we may successfully obtain them, and we may need to remove links to news and audio/video products until we obtain the requisite licenses, permits and approvals.

The PRC government has broad discretion in dealing with violations of laws and regulations, including levying fines, revoking business and other licenses and requiring actions necessary for compliance. In particular, licenses and permits issued or granted to us by relevant governmental bodies may be revoked at a later time by higher regulatory bodies. We cannot predict the effect of the interpretation of existing or new PRC laws or regulations on our businesses. We cannot assure you that our current ownership and operating structure would not be found in violation of any current or future PRC laws or regulations. As a result, we may be subject to sanctions, including fines, and could be required to restructure our operations or cease to provide certain services. Any of these or similar actions 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 the PRC government were to classify P4P services as a form of advertising, we may have to conduct our P4P business through Baidu Netcom, which would increase our effective tax rate, and we might be subject to sanctions and required to pay delinquent taxes.

PRC laws and regulations related to advertising do not currently classify P4P as a form of advertising. We conduct our P4P business through Baidu Online, which does not hold an advertising license. However, we cannot assure you that the PRC government will not classify P4P as a form of advertising in the future. If new regulations characterize P4P as a form of advertising, we may have to conduct our P4P business through Baidu

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Netcom. This would increase our consolidated effective tax rate for two reasons. First, advertising revenues generated by Baidu Netcom are subject to a 3% surcharge in addition to the 5% business tax. Second, Baidu Netcom is subject to the 33% statutory enterprise income tax rate, as compared to the preferential enterprise income tax rate of 7.5% enjoyed by Baidu Online as of the date of this prospectus. See “Business—Taxation” for more information on PRC business and enterprise income tax as applicable to Baidu Netcom and Baidu Online. Moreover, if the change in classification of P4P were retroactively applied, we might be subject to sanctions, including payment of delinquent taxes and fines. Any change in the classification of P4P by the PRC government may significantly disrupt our operations and materially and adversely affect our business, results of operations and financial conditions.

We may be adversely affected by complexity, uncertainties and changes in PRC regulation of Internet business and companies, including limitations on our ability to own key assets such as our website.

The PRC government extensively regulates the Internet industry 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, in certain circumstances it may be difficult to determine what actions or omissions may be deemed to be a violation of applicable laws and regulations. Issues, risks and uncertainties relating to PRC government regulation of the Internet industry include the following:

- we only have contractual control over our website. We do not own it due to the restriction of foreign investment in businesses providing value-added telecommunication services in China, including online information services;
- uncertainties relating to the regulation of the Internet business in China, including evolving licensing practices, means that permits, licenses or operations at some of our companies may be subject to challenge. This may 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; and
- certain PRC government authorities have stated publicly that they are in the process of promulgating new laws and regulations that will regulate Internet activities. The areas of regulation may include online advertising, online news displaying, online audio-video program broadcasting and the provision of culture-related information over the Internet. Other aspects of our online operations may be regulated in the future. If our operations do not comply with these new regulations at the time they become effective, we could be subject to penalties.

The interpretation and application of existing PRC laws, regulations and policies and possible new laws, regulations or policies 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.

In order to comply with PRC laws limiting foreign ownership of Internet and advertising businesses, we conduct our ICP and online advertising businesses through Baidu Netcom by means of contractual arrangements. If the PRC government determines that these contractual arrangements do not comply with applicable regulations, our business could be adversely affected.

The PRC government restricts foreign investment in Internet and advertising businesses. Accordingly, we operate our websites and our online advertising business in China through Baidu Netcom, a company wholly owned by our chairman, chief executive officer and co-founder Robin Yanhong Li and our co-founder Eric Yong Xu, both of whom are PRC citizens. Baidu Netcom holds the licenses and approvals necessary to operate our website and our online advertising business in China. We have contractual arrangements with Baidu Netcom and its shareholders that allow us to substantially control Baidu Netcom. We cannot assure you, however, that we will be able to enforce these contracts.

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Although we believe we comply with current PRC regulations, we cannot assure you that the PRC government would agree that these operating 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. 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 website, 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.

Our contractual arrangements with Baidu Netcom and its shareholders may not be as effective in providing control over these entities as direct ownership.

Since PRC law limits foreign equity ownership in Internet and advertising companies in China, we operate our ICP and advertising businesses through Baidu Netcom. We have no equity ownership interest in Baidu Netcom and rely on contractual arrangements to control and operate such businesses. These contractual arrangements may not be as effective in providing control over Baidu Netcom as direct ownership. For example, Baidu Netcom could fail to take actions required for our business or fail to maintain our website despite its contractual obligation to do so. If Baidu Netcom fails to perform under their agreements with us, we may have to rely on legal remedies under PRC law, which may not be effective. In addition, we cannot assure you that either of Baidu Netcom's shareholders would always act in our best interests.

Our contractual arrangements with Baidu Netcom may result in adverse tax consequences to us.

As a result of our corporate structure and contractual arrangements between Baidu Online and Baidu Netcom, we are effectively subject to the 5% PRC business tax on both revenues generated by Baidu Netcom's operations in China and revenues derived from Baidu Online's contractual arrangements with Baidu Netcom. Moreover, we would be subject to adverse tax consequences if the PRC tax authorities were to determine that the contracts between Baidu Online and Baidu Netcom were not on an arm's length basis and therefore constitute a favorable transfer pricing. As a result, the PRC tax authorities could request that Baidu Netcom adjust its taxable income upward for PRC tax purposes. Such a pricing adjustment could adversely affect us by:

- increasing Baidu Netcom's tax expenses without reducing Baidu Online's tax expenses, which could subject Baidu Netcom to late payment fees and other penalties for under-payment of taxes; and/or
- resulting in Baidu Online's loss of its preferential tax treatment.

The principal shareholder of Baidu Netcom has potential conflicts of interest with us, which may adversely affect our business.

Robin Yanhong Li, our chairman and chief executive officer, is also the principal shareholder of Baidu Netcom. Conflicts of interests between his duties to our company and Baidu Netcom may arise. As Mr. Li is a director and executive officer of our company, he has a duty of loyalty and care to us under Cayman Islands law when there are any potential conflicts of interests between our company and Baidu Netcom. Additionally, Mr. Li has executed an irrevocable power of attorney to appoint the individual designated by us to be his attorney-in-fact to vote on his behalf on all Baidu Netcom matters requiring shareholder approval. We cannot assure you, however, that when conflicts of interest arise, Mr. Li will act completely in our interests or that conflicts of interests will be resolved in our favor. In addition, Mr. Li could violate his employment agreement with us or his legal duties by diverting business opportunities from us to others. If we cannot resolve any conflicts of interest between us and Mr. Li, we would have to rely on legal proceedings, which could result in the disruption of our business.

Our corporate actions are substantially controlled by our principal shareholders and affiliated entities.

After this offering, our principal shareholders and their affiliated entities will own approximately _____% of our outstanding ordinary shares, representing approximately _____% of our voting power due to our dual-class ordinary share structure. These shareholders, acting individually or as a group, could exert substantial influence over matters such as electing directors and approving mergers or other business combination transactions. This concentration of ownership may also discourage, delay or prevent a change in control of our company, which could deprive our shareholders of an opportunity to receive a premium for their shares as part of a sale of our company and might reduce the price of our ADSs. These actions may be taken even if they are opposed by our other shareholders, including those who purchase shares in this offering.

We may be unable to collect long-term loans to the shareholders of Baidu Netcom.

As of March 31, 2005, we had made long-term loans in an aggregate principal amount of RMB2.0 million (US\$0.2 million) to the shareholders of Baidu Netcom. We extended these loans to help them fund the initial capitalization of Baidu Netcom. We may in the future provide additional loans to the shareholders of Baidu Netcom in connection with any increase in the capitalization of Baidu Netcom to the extent necessary and permissible under applicable law. Our ability to ultimately collect these loans will depend on the profitability of Baidu Netcom and its operational needs, which are uncertain.

Risks Related to Doing Business in China

Adverse changes in economic and political policies of the PRC government could have a material adverse effect on the overall economic growth of China, which could adversely affect our business.

Substantially all of our business operations are conducted in China. Accordingly, our results of operations, financial condition and prospects are subject to a significant degree to economic, political and legal developments in China. China's economy differs from the economies of most developed countries in many respects, including with respect to the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. While the PRC economy has experienced significant growth in the past 20 years, growth has been uneven across different regions and among various economic sectors of China. The PRC government has implemented various measures to encourage economic development and guide the allocation of resources. Some of these measures benefit the overall PRC economy, but may also 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 that are applicable to us. Since early 2004, the PRC government has implemented certain measures to control the pace of economic growth. Such measures may cause a decrease in the level of economic activity in China, which in turn could adversely affect our results of operations and financial condition.

Regulation and censorship of information disseminated over the Internet in China may adversely affect our business and subject us to liability for information linked to our website.

The PRC government has adopted regulations governing Internet access and the distribution of news and other information over the Internet. Under these regulations, Internet content providers and Internet publishers are prohibited from posting or displaying over the Internet 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 such requirements has resulted in the closure of certain websites. The website operator may also be held liable for such censored information displayed on or linked to the website.

In addition, the Ministry of Information Industry 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,

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including liability for violations of PRC laws 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.

In June 2002, we were required to shut down our server for one week and pay an RMB10,000 fine because our search results contained certain content that the public security authorities considered socially harmful. Although we attempt to monitor the content in our search results and on our Baidu Post Bar, a query-based online community, we are not able to control or restrict the content of other Internet content providers linked to or accessible through our websites, or content generated or placed on our Baidu Post Bar message boards 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, which may reduce our user traffic and have an adverse effect on 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.

PRC government authorities may deem certain third-party websites unlawful and could require us to remove links to such websites, which may reduce our user traffic and have a material adverse effect on our business.

The Internet industry in China, including the operation of online activities, is extensively regulated by the PRC government. Various PRC government authorities such as the State Council, the Ministry of Information Industry, the State Administration for Industry and Commerce, the State Press and Publication Administration and the Ministry of Public Security are empowered to issue and implement regulations governing various aspects of the Internet and online activities. Substantial uncertainties exist regarding the potential impact of current and future PRC laws and regulations on Internet search providers. We are not able to control or restrict the operation of third-party websites linked to or accessible through our website. If third-party websites linked to or accessible through our websites operate unlawful activities such as online gambling on their websites, PRC regulatory authorities may require us to remove the links to such websites or suspend or shut down the operation of such websites. This in turn may reduce our user traffic and adversely affect our business. In addition, we may be subject to potential liabilities for providing links to third-party websites that operate unlawful activities.

Intensified government regulation of Internet cafes could restrict our ability to maintain or increase user traffic to our website.

In April 2001, the PRC government began tightening its regulation of Internet cafes. In particular, a large number of unlicensed Internet cafes have been closed. In addition, the PRC government has imposed higher capital and facility requirements for the establishment of Internet cafes. Furthermore, the PRC government's policy, which encourages the development of a limited number of national and regional Internet cafe chains and discourages the establishment of independent Internet cafes, may slow down the growth of Internet cafes. Recently, the Ministry of Culture, together with other government authorities, issued a joint notice suspending the issuance of new Internet cafe licenses. It is unclear when this suspension will be lifted. So long as Internet cafes are one of the primary venues for our users to access our website, any reduction in the number, or any slowdown in the growth, of Internet cafes in China could limit our ability to maintain or increase user traffic to our website.

If PRC law were to phase out the preferential tax benefits currently being extended to foreign invested enterprises and "new or high-technology enterprises" located in a high-tech zone, we would have to pay more taxes, which could have a material and adverse effect on our financial condition and results of operations.

Under PRC laws and regulations, a foreign invested enterprise may enjoy preferential tax benefits if it is registered in a high-tech zone and also qualifies as "new or high-technology enterprise". As a foreign invested

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enterprise as well as a certified “new or high-technology enterprise” located in a high-tech zone in Beijing, Baidu Online is entitled to a three-year exemption from enterprise income tax beginning from its first year of operation, a 7.5% enterprise income tax rate for another three years followed by a 15% tax rate so long as it continues to qualify as a “new or high-technology enterprise.” Baidu Online is currently subject to a 7.5% enterprise income tax rate and will become subject to a 15% rate beginning in 2006 for so long as its status as a “new or high-technology enterprise” remains unchanged. Furthermore, Baidu Online may apply for a refund of the 5% business tax levied on its total revenues derived from its technology consulting services. We also intend to apply for similar preferential tax benefits for our newly established subsidiary, Baidu China, in the near future. If the PRC law were to phase out preferential tax benefits currently granted to “new or high-technology enterprises” and technology consulting services, we would be subject to the standard statutory tax rate, which currently is 33%, and we would be unable to obtain business tax refunds for our provision of technology consulting services. Loss of these preferential tax treatments could have a material and adverse effect on our financial condition and results of operations.

Our subsidiaries and Baidu Netcom are subject to restrictions on paying dividends and making other payments to us.

We are a holding company incorporated in the Cayman Islands and do not have any assets or conduct any business operations other than our investments in our subsidiaries and Baidu Netcom. As a result of our holding company structure, we rely entirely on dividends payments from our subsidiaries in China after they receive payments from Baidu Netcom under various service and other contractual arrangements. 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 affiliated entity 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 currencies out of China. We may experience difficulties in completing the administrative procedures necessary to obtain and remit foreign currency. See “—Government control of currency conversion may affect the value of your investment.” Furthermore, if our subsidiaries or affiliated entity 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 we or either of our subsidiaries is unable to receive all of the revenues from our operations through these contractual or dividend arrangements, we may be unable to pay dividends on our ordinary shares and ADSs.

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

We conduct our business primarily through our subsidiaries and Baidu Netcom. 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 and, in particular, laws applicable to wholly foreign-owned enterprises. The PRC legal system is based on written statutes. Prior court decisions may be cited for reference but have limited precedential value.

Since 1979, PRC legislation and regulations have significantly enhanced the protections afforded to various forms of foreign investments in China. 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. In addition, 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) that may have a retroactive effect. As a result, we may not be aware of our violation of these policies and rules until some time after the violation. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention.

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You may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in China based on United States or other foreign laws against us, our management or the experts named in the prospectus.

We conduct substantially all of our operations in China and substantially all of our assets are located in China. In addition, all of our senior executive officers reside within China. As a result, it may not be possible to effect service of process within the United States or elsewhere outside China upon our senior executive officers, including with respect to matters arising under U.S. federal securities laws or applicable state securities laws. 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.

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 currency out of China. We receive substantially all of our revenues in RMB. Under our current structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and our affiliated entity 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 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 bank 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, including holders of our ADSs.

Recent PRC regulations relating to acquisitions of PRC companies by foreign entities may create regulatory uncertainties that could limit our PRC subsidiaries' ability to distribute dividends or otherwise adversely affect the implementation of our acquisition strategy.

The PRC State Administration of Foreign Exchange, or SAFE, issued a public notice in January 2005 concerning foreign exchange regulations on mergers and acquisitions in China. The public notice states that if an offshore company intends to acquire a PRC company, such acquisition will be subject to strict examination by the relevant foreign exchange authorities. The public notice also states that the approval of the relevant foreign exchange authorities is required for any sale or transfer by the PRC residents of a PRC company's assets or equity interests to foreign entities, such as us, for equity interests or assets of the foreign entities.

In April 2005, SAFE issued another public notice clarifying the January notice. In accordance with the April notice, if an acquisition of a PRC company by an offshore company controlled by PRC residents had been confirmed by a Foreign Investment Enterprise Certificate prior to the issuance of the January notice, each of the PRC residents is required to submit a registration form to the local SAFE branch to register his or her respective ownership interests in the offshore company. The SAFE notices do not specify the timeframe during which such registration must be completed. The PRC resident must also amend such registration form if there is a material event affecting the offshore company, such as, among other things, a change to share capital, a transfer of shares, or if such company is involved in a merger and an acquisition or a spin-off transaction or uses its assets in China to guarantee offshore obligations. We have notified our shareholders who are PRC residents to register with the local SAFE branch as required under the SAFE notices. However, we cannot provide any assurances that all of our shareholders who are PRC residents will comply with our request to make or obtain any applicable registrations or approvals required by these SAFE notices. The failure or inability of our PRC resident

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shareholders to comply with the registration procedures set forth therein may subject us to fines and legal sanctions, restrict our cross-border investment activities, or limit our PRC subsidiaries' ability to distribute dividends to our company.

As it is uncertain how the SAFE notices 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 company, we cannot assure you that we or the owners of such company, as the case may be, will be able to obtain the necessary approvals or complete the necessary filings and registrations required by the SAFE notices. This may restrict our ability to implement our acquisition strategy and could adversely affect our business and prospects.

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

The value of RMB against the U.S. dollar and other currencies may fluctuate and is affected by, among other things, changes in political and economic conditions. Although the exchange rate between RMB and the U.S. dollar has been effectively pegged by the People's Bank of China since 1994, there can be no assurance that RMB will remain pegged to the U.S. dollar, especially in light of the significant international pressure on the Chinese government to permit the free floatation of the RMB, which could result in an appreciation of RMB against the U.S. dollar. Our revenues and costs are mostly denominated in RMB, while a significant portion of our financial assets are denominated in U.S. dollars. We rely entirely on dividends and other fees paid to us by our subsidiaries and affiliated entity in China. 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 translate our U.S. dollar denominated financial assets into RMB, as RMB is our reporting currency.

We face risks related to health epidemics and other outbreaks.

Our business could be adversely affected by the effects of SARS or another epidemic or outbreak. China reported a number of cases of SARS in April 2004. Any prolonged recurrence of SARS or other adverse public health developments in China may have a material adverse effect on our business operations. For instance, health or other government regulations adopted in response may require temporary closure of Internet cafes, which is where many users access our websites, or of our offices. Such closures would severely disrupt our business operations and adversely affect our results of operations. We have not adopted any written preventive measures or contingency plans to combat any future outbreak of SARS or any other epidemic.

Risks Related to Our ADSs and This Offering

There has been no public market for our ordinary shares or ADSs prior to this offering, and you may not be able to resell our ADSs at or above the price you paid, or at all.

Prior to this initial public offering, there has been no public market for our ordinary shares or ADSs. We have applied to list our ADSs on the Nasdaq National Market. Our ordinary shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system. If an active trading market for our ADSs does not develop after this offering, the market price and liquidity of our ADSs will be materially and adversely affected.

The initial public offering price for our ADSs will be determined by negotiations between us and the underwriters and may bear no relationship to the market price for our ADSs after the initial public offering. We

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cannot assure you that an active trading market for our ADSs will develop or that the market price of our ADSs will not decline below the initial public offering price.

The market price for our ADSs may be volatile.

The market price for our ADSs may be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly operating results;
- changes in financial estimates by securities research analysts;
- conditions in Internet search and online marketing markets;
- changes in the economic performance or market valuations of other Internet search or Internet companies;
- announcements by us or our competitors 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;
- intellectual property litigation;
- release of lock-up or other transfer restrictions on our outstanding ADSs or sales of additional ADSs; and
- general economic or political conditions in China.

In addition, the securities market has from time to time experienced significant price and volume fluctuations that are not related to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our ADSs.

You will experience immediate and substantial dilution in the net tangible book value of ADSs purchased.

The initial public offering price per ADSs will be substantially higher than the net tangible book value per ADS prior to the offering. Consequently, when you purchase ADSs in the offering at the assumed initial public offering price, you will incur immediate dilution of US\$ _____ per ADS. See "Dilution."

We may need additional capital, and the sale of additional ADSs or other equity securities could result in additional dilution to our shareholders.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and the net proceeds from this offering will be sufficient to meet our anticipated cash needs for the near future. We may, however, require additional cash resources due to changed business conditions or other future developments, including any investments or acquisitions we may decide to pursue. If our resources are insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The sale of additional equity securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. We cannot assure you that financing will be available in amounts or on terms acceptable to us, if at all.

Substantial future sales 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 or ordinary shares in the public market after this offering, or the perception that these sales could occur, could cause the market price of our ADSs to decline. Upon completion of this offering, we will have _____ ordinary shares outstanding including _____ Class A ordinary shares represented by _____ ADSs, assuming the underwriters do not exercise the over-allotment option. All ADSs sold in this offering, other than the up to _____

ADSs sold in our directed share program, will be freely transferable without restriction or additional registration under the Securities Act of 1933, as amended, or the Securities Act. The remaining ordinary shares outstanding after this offering will be available for sale, upon the expiration of the applicable lock-up period beginning from the date of this prospectus, subject to volume and other restrictions as applicable under Rule 144 and Rule 701 under the Securities Act. See “Shares Eligible for Future Sale” and “Underwriting” for a detailed description of the lock-up restrictions. Any or all of these shares may be released prior to expiration of the lock-up period at the discretion of the lead underwriters for this offering. To the extent shares are released before the expiration of the lock-up period and these shares are sold into the market, the market price of our ADSs could decline.

In addition, certain holders of our Class B ordinary shares will have the right to cause us to register the sale of an aggregate of _____ shares under the Securities Act, subject to a 180-day lock-up period in connection with this offering. Registration of these shares under the Securities Act would result in these shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. Sales of these registered shares in the public market could cause the price of our ADSs to decline.

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 prospectus and in the deposit agreement, holders of our ADSs will not be able to exercise voting rights attaching 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 attaching 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 shall be deemed given and no such discretionary proxy shall 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 the rights and the underlying securities to be distributed to ADS holders are either registered under the Securities Act, 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.

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In addition, the depositary may refuse to deliver, transfer or register transfers of ADSs generally when our books or the books of the depositary are closed, or at any time if we or the depositary deem it advisable to do so because of any requirement of law or of any government or governmental body, or under any provision of the deposit agreement, 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 substantially all of our operations in China and all of our officers reside outside the United States.

We are incorporated in the Cayman Islands, and conduct substantially all of our operations in China through our wholly owned subsidiaries in China. All of our officers reside outside the United States and some or all of the assets of those persons are located outside of the United States. As a result, it may be difficult or impossible for you to bring an action against us or against these individuals 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. For more information regarding the relevant laws of the Cayman Islands and China, see “Enforceability of Civil Liabilities.”

Our corporate affairs are governed by our memorandum and articles of association and by the Companies Law (2004 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.

Our management will have considerable discretion as to the use of the net proceeds to be received by us from this offering.

We have not allocated the majority of the net proceeds to be received by us of this offering to any particular purpose. Rather, our management will have considerable discretion in the application of the net proceeds received by us. You will not have the opportunity, as part of your investment decision, to assess whether proceeds are being used appropriately. You must rely on the judgment of our management regarding the application of the net proceeds of this offering. The net proceeds may be used for corporate purposes that do not improve our efforts to maintain profitability or increase our share price. The net proceeds from this offering may be placed in investments that do not produce income or that lose value.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

We will be subject to reporting obligations under the U.S. securities laws. The Securities and Exchange Commission, or the SEC, as required by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring

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every public company to include a management report on such company's internal controls over financial reporting in its annual report, which contains management's assessment of the effectiveness of the company's internal controls over financial reporting. In addition, an independent registered public accounting firm must attest to and report on management's assessment of the effectiveness of the company's internal controls over financial reporting. These requirements will first apply to our annual report on Form 20-F for the fiscal year ending December 31, 2006. Our management may conclude that our internal controls over our financial reporting are not effective. Moreover, even if our management concludes that our internal controls over financial reporting are effective, our independent registered public accounting firm may still decline to attest to our management's assessment or may issue a report that is qualified if it is not satisfied with our controls or the level at which our controls are documented, designed, operated or reviewed, or if it interprets the relevant requirements differently from us. Our reporting obligations as a public company will place a significant strain on our management, operational and financial resources and systems for the foreseeable future. Prior to this offering, we have been a young, private company with limited accounting personnel and other resources with which to address our internal controls and procedures. As a result, when our independent auditors audited our consolidated financial statements for the three years ended December 31, 2004 in connection with this offering, they identified a number of control deficiencies in our internal control procedures which, in the judgment of our independent auditors, could adversely affect our ability to record, process, summarize and report financial data consistent with the assertions of our management in the financial statements. None of the control deficiencies discovered by our auditors were related to any fraudulent acts. We plan to remedy these control deficiencies in time to meet the deadline imposed by the Sarbanes-Oxley Act for compliance with the requirements of Section 404. If we fail to timely achieve and maintain the adequacy of our internal controls, we may not be able to conclude that we have effective internal controls, on an ongoing basis, over financial reporting in accordance with the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to achieve and maintain effective internal controls over financial reporting could result in the loss of investor confidence in the reliability of our financial statements, which in turn could harm our business and negatively impact the trading price of our ADSs. Furthermore, we anticipate that we will incur considerable costs and use significant management time and other resources in an effort to comply with Section 404 and other requirements of the Sarbanes-Oxley Act.

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.

On May 30, 2005, our shareholders amended and restated our memorandum and articles of association to provide for a dual-class ordinary share structure. 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 10 votes per share. We will issue Class A ordinary shares represented by our ADSs in this offering. All of our existing shareholders, including our founders, directors, officers and employees, hold our Class B ordinary shares, and our outstanding preferred shares will automatically convert into Class B ordinary shares immediately prior to the closing of this offering. We intend to maintain the dual-class ordinary share structure after the closing of this offering. 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. 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 shall be automatically and immediately converted into the equal number of Class A ordinary shares. In addition, if at any time our chairman and 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.

Due to the disparate voting powers attached to these two classes, our existing shareholders will have significant voting power over matters requiring shareholder approval, including election of directors and

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significant corporate transactions, such as a merger or sale of our company or our assets. This concentrated control could discourage others from pursuing any potential merger, takeover or other change of control transactions that holders of Class A ordinary shares and ADSs may view as beneficial.

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

We intend to adopt an amended and restated articles of association that will become effective immediately upon the closing of this offering. Currently, we are considering whether to include certain provisions in our new articles of association that could limit the ability of others to acquire control of our company. If we decide to include these provisions, they could deprive our shareholders of the opportunity to sell their shares 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.

We currently intend to include the following provisions in our new articles that may have the effect of delaying or preventing a change of control of our company:

- Our new articles provides for 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 _____ 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 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 will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. In addition, the Sarbanes-Oxley Act, as well as new rules subsequently implemented by SEC and Nasdaq, have required changes in corporate governance practices of public companies. We expect these new rules and regulations to increase our legal, accounting and financial compliance costs and to make certain corporate activities more time-consuming and costly. In addition, we will incur additional costs associated with our public company reporting requirements. We are currently evaluating and monitoring developments with respect to these new rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

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.

Based on the assumed initial public offering price of the ADSs and our ordinary shares in this offering and the expected price of the ADSs and our ordinary shares following the offering, we do not expect to be considered a “passive foreign investment company,” or PFIC, for U.S. federal income tax purposes for our current taxable year ending December 31, 2005. However, we must make a separate determination each year as to whether we are a PFIC (after the close of each taxable year) and we cannot assure you that we will not be a PFIC for our current taxable year ending December 31, 2005 or any future taxable year. A non-U.S. corporation will be considered a PFIC for any taxable year if either (1) at least 75% of its gross income is passive income or (2) or least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable

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year) is attributable to assets that produce or are held for the production of passive income. The market value of our assets may be determined in large part by the market price of our ADSs and ordinary shares, which is likely to fluctuate after the offering (and may fluctuate considerably given that market prices of technology companies have been especially volatile). In addition, the composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. If we were treated as a PFIC for any taxable year during which a U.S. Holder held an ADS or an ordinary share, certain adverse U.S. federal income tax consequences could apply to the U.S. Holder. See “Taxation—United States Federal Income Taxation—Passive Foreign Investment Company.”

When we account for employee share options using the fair value method, such accounting treatment could significantly reduce our net income.

On December 16, 2004, the Financial Accounting Standard Board, or FASB, issued FASB Statement No. 123(R), Share-Based Payment, which requires a public company to recognize, as an expense, the fair value of stock options and other share-based compensation to employees at the first fiscal year that begins on or after June 15, 2005. Currently, we record share-based compensation to the extent that the fair value of the shares on the date of grant exceeds the exercise price of the option. We recognize compensation expense over the related vesting periods. If we had used the fair value method of accounting for share options granted to employees prior to January 1, 2005 using a Black-Scholes option valuation formula assuming zero percent volatility, our net income would have been RMB1.1 million (US\$0.1 million) less than reported for the year ended December 31, 2004. For the periods after December 31, 2005, we could have ongoing accounting charges significantly greater than those we would have recorded under our current method of accounting for share options. See “Management’s Discussion and Analysis of Financial Conditions and Results of Operations—Critical Accounting Policies” and Note 16 to our consolidated financial statements included in this prospectus for a more detailed presentation of accounting for share-based compensation plans.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that involve risks and uncertainties. All statements other than statements of historical facts are forward-looking statements. The forward-looking statements are contained principally in the sections entitled “Prospectus Summary,” “Risk Factors,” “Use of Proceeds,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business.” These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by the forward-looking statements.

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” 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:

- our anticipated growth strategies;
- our future business development, results of operations and financial condition;
- expected changes in our margins and certain cost or expense items as a percentage of our net revenues;
- our ability to attract and retain users and customers;
- the outcome of ongoing, or any future, litigation or arbitration;
- competition in the Chinese language Internet search market;
- the expected growth of the Chinese language Internet search market and the number of Internet and broadband users in China; and
- PRC governmental policies relating to the Internet and Internet search providers.

You should read thoroughly this prospectus and the documents that we refer to herein with the understanding that our actual future results may be materially different from or worse than what we expect. We qualify all of our forward-looking statements by these cautionary statements. Other sections of this prospectus include additional factors which could adversely impact our business and financial performance. Moreover, we operate in an emerging and evolving environment. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. Except as required by law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately US\$ _____ million or approximately US\$ _____ million if the underwriters exercise their option to purchase additional ADSs in full, after deducting underwriting discounts and the estimated offering expenses payable by us. These estimates are based upon an assumed initial offering price of US\$ _____ per ADS, the mid-point of the estimated range shown on the front cover page of this prospectus. We will not receive any of the proceeds from the sale of ADSs by the selling shareholders.

As of the date of this prospectus, we have not allocated any specific portion of the net proceeds of this offering for any particular purpose discussed below. We may use the net proceeds to purchase software, hardware or services, hire personnel, acquire businesses or assets, or for other general corporate purposes. We plan to use the net proceeds we receive from this offering as follows:

- to enhance our user experience by:
 - investing in the research and development of core search engine technology;
 - investing in the development of new products and services, although we have not identified any specific new products or services in which we plan to make significant investments in the near future;
 - acquiring additional bandwidth and servers to expand our network capacity; and
 - acquiring products or technologies that we believe will help us enhance our user experience;
- to expand our customer base by:
 - developing innovative online marketing products and services;
 - improving the effectiveness and efficiency of our distribution network;
 - further promoting our brand and enhancing our efforts to market our products and services; and
 - acquiring businesses that may help us further expand our online marketing services; and
- for general corporate purposes.

We expect to allocate our distribution, branding and marketing resources according to our business needs. We do not have any current plan to concentrate our resources on specific geographic region or industry.

In utilizing the proceeds of this offering, we may make loans to Baidu Online and Baidu Netcom, or we may subscribe to equity interests of these entities. Any loans to or investment in Baidu Online or Baidu Netcom are subject to PRC government approval. For example:

- loans by us to Baidu Online, as a wholly foreign-owned enterprise, to finance its activities cannot exceed statutory limits and must be registered with the SAFE; and
- loans by us to Baidu Netcom, which is a domestic PRC enterprise, must be approved in accordance with PRC law.

We may also decide to finance Baidu Online by subscribing to its equity interest, which is subject to approval of the Ministry of Commerce or its local counterpart. Since Baidu Netcom holds the license for Internet content services, or the ICP license, we are not likely to finance its activities by subscribing to its equity interest

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as regulations limit our ability to hold equity interests in an Internet content provider. We cannot assure you that we can obtain these government registrations or approvals on a timely basis, if at all, with respect to our future loans to or investment in Baidu Online or Baidu Netcom.

The foregoing represents our current intentions based upon our present plans and business conditions to use and allocate the net proceeds of this offering. Our management, however, will have significant flexibility and discretion to apply the net proceeds of this offering. If an unforeseen event occurs or business conditions change, we may use the proceeds of this offering differently than as described in this prospectus.

We intend to invest any additional net proceeds in short-term, interest-bearing, debt instruments or bank deposits. These investments may have a material adverse effect on the U.S. federal income tax consequences of your investment in our ADSs. These consequences are described in more detail in “Taxation—United States Federal Income Taxation—Passive Foreign Investment Company.”

DIVIDEND POLICY

We have never declared or paid any dividends, 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 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 the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. See “Description of American Depositary Shares.” Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2005:

- on an actual basis;
- on a pro forma basis to give effect to the conversion of all our 11,548,682 ordinary shares issued as of March 31, 2005 into 11,548,682 Class B ordinary shares on May 30, 2005 and the automatic conversion of all of our outstanding preferred shares into 16,648,877 Class B ordinary shares immediately prior to the closing of this offering; and
- on a pro forma as adjusted basis to reflect the conversion of all our 11,548,682 ordinary shares issued as of March 31, 2005 into 11,548,682 Class B ordinary shares on May 30, 2005 and the automatic conversion of all of our outstanding preferred shares into 16,648,877 Class B ordinary shares immediately prior to the closing of this offering, and the issuance and sale of Class A ordinary shares in the form of ADSs by us in this offering, assuming an initial public offering price of US\$ per share (which is the mid-point of the estimated public offering price range), after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

You should read this table together with our consolidated financial statements and the related notes included elsewhere in this prospectus and the information under “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

<i>(in thousands except share numbers)</i>	As of March 31, 2005					
	Actual		Pro Forma		Pro Forma As Adjusted	
	RMB	US\$	RMB	US\$	RMB	US\$
Redeemable Convertible Preferred Shares						
Series A, par value US\$0.00005 per share; authorized, issued and outstanding 4,800,000 shares	9,307	1,124	—	—	—	—
Series B, par value US\$0.00005 per share; authorized, issued and outstanding 9,600,000 shares	82,315	9,946	—	—	—	—
Series C, par value US\$0.00005 per share; authorized, issued and outstanding 2,248,877 shares	119,730	14,466	—	—	—	—
	<u>211,352</u>	<u>25,536</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Shareholders’ equity:	5,342	646	216,694	26,182		
Ordinary shares,						
par value US\$0.00005 per share, 853,751,123 shares authorized, 11,548,682 shares issued and outstanding	5	1	—	—	—	—
Class B Ordinary shares, par value US\$0.00005 per share, 31,326,801 shares authorized, 28,197,559 shares issued and outstanding	—	—	12	2		
Class A Ordinary shares, par value US\$0.00005 per share, 822,424,322 shares authorized, shares issued and outstanding	—	—	—	—		
Additional paid-in capital	49,439	5,974	260,784	31,509		
Statutory reserve	523	63	523	63		
Accumulated losses	(44,625)	(5,392)	(44,625)	(5,392)		
	<u>5,342</u>	<u>646</u>	<u>216,694</u>	<u>26,182</u>		
Total shareholders’ equity	5,342	646	216,694	26,182		
Total capitalization	216,694	26,182	216,694	26,182		

DILUTION

Our net tangible book value as of March 31, 2005 was approximately US\$ _____ per ordinary share, and US\$ _____ per ADS. Net tangible book value per ordinary share represents the amount of total tangible assets, minus the amount of total liabilities, divided by the total number of ordinary shares outstanding. Dilution is determined by subtracting net tangible book value per ordinary share from the assumed public offering price per ordinary share.

Without taking into account any other changes in such net tangible book value after March 31, 2005, other than to give effect to (i) the conversion of all of our preferred shares into ordinary shares, which will occur immediately prior to the closing of this offering, and (ii) our sale of the _____ ADSs offered in this offering, at an assumed initial public offering price of US\$ _____ per ADS and after deduction of underwriting discounts and commissions and estimated offering expenses (assuming the over-allotment option is not exercised), our pro forma net tangible book value at March 31, 2005 would have been US\$ _____ per outstanding ordinary share, including ordinary shares underlying our outstanding ADSs, or US\$ _____ per ADS. This represents an immediate increase in net tangible book value of US\$ _____ per ordinary share, or US\$ _____ per ADS, to existing shareholders and an immediate dilution in net tangible book value of US\$ _____ per ordinary share, or US\$ _____ per ADS, to investors of ADSs in this offering.

The following table illustrates the dilution on a per ordinary share basis assuming that the initial public offering price per ordinary share is US\$ _____ and all ADSs are exchanged for ordinary shares:

Assumed initial public offering price per ordinary share	US\$ _____
Net tangible book value per ordinary share	US\$ _____
Amount of dilution in net tangible book value per ordinary share to new investors in the offering	US\$ _____
Amount of dilution in net tangible book value per ADS to new investors in the offering	US\$ _____

The following table summarizes, on a pro forma basis as of _____, 2005, the differences between the shareholders as of _____, 2005 and the new investors with respect to the number of ordinary shares purchased from us, the total consideration paid and the average price per ordinary share paid at an assumed initial public offering price of US\$ _____ per ADS before deducting estimated underwriting discounts and commissions and estimated offering expenses. The total number of ordinary shares does not include _____ ADSs issuable pursuant to the exercise of the over-allotment option granted to the underwriters.

	Ordinary Shares Purchased		Total Consideration		Average Price Per Ordinary Share	Average Price Per ADS
	Number	Percent	Amount	Percent		
Existing shareholders	US\$ _____	% _____	US\$ _____	% _____	US\$ _____	US\$ _____
New investors						
Total	US\$ _____	% _____	US\$ _____	% _____		

The discussion and tables above also assume no exercise of any outstanding share options. As of March 31, 2005, there were _____ ordinary shares issuable upon exercise of outstanding share options at a weighted average exercise price of US\$ _____ per share, and there were _____ ordinary shares available for future issuance upon the exercise of future grants under our 2005 share incentive plan. To the extent that any of these options are exercised, there will be further dilution to new investors.

EXCHANGE RATE INFORMATION

Our business is primarily conducted in China and 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 prospectus is based on the noon buying rate in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise noted, all translations from RMB to U.S. dollars and from U.S. dollars to RMB in this prospectus were made at a rate of RMB8.2765 to US\$1.00, the noon buying rate in effect as of June 30, 2005. 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 July 11, 2005, the noon buying rate was RMB8.2765 to US\$1.00.

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 US Dollar)			
2000	8.2774	8.2784	8.2799	8.2768
2001	8.2766	8.2770	8.2786	8.2676
2002	8.2800	8.2770	8.2800	8.2669
2003	8.2767	8.2772	8.2800	8.2765
2004	8.2765	8.2768	8.2771	8.2765
2005				
January	8.2765	8.2765	8.2765	8.2765
February	8.2765	8.2765	8.2765	8.2765
March	8.2765	8.2765	8.2765	8.2765
April	8.2765	8.2765	8.2765	8.2765
May	8.2765	8.2765	8.2765	8.2765
June	8.2765	8.2765	8.2765	8.2765
July (through July 11)	8.2765	8.2765	8.2765	8.2765

(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.

ENFORCEABILITY OF CIVIL LIABILITIES

We were incorporated in the Cayman Islands in order to enjoy the following benefits:

- political and economic stability;
- an effective judicial system;
- a favorable tax system;
- the absence of exchange control or currency restrictions; and
- the availability of professional and support services.

However, certain disadvantages accompany incorporation in the Cayman Islands. These disadvantages include:

- the Cayman Islands has a less developed body of securities laws as compared to the United States and these securities laws provide significantly less protection to investors; and
- Cayman Islands companies may not have standing to sue before the federal courts of the United States.

Our constituent documents do not contain provisions requiring that disputes, including those arising under the securities laws of the United States, between us, our officers, directors and shareholders, be arbitrated.

Substantially all of our operations are conducted in China, and substantially all of our assets are located in China. A majority of our officers are nationals or residents of jurisdictions other than the United States and a substantial portion of their assets are located outside the United States. As a result, it may be difficult for a shareholder to effect service of process within the United States upon these persons, or to enforce against us or them judgments obtained in United States courts, including judgments predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States.

We have appointed CT Corporation System as our agent to receive service of process with respect to any action brought against us in the United States District Court for the Southern District of New York under the federal securities laws of the United States or of any state in the United States or any action brought against us in the Supreme Court of the State of New York in the County of New York under the securities laws of the State of New York.

Maples and Calder, our counsel as to Cayman Islands law, and Commerce & Finance Law Offices, our counsel as to PRC law, have advised us, respectively, that there is uncertainty as to whether the courts of the Cayman Islands and China, respectively, would:

- recognize or enforce judgments of United States courts obtained against us or our directors or officers predicated upon the civil liability provisions of the securities laws of the United States or any state in the United States; or
- entertain original actions brought in each respective jurisdiction against us or our directors or officers predicated upon the securities laws of the United States or any state in the United States.

Maples and Calder has further advised us that a final and conclusive judgment in the federal or state courts of the United States under which a sum of money is payable (other than a sum payable in respect of taxes, fines, penalties or similar charges) may be subject to enforcement proceedings as debt in the courts of the Cayman

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Islands under the common law doctrine of obligation. Moreover, the Cayman Island courts would not recognize or enforce judgments against us to the extent the judgment is punitive or penal; civil liability provisions of the U.S. federal and state securities law permit punitive damages against us. It is uncertain whether a judgment obtained from U.S. courts under civil liability provisions of U.S. federal or state securities law would be regarded by the Cayman Islands courts as penal or punitive in nature. Such a determination has yet to be made by any Cayman Islands court.

Commerce & Finance Law Offices has further advised us that the recognition and enforcement of foreign judgments are provided for under PRC Civil Procedures Law. Under the PRC Civil Procedures Law, courts in China may recognize and enforce foreign judgments pursuant to treaties between China and the country where the judgment is rendered or based on reciprocity arrangements for the recognition and enforcement of foreign judgments between jurisdictions. If there are neither treaties nor reciprocity arrangements between China and a foreign jurisdiction where a judgment is rendered, according to the PRC Civil Procedures Law, matters relating to the recognition and enforcement of a foreign judgment in China may be resolved through diplomatic channels. China does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States or the Cayman Islands. As a result, it is generally difficult to recognize and enforce in China a judgment rendered by a court in either of these two jurisdictions.

CORPORATE STRUCTURE

Corporate History

On January 18, 2000, our company was incorporated in the Cayman Islands by our founders, Robin Yanhong Li and Eric Yong Xu. On the same date, we established our first wholly owned subsidiary, Baidu Online, in Beijing, China. In June 2005, we established our second wholly owned subsidiary, Baidu China, in Shanghai, China.

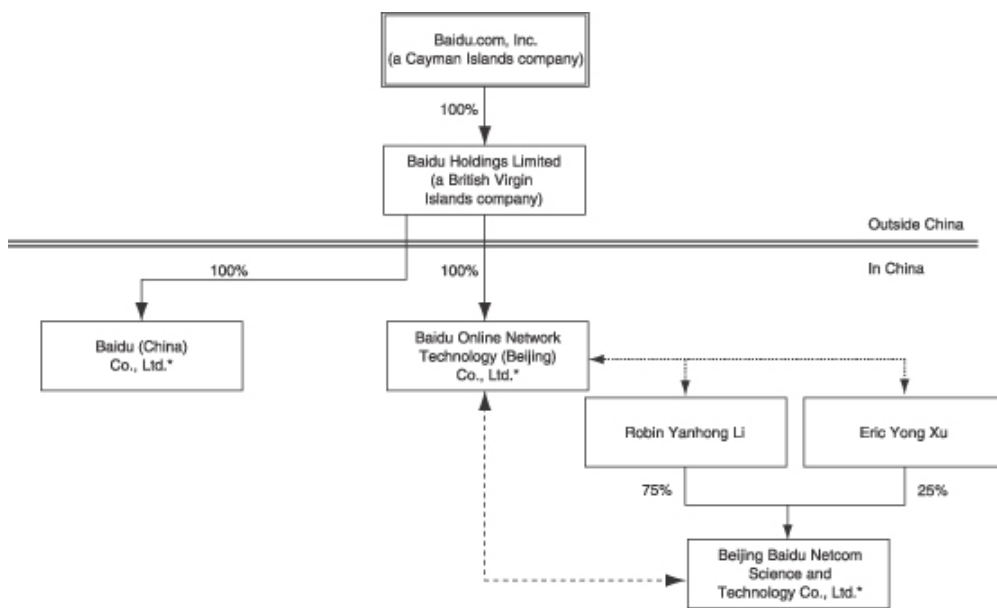
We formed an intermediate holding company, Baidu Holdings Limited, in the British Virgin Islands in February 2000. Other than the equity interests in our subsidiaries in China, this company does not own any assets or conduct any operations.

PRC laws restrict foreign ownership of Internet content provision and advertising businesses. To comply with PRC laws, Baidu Netcom was formed by Robin Yanhong Li and Eric Yong Xu on June 5, 2001. Baidu Netcom holds the licenses and permits necessary to operate our websites and provide our online advertising services in China. Our relationships with Baidu Netcom and its shareholders are governed by a series of contractual arrangements. We are able to substantially control Baidu Netcom through these contractual arrangements. Accordingly, we have consolidated Baidu Netcom's historical financial results in our financial statements as a variable interest entity pursuant to U.S. GAAP.

In the opinion of Commerce & Finance Law Offices, our PRC legal counsel, (1) the ownership structure of, Baidu Online and Baidu Netcom, complies with, and immediately after this offering, will comply with, current PRC laws and regulations; (2) our contractual arrangements with Baidu Netcom and its shareholders are valid and binding on all parties to these arrangements, and do not violate current PRC laws or regulations; and (3) the business operations of our company, Baidu Online and Baidu Netcom comply with current PRC laws and regulations.

Corporate Ownership Structure

The following diagram illustrates our current corporate structure and the place of formation and affiliation of each of our subsidiaries and Baidu Netcom as of the date of this prospectus.



* A limited liability company incorporated in the PRC

→ Equity interest

⇌ Contractual arrangements including business cooperation agreement, operating agreement, license agreements, proxy agreement, and technology consulting service agreement. For a description of these agreements, see “Corporate Structure—Contractual Arrangements with Baidu Netcom and its Shareholders.”

⇌ Contractual arrangements including proxy agreement, equity pledge agreement, option agreement, operating agreement, loan agreement and irrevocable power of attorney. For a description of these agreements, see “Corporate Structure—Contractual Arrangements with Baidu Netcom and its Shareholders.”

Material Operating Entities

Baidu Online. Since our inception, we have conducted our operations in China primarily through Baidu Online, a wholly foreign-owned enterprise in China. Baidu Online operates our P4P and enterprise search software businesses and also provides technology consulting and other related services to Baidu Netcom. See “— Contractual Arrangements with Baidu Netcom and its Shareholders.”

Baidu Netcom. We provide our online advertising and Internet content provider services through Baidu Netcom, a limited liability company established in China. Robin Yanhong Li and Eric Yong Xu, both of whom are PRC citizens, owns 75% and 25% of Baidu Netcom, respectively. Mr. Li is our co-founder, chairman and chief executive officer. Mr. Xu is our co-founder and is not currently involved in our management. Baidu Netcom operates our Baidu.com and Hao123.com websites and holds the licenses and approvals necessary to operate our websites and conduct our online advertising business in China. Baidu Netcom does not separately hire employees to operate the online advertising business. Baidu Online second employees to Baidu Netcom for

the online advertising business. Such arrangement is part of the technology consulting services that Baidu Online provides to Baidu Netcom. In return, Baidu Netcom bears the costs and expenses related to these employees.

Contractual Arrangements with Baidu Netcom and its Shareholders

Our relationships with Baidu Netcom and its shareholders are governed by a series of contractual arrangements. Under PRC laws, each of Baidu Online and Baidu Netcom is an independent legal person and neither of them is exposed to liabilities incurred by the other party. Other than pursuant to the contractual arrangements between Baidu Online and Baidu Netcom, Baidu Netcom does not transfer any other funds generated from its operations to Baidu Online. In March 2005, we restructured these contractual arrangements as follows.

Technology Consulting Service Agreement. Pursuant to the exclusive technology consulting service agreement between Baidu Online and Baidu Netcom, Baidu Online has the exclusive right to provide to Baidu Netcom technology consulting services related to the maintenance of servers, software development and design of advertisements. Baidu Online also seconded employees to Baidu Netcom for whom Baidu Netcom bears the costs and expenses. Baidu Online owns the intellectual property rights related to the software developed by Baidu Online for Baidu Netcom. Baidu Netcom pays monthly service fees to Baidu Online based upon a pre-agreed formula, which takes into account the number of monthly page views and the basic fee for every one thousand page views of advertisements displayed on our websites. The basic fee for every one thousand page views is subject to periodic adjustment. The current rate of the basic fee is RMB0.9. The term of this agreement is ten years from the date thereof.

Business Cooperation Agreement. Pursuant to the business cooperation agreement between Baidu Netcom and Baidu Online, Baidu Netcom provides Internet information services, Internet advertising services and related services to Baidu Online to enable Baidu Online to provide P4P services on the websites owned and operated by Baidu Netcom, and Baidu Online provides search engine technology services to Baidu Netcom. Baidu Online agrees to pay a monthly fee of RMB10,000 to Baidu Netcom. The term of this agreement is ten years from the date thereof.

Operating Agreement. Pursuant to the operating agreement among 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. The shareholders of Baidu Netcom must designate the candidates recommended by Baidu Online as their representatives on Baidu Netcom's board of directors. Baidu Online has the right to appoint senior executives of Baidu Netcom. 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, in return, agrees to pledge its accounts receivable and all of its assets to Baidu Online. Moreover, 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 term of this agreement is ten years from the date thereof.

Software License Agreement. Under the software license agreement, Baidu Online granted Baidu Netcom a non-exclusive, non-assignable and non-transferrable right to use "Baidu Chinese Search Engine" and "Baidu Internet P4P System" software. Baidu Netcom can only use the software on its designated operating systems to process its internal data. The annual license fee for each software is RMB5.0 million. When deciding the amount of the annual license fee, Baidu Online and Baidu Netcom considered several factors, including functionality and quality of the software, past and ongoing research and development costs incurred by Baidu Online in developing and upgrading the software, license fees of other portal search software applications, Baidu Online's enterprise search application license fees, and Baidu Netcom's financial resources and projected operating results. The term of the license agreement is five years from the date thereof.

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Other License Agreements. Under these license agreements, Baidu Online granted Baidu Netcom the right to use the registered domain names, trademarks and web layout for the websites owned and operated by Baidu Netcom on an exclusive basis. The annual license fee under each license agreement is RMB10,000, subject to certain adjustments. The term of each license agreement is five years from the date thereof.

Proxy Agreement. Pursuant to the proxy agreement among Baidu Online, Baidu Netcom and shareholders of Baidu Netcom, the shareholders of Baidu Netcom agree to entrust all the rights to exercise their voting power to the person(s) appointed by Baidu Online. The term of the proxy agreement is 10 years from the date thereof.

Equity Pledge Agreement. Under the equity pledge agreement between the shareholders of Baidu Netcom and Baidu Online, 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 technology consulting agreement. If Baidu Netcom or either of its shareholders breaches its respective contractual obligations, Baidu Online, as 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 Baidu Netcom and its shareholders fully perform their respective obligations under the exclusive technology consulting service agreement and the loan agreement.

Option Agreement. Under the option agreement between the shareholders of Baidu Netcom and Baidu Online, the shareholders of Baidu Netcom irrevocably granted Baidu Online or its designated person 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. Baidu Online or its designated person has sole discretion to decide when to exercise the option, whether in part or in full. The term of this agreement is ten years from the date thereof.

Loan Agreement. Under the loan agreement between the shareholders of Baidu Netcom and Baidu Online, the parties confirmed that Baidu Online had made an RMB2.0 million interest-free loan to the shareholders of Baidu Netcom solely for the latter to fund the initial capitalization of Baidu Netcom in June 2001. The loan can be repaid only with the proceeds from sale of the shareholder's equity interest in Baidu Netcom to Baidu Online. The term of the agreement is ten years from the date thereof.

Irrevocable Power of Attorney. The shareholders of Baidu Netcom have each executed an irrevocable power of attorney to appoint Shawn Wang and David Hongbo Zhu as their attorneys-in-fact to vote on their behalf on all Baidu Netcom matters requiring shareholder approval. The appointment of Shawn Wang and David Hongbo Zhu as attorneys-in-fact will terminate if either person is no longer employed by Baidu Online. The term of each power of attorney is ten years from the date thereof.

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated statement of operations data for the three years ended December 31, 2002, 2003 and 2004 and the consolidated balance sheet data as of December 31, 2003 and 2004 have been derived from our audited consolidated financial statements, which are included elsewhere in this prospectus. The selected consolidated statement of operations data for the three months ended March 31, 2004 and 2005 and the selected consolidated balance sheet data as of March 31, 2005 have been derived from our unaudited condensed interim consolidated financial statements included elsewhere in this prospectus. We have prepared the unaudited condensed interim consolidated financial information on the same basis as our audited consolidated financial statements. The unaudited financial information includes all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the periods presented. Our historical results do not necessarily indicate results expected for any future periods. In addition, our unaudited results for the three months ended March 31, 2005 may not be indicative of our results for the full year ended December 31, 2005. 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 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this prospectus.

Our audited consolidated financial statements are prepared and presented in accordance with U.S. GAAP. Our selected consolidated statement of operations data for the two years ended December 31, 2000 and 2001 and our consolidated balance sheet data as of December 31, 2000, 2001 and 2002 have been derived from our unaudited consolidated financial statements which are not included in this prospectus, but which have been prepared on the same basis as our audited consolidated financial statements.

	For the Year Ended December 31,					For the Three Months Ended March 31,			
	2000	2001	2002	2003	2004	2004	2005	2005	
<i>(in thousands except per share and per ADS data)</i>	RMB	RMB	RMB	RMB	RMB	US\$	RMB	RMB	US\$
Consolidated Statement of Operations Data:									
Revenues:									
Online marketing services	—	202	4,292	31,775	106,854	12,910	15,695	43,019	5,198
Enterprise search software and related services	—	366	1,724	2,803	7,958	962	1,412	2,076	251
Portal search services	1,340	5,955	5,004	5,993	2,639	319	867	581	70
Total revenues	1,340	6,523	11,020	40,571	117,451	14,191	17,974	45,676	5,519
Less: Business tax and surcharges	(41)	(295)	(496)	(1,933)	(6,542)	(790)	(824)	(3,048)	(368)
Total net revenues	1,299	6,228	10,524	38,638	110,909	13,401	17,150	42,628	5,151
Operating costs and expenses:									
Cost of revenues	(1,324)	(4,706)	(9,519)	(20,703)	(32,985)	(3,985)	(5,747)	(12,570)	(1,519)
Selling, general and administrative	(5,644)	(10,653)	(11,930)	(16,930)	(39,004)	(4,713)	(5,822)	(15,698)	(1,897)
Research and development	(1,647)	(3,868)	(3,885)	(5,191)	(11,406)	(1,378)	(2,032)	(5,479)	(662)
Share-based compensation	(9,440)	(5,043)	(4,233)	(5,109)	(16,510)	(1,995)	(2,607)	(6,142)	(741)
Total operating costs and expenses	(18,055)	(24,270)	(29,567)	(47,933)	(99,905)	(12,071)	(16,208)	(39,889)	(4,819)
Operating (loss)/profit	(16,756)	(18,042)	(19,043)	(9,295)	11,004	1,330	942	2,739	332
Interest income	1,233	2,679	586	325	1,135	137	31	777	94
Other income (expense), net	—	(502)	(120)	85	347	42	65	—	—
Taxation	—	—	—	—	(481)	(59)	—	(1,015)	(123)
Net (loss)/income	(15,523)	(15,865)	(18,577)	(8,885)	12,005	1,450	1,038	2,501	303
Net (loss)/income per ordinary share:									
Basic	(7.00)	(3.19)	(2.44)	(0.87)	1.09	0.13	0.10	0.22	0.03
Diluted	(7.00)	(3.19)	(2.44)	(0.87)	0.43	0.05	0.04	0.08	0.01
Net (loss)/income per ADS:									
Basic									
Diluted									
Weighted average number of ordinary shares used in per share calculations:									
Basic	2,218	4,967	7,622	10,189	10,983	10,983	10,876	11,508	11,508
Diluted	2,218	4,967	7,622	10,189	28,124	28,124	26,930	29,808	29,808
Pro forma net earnings per share on an as converted basis									
Basic					0.45	0.05		0.09	0.01
Diluted					0.43	0.05		0.08	0.01
Pro forma weighted average number of ordinary shares on an as converted basis used in per share calculations									
Basic					26,696	26,696		28,157	28,157
Diluted					28,124	28,124		29,808	29,808

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<i>(in thousands)</i>	As of December 31,					As of March 31,		
	2000	2001	2002	2003	2004		2005	
	RMB	RMB	RMB	RMB	RMB	US\$	RMB	US\$
Consolidated Balance Sheets Data:								
Cash and cash equivalents	80,919	71,511	58,009	62,825	200,196	24,188	194,255	23,471
Total assets	86,481	79,043	67,549	76,703	262,206	31,680	284,296	34,350
Total current liabilities	844	3,973	6,781	19,639	54,192	6,548	67,602	8,168
Redeemable convertible preferred shares	91,622	91,622	91,622	91,622	211,352	25,536	211,352	25,536
Total shareholders' (deficit)/equity	(5,985)	(16,552)	(30,854)	(34,558)	(3,338)	(404)	5,342	646
Total liabilities, redeemable convertible preferred shares and shareholders' equity	86,481	79,043	67,549	76,703	262,206	31,680	284,296	34,350

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

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with the section headed "Selected Consolidated Financial Data" and our consolidated financial statements and the related notes included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this prospectus.

Overview

We are the leading Chinese language Internet search provider. Our search engine was the most frequently used search engine in China in 2004, according to iResearch, and our Baidu.com website was the second largest website in China and the seventh largest website globally, as measured by user traffic during the three-month period ended July 9, 2005, according to Alexa.com. We serve three primary constituencies:

- *Users.* We provide our users with Chinese language Internet search services, including access to our frequently updated index of over 690 million web pages, 80 million image files and 10 million multimedia files. In addition, we offer Baidu Post Bar, a query-based online community, which currently consists of over 820,000 message boards.
- *Customers.* We provide online marketing services to our P4P customers and tailored solutions customers. We define customers in a given period as those that contribute revenues to us during the same period. Our P4P customers are those who primarily use our auction-based P4P services, and our tailored solutions customers are those to whom we provide marketing solutions, which may consist of one or more forms of our online advertising services as well as P4P services. Our P4P services allow customers to 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 online advertising services allow customers to use both query sensitive and non-query sensitive advertising services, including text links and graphical advertisements. We also offer enterprise search software and related services to companies and government agencies in China.
- *Baidu Union Members.* We have relationships with over 76,000 third-party websites operated in China, which we refer to as Baidu Union. Our Baidu Union members generally place a Baidu search box on their websites to enable their users to access our Baidu.com website by entering a query in the search box. In return, we pay our Baidu Union members a portion of P4P revenues generated from click-throughs on our customers' links, which are displayed on our websites in response to search queries of users of our Baidu Union websites or directly on their websites. In 2004, approximately a quarter of our total revenues was generated from click-throughs by users of our Baidu Union websites. We have recently begun to offer some of our Baidu Union members contextual marketing services, which we refer to as ProTheme, allowing the display of our customers' links that are relevant to the content on our Baidu Union websites.

We were incorporated in the Cayman Islands in January 2000 and initially provided Internet search solutions to Chinese portals. We launched our Internet search services on Baidu.com and began generating revenues from our P4P services in September 2001. We believe we were the first P4P services provider in China. We began generating revenues from our other online marketing services in July 2003.

We have grown significantly since our inception. Our total net revenues increased from RMB10.5 million in 2002 to RMB110.9 million (US\$13.4 million) in 2004. In 2004 and the three months ended March 31, 2005, we recorded net income of RMB12.0 million (US\$1.5 million) and RMB2.5 million (US\$0.3 million), respectively.

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We incurred share-based compensation expenses of RMB16.5 million (US\$2.0 million) and RMB6.1 million (US\$0.7 million) in 2004 and the three months ended March 31, 2005, respectively. As of March 31, 2005, we had accumulated losses of approximately RMB44.6 million (US\$5.4 million). We first attained profitability in the quarter ended March 31, 2004, but experienced net losses prior to that period. We do not account for our results of operations on a geographic or other basis, and we are unable to allocate costs among our various products and services.

PRC law currently limits foreign ownership of companies that provide Internet content and advertising services. To comply with these foreign ownership restrictions, we operate our websites and provide online advertising services in China through Baidu Netcom, a PRC limited liability company wholly owned by our co-founder and chief executive officer, Robin Yanhong Li, and our co-founder, Eric Yong Xu, both of whom are PRC citizens. Baidu Netcom holds the licenses and approvals necessary to operate our websites and provide online advertising services in China. We have contractual arrangements with Baidu Netcom and its shareholders that enable us to substantially control Baidu Netcom. Accordingly, we consolidate Baidu Netcom's results in our financial statements. For a description of these contractual arrangements, see "Corporate Structure—Contractual Arrangements with Baidu Netcom and its Shareholders."

Our limited operating history makes it difficult to predict future results of operations and, therefore, our recent revenue growth should not be taken as an indication of the rate of revenue growth, if any, that can be expected in the future. In addition, our limited operating history provides us with a limited historical basis to assess the impact of our critical accounting policies.

Revenues

In 2004, we generated total revenues of RMB117.5 million (US\$14.2 million), of which RMB106.9 million (US\$12.9 million), or 91.0%, was derived from our online marketing services. In the three months ended March 31, 2005, we generated total revenues of RMB45.7 million (US\$5.5 million), of which RMB43.0 million (US\$5.2 million), or 94.2%, was derived from our online marketing services.

For the year ended December 31, 2004 and for the three months ended March 31, 2005, our total net revenues amounted to RMB110.9 million (US\$13.4 million) and RMB42.6 million (US\$5.2 million), respectively. Our total net revenues are net of PRC business taxes and related surcharges. Baidu Online's revenues are subject to a 5% business tax. Baidu Netcom's revenues are subject to a 5% business tax rate, as well as an additional 3% surcharge. We deduct these amounts from our gross revenues to arrive at our total net revenues.

Since PRC laws and regulations related to advertising do not currently classify P4P as a form of advertising, we operate our P4P services through Baidu Online, which does not hold an advertising license. However, we cannot assure you that the PRC government authorities will not classify P4P as a form of advertising in the future. If new regulations characterize P4P as a form of advertising, we may have to conduct our P4P business through Baidu Netcom. This would increase the applicable tax rates to our revenues, as revenues from online advertising services provided by Baidu Netcom are subject to an additional 3% surcharge. Any change in the classification of P4P by the PRC government authorities could cause significant disruption to our business operations and materially and adversely affect our results of operations. See "Risk Factors—Risks Related to Our Corporate Structure—If the PRC government were to classify P4P services as a form of advertising, we may have to conduct our P4P business through Baidu Netcom, which would increase our effective tax rate, and we might be subject to sanctions and required to pay delinquent taxes."

Revenue Composition

We currently derive revenues primarily from three sources:

- online marketing services, which accounted for 38.9%, 78.3%, 91.0% and 94.2% of our total revenues in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively;
- enterprise search software and related services, which accounted for 15.6%, 6.9%, 6.8% and 4.5% of our total revenues in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively; and
- portal search services, which accounted for 45.5%, 14.8%, 2.2% and 1.3% of our total revenues in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively.

Online Marketing Services. We provide online marketing services to our P4P customers and tailored solutions customers. We generated approximately 91.0% of our total revenues in 2004 from online marketing services, a substantial majority of which was derived from our P4P services. Our P4P customers are those who primarily use our auction-based P4P services, and our tailored solutions customers are those to whom we provide marketing solutions, which may consist of one or more forms of our online advertising services as well as P4P services.

Our P4P platform is an online marketplace that introduces Internet search users to customers who bid or pay a fixed 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 or in some cases, other pre-determined performance measures. We have historically acquired our P4P customers primarily through our network of distributors and, to a lesser extent, through our direct sales force.

To our knowledge, distributors typically require advance RMB cash payments from our customers and then may transfer a portion or all of such payments to us in exchange for buying power for our P4P services, which we refer to in this prospectus as "Baidu Currency." We in effect provide discounts to our distributors and customers for our auction-based P4P services, and the level of discounts depends on the specific arrangement we have with a distributor or a customer. As an illustrative example, a distributor pays us RMB100 in cash and may receive 150 Baidu Currency units in its advance payment account maintained with us. In other words, the distributor is effectively paying RMB66.67 for every 100 units of Baidu Currency, receiving a discount of RMB33.33.

We also require each of our auction-based P4P customers to open an advance payment account with us and maintain a minimum balance of Baidu Currency units in this account. For a P4P customer acquired through a distributor, the distributor typically transfers certain number of Baidu Currency units from its advance payment account with us to the customer's account. The distributor decides on the number of Baidu Currency units to be transferred to the customer's account and the timing of such transfer. The number of Baidu Currency units that a customer receives from the distributor for the customer's cash payment to the distributor is determined based on the negotiation between them. We are not involved in such negotiation and do not know the relevant information. Once the customer's account is established, the customer may enter keywords it wishes to bid on, the amount it wishes to bid for each keyword, and a brief description of its product and/or service offerings and information necessary for hypertext linking. Bids are expressed as the number of Baidu Currency units that the customer is willing to pay for each click-through by our Internet search users. Our search results are prioritized based on customers' bids for placement within the results, with the highest bidder appearing at the top of the search results. When a user clicks on the customer's link appearing in our search results, we recognize revenue upon such click-through and concurrently deduct the number of Baidu Currency units that the customer bid from its account with us. Our distributors and customers are not entitled to any cash redemption for unused Baidu Currency units in their accounts with us. We do not recognize any unused Baidu Currency as revenue.

As an illustrative example, a distributor pays us RMB100 in cash and receives 150 Baidu Currency units. The distributor then transfers 80 Baidu Currency units to a customer's account with us based on the negotiation between them. If a customer places a bid for one Baidu Currency unit per click-through and there are 50 click-throughs in a given day, we will deduct 50 Baidu Currency units from the customer's account on that day. For

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financial reporting purposes, we recognize the cash value of the 50 Baidu Currency units as our revenue from this customer. As the distributor which introduced the customer to us is effectively paying us RMB0.667 for each Baidu Currency unit, the cash value of each Baidu Currency unit transferred by the distributor to the customer is RMB0.667. Accordingly, we recognize the cash value of 50 Baidu Currency units as our revenue, which equals to RMB33.35 in this example.

We provide tailored solutions customers with marketing solutions which may include one or more forms of online advertising services such as text links and graphical advertisements, as well as P4P services. Our online advertising services may be query sensitive or non-query sensitive. We have acquired our tailored solutions customers primarily through our direct sales force. Our agreements with these customers generally have a term of no more than one year. Our tailored solutions customers generally pay us based on pre-determined performance metrics, such as number of click-throughs, duration of placement, number of converted users and number of telephone calls. In recent months, some of our large tailored solutions customers have increasingly used our auction-based P4P services as one of the means to meet their online marketing needs. We expect to continue to experience such trend in the near future.

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

- the number of users visiting our websites and our Baidu Union websites;
- the number of searches initiated on our websites and our Baidu Union websites;
- the rate at which users click on paid search results;
- the number of online marketing customers;
- the total online marketing budgets of our customers; and
- the total number of advertisements displayed on our websites.

Historically, our P4P services have primarily been driven by the increase in the number of page views and the number of P4P customers. 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 adoption of our P4P services by SMEs, and, to a lesser extent, large enterprises. Our online advertising services have historically been driven by the general increase in our customers' online marketing budgets. Most of our tailored solutions customers are medium and large enterprises. We expect the number of our online marketing customers to grow and, as a result, our customer mix may change; however, we expect our online marketing customer base to remain diverse for the foreseeable future. Our online marketing customers are increasingly seeking marketing solutions with measurable results in order to maximize their return on investment, or 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.

Enterprise Search Software and Related Services. We provide enterprise search software and related services to companies and government agencies in China. We develop, market and sell software that employs our search technology to search and manage information on the intranet of our customers and on the Internet. We sell our enterprise search software and related services primarily through our direct sales personnel. We are subject to a PRC value added tax, or VAT, on sales of our enterprise search software, and are eligible to receive rebates for a portion of the VAT paid by us pursuant to applicable PRC tax regulations. We record revenues from our enterprise search software and related services net of the VAT payable by us but include the amount of VAT rebates received or receivable from the PRC tax authorities. We expect that our online marketing services will grow at a faster rate than our other products and services, and revenues from our enterprise search software and related services will decline as a percentage of our total revenues in the future.

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Portal Search Services. We provide search engine services to Chinese Internet portals that offer search results to their own users without displaying our brand. We intend to discontinue our portal search services in the near future.

Revenue Collection

We collect payments for our P4P services primarily from our distributors. We require our P4P distributors or direct customers to pay a deposit before using our P4P services, to maintain a minimum balance in their accounts, and to replenish the accounts immediately or in some cases, within certain grace periods after their account balance falls below the designated amount. We deduct the amount due to us from the deposit paid by a distributor or a customer when a user clicks on the customer's link in the search results.

We generally require payments from customers of our other services within 30 to 90 days of delivery of our products or services. As of March 31, 2005, we had accounts receivable of RMB15.0 million (US\$1.8 million), net of provisions, mainly due from customers for our online advertising and enterprise search software and related 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. Our total operating costs and expenses have declined as a percentage of our total revenues from 2002 to 2004 due to economies of scale and the revenue growth we have achieved.

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 net revenues for the periods indicated.

<i>(in thousands, except percentages)</i>	For the Year Ended December 31,							For the Three Months Ended March 31,				
	2002		2003		2004			2004		2005		
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
Total net revenues	10,524	100.0	38,638	100.0	110,909	13,401	100.0	(unaudited) 17,150	100	(unaudited) 42,628	(unaudited) 5,151	100.0
Cost of revenues:												
Traffic acquisition costs	(4,128)	39.2	(10,638)	27.6	(10,901)	(1,317)	9.8	(2,076)	12.1	(2,339)	(283)	5.5
Bandwidth costs	(1,146)	10.9	(2,217)	5.7	(8,475)	(1,024)	7.6	(1,319)	7.7	(3,821)	(462)	9.0
Depreciation of servers and other equipment	(2,645)	25.2	(4,146)	10.7	(7,072)	(855)	6.4	(1,269)	7.4	(3,719)	(449)	8.7
Operational expenses	(1,600)	15.2	(3,702)	9.6	(6,537)	(789)	5.9	(1,083)	6.3	(2,691)	(325)	6.3
Total cost of revenues	(9,519)	90.5	(20,703)	53.6	(32,985)	(3,985)	29.7	(5,747)	33.5	(12,570)	(1,519)	29.5

Traffic Acquisition Costs. Traffic acquisition costs represent the portion of our P4P 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 P4P revenues generated from click-throughs by users of that member's website. We expect our traffic acquisition costs to increase as we further expand our Baidu Union network.

Bandwidth Costs. Bandwidth costs are the fees we pay to China Telecom and China Netcom for telecommunications services and for hosting our servers at their Internet data centers. We expect our bandwidth costs, as variable costs, to increase with traffic on our websites. Our bandwidth costs could also increase if China Telecom and China Netcom were to raise their service charges.

Depreciation of Servers and Other Equipment. We include depreciation expenses within our cost of revenues for servers and other computer hardware that are directly related to our business operations and technical support. We expect our depreciation expenses to increase as we purchase additional servers and other computer hardware to meet the needs of our users and customers.

Operational Expenses. Operational expenses include primarily salary and benefits expenses and travel and other expenses incurred by our operating and technical support personnel. Salary and benefits expenses include wages, bonuses, and medical insurance, unemployment insurance and pension benefits.

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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 net revenues for the periods indicated.

<i>(in thousands, except percentages)</i>	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2002		2003		2004		2004		2005			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
Total net revenues	10,524	100.0	38,638	100.0	110,909	13,401	100.0	(unaudited) 17,150	100.0	(unaudited) 42,628	(unaudited) 5,151	100.0
Cost of revenues	(9,519)	90.5	(20,703)	53.6	(32,985)	(3,985)	29.7	(5,747)	33.5	(12,570)	(1,519)	29.5
Selling, general and administrative	(11,930)	113.3	(16,930)	43.8	(39,004)	(4,713)	35.2	(5,822)	33.9	(15,698)	(1,897)	36.8
Selling and marketing	(7,718)	73.3	(9,200)	23.8	(23,345)	(2,821)	21.1	(3,216)	18.7	(8,417)	(1,017)	19.7
General and administrative	(4,212)	40.0	(7,730)	20.0	(15,659)	(1,892)	14.1	(2,606)	15.2	(7,281)	(880)	17.1
Research and development	(3,885)	36.9	(5,191)	13.4	(11,406)	(1,378)	10.3	(2,032)	11.9	(5,479)	(662)	12.9
Share-based compensation	(4,233)	40.2	(5,109)	13.2	(16,510)	(1,995)	14.9	(2,607)	15.2	(6,142)	(741)	14.4
Total costs and operating expenses	(29,567)	280.9	(47,933)	124.0	(99,905)	(12,071)	90.1	16,208	94.5	(39,889)	(4,819)	93.6

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 SOP 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use," or FAS 86, "Accounting for the Costs of Computer Software to be Sold, Lease, Otherwise Marketed." We anticipate that research and development expenses will increase as we hire additional research and development personnel to further enhance our technology platform and meet the expected growth of our operations.

Selling, General and Administrative Expenses

(1) **Selling and Marketing Expenses.** Our selling and marketing expenses primarily consist of salaries and benefits and commissions for our sales and marketing personnel and promotional and marketing expenses. We expect to incur higher selling and marketing expenses as we intensify our brand-promotion efforts and hire additional sales and marketing personnel. We also expect our selling and marketing expenses to increase, reflecting the addition of over 100 former Qilang employees, in connection with our acquisition of Qilang's distribution business. To the extent that our direct sales force sells a greater proportion of our online marketing services, we expect that our selling expense will increase as a result of increased sales commissions. We expect that our selling and marketing expenses will increase in absolute amount and may increase as a percentage of our total net revenues in the near term.

(2) **General and Administrative Expenses.** Our general and administrative expenses primarily consist of salaries and benefits for our general and administrative personnel and fees and expenses for legal, accounting and other professional services. We expect to incur additional general and administrative expenses as we expand our operations and become a U.S.-listed public company.

Share-based Compensation Expenses

We recognize share-based compensation expenses as we amortize a portion of share-based compensation expenses. We grant options to our employees and record a compensation charge for the excess of the fair value of the shares at the grant date over the amount an employee must pay to acquire the shares. We also grant options to

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consultants and account for such options under the fair value method. We amortize share-based compensation expenses over the vesting periods of the related options, which are generally four years long. We recorded share-based compensation expenses of RMB4.2 million, RMB5.1 million and RMB16.5 million (US\$2.0 million) in 2002, 2003 and 2004, respectively. We had RMB16.8 million (US\$2.0 million) and RMB25.2 million (US\$3.0 million) of unamortized deferred share-based compensation expenses as of December 31, 2004 and March 31, 2005, respectively. Upon closing of this offering, we will be required to recognize, as an expense, the fair value of share options and other share-based compensation to optionees beginning in 2006. As a result, beginning in 2006, the amortization charges of our share-based compensation expenses are likely to be significantly higher than those we would have recorded under our current method of accounting for share options.

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.

<i>(in thousands)</i>	For the Year Ended December 31,						For the Three Months Ended March 31,					
	2002		2003		2004		2004		2005			
	RMB	%	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
								(unaudited)		(unaudited)	(unaudited)	
Allocation of Share-based Compensation Expenses												
Cost of revenues	313	7.4%	648	12.7%	1,665	201	10.1%	448	17.2%	228	27	3.7%
Selling, general and administrative	3,055	72.2%	2,669	52.2%	11,720	1,416	71.0%	1,429	54.8%	4,825	582	78.6%
Research and development	865	20.4%	1,792	35.1%	3,125	378	18.9%	730	28.0%	1,089	132	17.7%
Total share-based compensation expenses	4,233	100.0%	5,109	100.0%	16,510	1,995	100.0%	2,607	100%	6,142	741	100.0%

Taxation

Because we, our subsidiaries and Baidu Netcom are incorporated in different jurisdictions, we file separate income tax returns.

Under the current laws of the Cayman Islands and the British Virgin Islands, we and Baidu Holdings Limited are not subject to income or capital gains tax. Additionally, dividend payments made by any of these companies are not subject to withholding tax in those jurisdictions.

PRC Enterprise Income Tax

PRC enterprise income tax is calculated based on taxable income determined under PRC GAAP. In accordance with “Income Tax Law of China for Enterprises with Foreign Investment and Foreign Enterprises,” or the Income Tax Law, foreign invested enterprises, or FIEs, established in the PRC are generally subject to an enterprise income tax rate of 33%. The Income Tax Law also provides certain favorable tax treatment to an FIE that qualifies as a “new or high-technology enterprise” and is registered and operates in a specified high-tech zone in the PRC. PRC domestic companies are governed by the Enterprise Income Tax Laws of the PRC and are also generally subject to an enterprise income tax rate of 33%.

Baidu Online, an FIE which is registered and operates in Beijing Zhongguancun Science Park, has been qualified as a “new or high-technology enterprise.” It is entitled to a preferential enterprise income tax rate of 15% and other favorable tax treatments based on that status. Furthermore, Baidu Online was entitled to a three-year exemption from the enterprise income tax starting from its first year of operation (which expired on December 31, 2002) and was entitled to a preferential enterprise income tax rate of 7.5% for the succeeding three years (which will expire on December 31, 2005). After December 31, 2005, Baidu Online will be subject to a preferential enterprise income tax rate of 15% so long as it continues to be registered in a high-tech zone and maintains its “new or high-technology enterprise” status.

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To qualify as a “new or high-technology enterprise” for PRC enterprise income tax purposes, a business entity generally must meet certain financial and non-financial criteria, including:

- a minimum level of revenues generated from high technology related sales or services as a percentage of total revenues;
- a minimum number of employees engaged in research and development; and
- a minimum research and development expense as a percentage of total revenues.

Baidu Online’s status as a “new or high-technology enterprise” is re-assessed every other year. The PRC central or provincial government could determine at any time to immediately eliminate or reduce such preferential tax treatment, and our consolidated effective tax rate would increase as a result.

If Baidu Online no longer qualifies for the preferential enterprise income tax rate, we will consider available options under applicable law that would enable us to qualify for further preferential tax treatment. We recently established Baidu China, a new wholly owned subsidiary in China, and intend to apply in the near future for preferential tax treatment for Baidu China similar to that enjoyed by Baidu Online. To the extent we are unable to offset the impact of the expiration of Baidu Online’s preferential tax treatment with new tax exemptions, tax incentives or other tax benefits, the expiration of this preferential tax treatment will cause our effective tax rate to increase. The amount of income tax payable by our PRC subsidiaries 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 subsidiaries. Our effective tax rate depends partially on the extent of the relative contribution of each of our subsidiaries to our consolidated taxable income.

In addition, so long as we continue to recognize share-based compensation expenses in future periods, our consolidated effective tax rate will exceed the statutory tax rate as a result of such expenses. We calculate consolidated effective tax rate by dividing the net income before tax by the taxation. Our share-based compensation expenses are incurred by Baidu.com, Inc., a Cayman Islands company, which under the laws of Cayman Islands is not subject to income tax. Such expenses are not deductible for PRC income tax purposes since the share options were issued by the Cayman Islands company. As a result, such expenses reduce our consolidated net income before tax while the consolidated taxation remains unchanged, thereby increasing our consolidated effective tax rate. In 2004 and the three months ended March 31, 2005, our consolidated effective tax rate was 3.9% and 28.9%, respectively. Our consolidated effective tax rate for the three months ended March 31, 2005 was substantially higher than that for 2004 primarily as a result of the tax loss carry-over utilized in 2004 and our share-based compensation expenses which are not deductible for PRC income tax purposes. We fully utilized the tax loss carry-over in 2004.

If P4P were classified as a form of advertising in the future, we may have to conduct our P4P business through Baidu Netcom in order to comply with PRC laws and regulations that limit foreign ownership of advertising companies. As a result, our consolidated effective tax rate would increase, as Baidu Netcom is subject to a 33% statutory enterprise income tax rate as of the date of this prospectus. See “Risk Factors—Risks Related to Our Corporate Structure—If the PRC government were to classify P4P services as a form of advertising, we may have to conduct our P4P business through Baidu Netcom, which would increase our effective tax rate, and we might be subject to sanctions and required to pay delinquent taxes.”

PRC Business Tax

Revenues from services provided by Baidu Online and Baidu Netcom are subject to PRC business tax. We pay business tax on gross revenues generated from our online marketing and portal search services. Baidu Online may be entitled to a refund of business tax on revenues derived from technology service contracts. We plan to apply for this refund for our technology service contracts which currently include our P4P contracts.

Recent Acquisitions

In August 2004, we acquired the domain name Hao123.com from its owner unrelated to us. At the time of the acquisition, Hao123.com was the largest traffic contributor to our Baidu.com website among our Baidu Union members. Pursuant to the asset purchase agreement, we paid the seller an aggregate purchase price consisting of RMB11.9 million (US\$1.4 million) in cash and 40,000 ordinary shares of our company. In addition, we agreed to make a contingent payment of an additional RMB1.2 million (US\$0.1 million) to the seller if certain traffic statistics of Hao123.com are achieved within 12 months of the acquisition. We have accounted for the transaction as an asset purchase and recorded the intangible assets at the purchase price, excluding the contingent payment consideration. Since the acquisition, traffic of Hao123.com has become part of our organic traffic, and we no longer share revenues generated from users of Hao123.com. For additional information, see Note 6 to our consolidated financial statements included as part of this prospectus.

In February 2005, we acquired Qilang's distribution business. At the time of the acquisition, Qilang was the largest distributor of our P4P services in Shanghai. Pursuant to the acquisition agreement, we agreed to pay a purchase price in cash consisting of a fixed payment totaling RMB10.0 million (US\$1.2 million) and a variable amount contingent upon the satisfaction of certain performance benchmarks. The maximum purchase price payable by us will not exceed RMB37.0 million (US\$4.5 million). We have agreed to pay the purchase price in several installments. We paid the first RMB7.0 million (US\$0.8 million) in February 2005. We are obligated to pay an additional RMB3.0 million (US\$0.4 million) by September 30, 2005 and make two additional payments within 30 days after Qilang's audited annual financial results for 2005 and 2006 become available. In connection with our acquisition, over 100 Qilang's employees, including certain key management personnel, have become our employees. We accounted for the transaction using the purchase accounting method and have begun consolidating the results of the acquired business into our consolidated financial statements since February 21, 2005. The incremental fixed cost resulting from the Qilang acquisition, particularly in connection with the addition of over 100 employees, is approximately US\$30,000 per month immediately after the acquisition, mainly consisting of employee base salary and benefits, office rental, utilities and other fixed office expenses.

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. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Revenue Recognition

We recognize revenues based on the following revenue recognition principles:

Online Marketing Services

(1) Auction-based P4P Services. Our auction-based P4P platform enables a customer to place its website link or other information on our search result listing. The customer bids to determine how much it is willing to

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pay for each click-through to its listing in the search results displayed on our website. The ranking of the customer's listing in the search results depends on the amount of the customer's bid. The customer pays cash to us to obtain Baidu Currency which is the medium of exchange that the customer uses to bid for our P4P services. While we operate and maintain the technology infrastructure for the P4P platform, we primarily rely on distributors to engage and serve customers and collect cash payments.

The amount of revenue recognized is based on the total amount of cash consideration received and not based on the amount of Baidu Currency provided. Revenue is recognized when an Internet user clicks on the customer-sponsored listing, there is persuasive evidence of an arrangement, the fee is fixed or determinable as prescribed by Staff Accounting Bulletin No. 104, or SAB 104.

Cash payments received in advance of P4P services are recorded as customer deposits. The distributors and customers are not entitled to any cash redemption for unused Baidu Currency units in their accounts with us.

(2) Other Performance-based Online Marketing Services. For 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, or the minimum number of click-throughs), we recognize revenues when (i) the specified performance criteria are met and (ii) applicable revenue recognition criteria as prescribed by SAB 104 (i.e. when there is persuasive evidence of an arrangement, delivery or services to be provided have been performed, fee is fixed or determinable and collection is reasonably assured) are satisfied. Payments received prior to the performance of services are recorded as customer deposits.

(3) Time-based Online Advertising Services. For time-based online advertising services such as text links, banners or other forms of graphical advertisement, we recognize revenues in accordance with SAB 104 on a pro-rata basis over the advertisement period, commencing on the date the customer's advertisement is posted. For certain time-based contractual agreements, we may also provide certain performance guarantees, in which case, we recognize revenues at the later of the expiration of the duration of the advertisement period and the satisfaction of the performance guarantee. Payments received prior to performance of services are recorded as customer deposits.

In cases when time-based online advertising services are provided without persuasive evidence of an arrangement, accounts receivable, together with deferred revenues, are recognized for the determinable value, if available, of service provided. Revenue recognition is deferred until persuasive evidence of an arrangement is established.

(4) Online Marketing Services Involving Baidu Union. We make payments to Baidu Union members for introducing users who click on our customers' links on our websites. We recognize revenues in the amount of the fees we receive from our customers because we are considered the primary obligor to our customers. Payments made to Baidu Union members are recorded as traffic acquisition costs under cost of revenues.

(5) Online Marketing Services Arrangements with Multiple Elements. If a sales contract is entered into covering more than one product and the products are considered separate units of accounting in accordance with EITF 00-21, "Revenue Arrangements with Multiple Deliverables," the total fee on such arrangements is allocated to the individual deliverables based on their relative fair values.

We have two types of online marketing services arrangements that may include multiple deliverables: P4P services and time-based online advertising services.

We may be requested by certain customers acquired through direct sales to provide additional services such as account set-up, account management, keywords suggestions and performance reporting. We charge an annual

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service fee for these services. These service fees represent value to customers in addition to standard P4P services which are charged on a per click basis. Pursuant to EITF 00-21, the annual services fees and click-through revenues are considered separate units of accounting. We recognize annual service fees as revenues on a pro-rata basis over the service period of one year.

For time-based online advertising services, we may provide multiple advertising services in one or more contracts, which may be considered as a single arrangement pursuant to EITF 00-21. We have accounted for such arrangements in accordance with EITF 00-21 whereby each of the advertising services is accounted for separately because (i) it has stand-alone value since we have sold such services on an individual basis to other customers; (ii) the fair value of the advertising services is objectively determinable based on actual sales transactions involving such services on a separate basis; and (iii) there is no general right of refund for those services already provided based on services that have not been provided. Accordingly, we allocate the total fee for such arrangements to each element of the advertising services based on their relative fair values and recognize revenues on a pro-rata basis over the respective service periods.

(6) Barter Transactions. From time to time, we engage in barter transactions for our online marketing services and we recognize such non-monetary transactions at fair value. If such value is not determinable within reasonable limits, we recognize the transaction based on the carrying value of the product or services we provide. The amount of revenues recognized for barter transactions was insignificant for each of the periods presented. In addition, we have not recognized any revenues for any of the periods presented relating to barter transactions involving advertising within the limits of EITF 99-17, "Accounting for Advertising Barter Transactions." The volume of such transactions is not significant.

Enterprise Search Software and Related Services

We recognize revenues from our enterprise search software and related services in accordance with Statement of Position 97-2, "Software Revenue Recognition," or SOP 97-2, and Statement of Position 98-9, "Modification of SOP 97-2 with respect to Certain Transactions," or SOP 98-9. We recognize revenues from our enterprise search software and related services under SOP 97-2 when persuasive evidence of an arrangement exists, when all elements essential to the functionality of the software including installation and training are delivered in accordance with the terms and conditions of the customer contract, when the fee is fixed or determinable, and when collection is reasonably assured. For software arrangements involving multiple elements, we allocate revenues to each element based on vendor-specific objective evidence of relative fair values, when and if available, which are derived by allocating a value to each element that is based upon the prices charged when the element is sold separately. Our products and services are generally sold as part of a contract involving software, maintenance and training. We use vendor-specific objective evidence to determine the relative fair value of these various elements in each of the contracts. If we do not have vendor-specific objective evidence to support the fair value of such multiple element arrangements, we defer revenue recognition until all elements have been delivered or until a fair value can be objectively determined for any of the remaining undelivered elements. When the fair value of a delivered element has not been established, we use the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, we defer the fair value of the undelivered elements and allocate the remaining portion of the arrangement fee to the delivered elements and recognize it as revenue. If the only undelivered element is post-contract services, for which fair value cannot be established, the entire fee is recognized ratably over the term of the post-contract services arrangement. Payments received or receivable prior to meeting the above revenue recognition criteria are recorded as deferred revenue.

We recognize revenues from sales of our enterprise search software and related services net of VAT payable to, but include the amount of VAT rebates received or receivable from, the relevant PRC tax authorities pursuant to applicable PRC tax regulations. Sales of enterprise search software products in China are subject to a VAT at a rate of 17% of gross sales proceeds. Companies that meet certain conditions set by the relevant PRC tax authorities are entitled to a refund of VAT in an amount equal to the excess over 3% of the contract price paid by

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customers in any month when output VAT (which is the amount of VAT a company collects for sale of its products) exceeds input VAT (which is the amount of VAT a company pays in connection with its purchases). We record VAT rebates on an accrual basis. We received VAT rebates of RMB182,000, RMB656,000 and RMB604,000 (US\$72,978) in 2002, 2003 and 2004, respectively.

Portal Search Services

We recognized portal search revenues ratably over the service period when there is persuasive evidence of an arrangement, the fees are fixed or determinable, the services have been performed and collection is reasonably assured in accordance with SAB 104.

Share-based Compensation Expenses

Our share-based compensation plans are described in more detail under “Management—Share Options.” We grant options to employees and non-employees. For options granted to employees, we record a compensation charge for the excess of the fair value of the shares at the grant date over the amount an employee must pay to acquire the shares. We then amortize share-based compensation expenses over the vesting periods of the related options, which are generally four years long. For options granted to non-employees, we record share-based compensation expenses based on the fair value at the measurement date and amortize the expenses over the non-employees’ service periods. We recorded share-based compensation expenses totaling RMB4.2 million, RMB5.1 million, RMB16.5 million (US\$2.0 million) and RMB6.1 million (US\$0.7 million) in 2002, 2003, 2004 and the three months ended March 31, 2005, respectively.

Accounting for Share-based Compensation to Employees

We have granted options to our employees at exercise prices less than the value of the underlying shares as determined by our board of directors on the date of grant. We record share-based compensation to the extent the fair value of the shares at the date of grant exceeds the exercise price of the option. For purposes of financial accounting, we have determined the values of the shares underlying our options by reference to share transactions with or between third parties and by applying a blended income and market value approach to arrive at the fair values for the shares underlying our options. The fair value is the per share value of our ordinary shares determined by us solely for the purpose of financial accounting for employee share-based compensation.

Determining the fair value of our ordinary shares requires making complex and subjective judgments regarding projected financial and operating results, our unique business risks, the liquidity of our shares and our operating history and prospects at the time of grant. We used the income approach in conjunction with the market value approach by assigning a different weight to each of the approaches to estimate the value of the enterprise when the option was granted. The income approach involves applying appropriate discount rates to estimated cash flows that are based on earnings forecasts. Our revenues and earnings growth rates, as well as major milestones that we have achieved, primarily since late 2002, contributed significantly to the increase in the fair value of our ordinary shares. In addition, the market capitalizations of certain public companies involved in the same or similar lines of business as ours have increased significantly since 2004, which also contributed to the increase in the fair value of our ordinary shares. However, these fair values are inherently uncertain and highly subjective. The assumptions used in deriving the fair values are consistent with our business plan. These assumptions include: no material changes in the existing political, legal, fiscal and economic conditions in China; no major changes in tax law in China or the tax rates applicable to our subsidiaries in China; our ability to retain competent management, key personnel and technical staff to support our ongoing operation; and no material deviation in industry trends and market conditions from economic forecasts. These assumptions are inherently uncertain. The risks associated with achieving our forecasts were assessed in selecting the appropriate discount rates, which ranged from 15% to 30%. If different discount rates had been used, the valuations would have been different and the amount of share-based compensation would also have been different because the fair value of the underlying ordinary shares for the options granted would be different.

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During the early stages of our development, we used the current-value method to allocate our enterprise value to preferred and ordinary shares. The allocation to preferred shares was based on their liquidation preferences or conversion values, whichever would be greater. The fundamental assumption of this method is that the manner in which each class of preferred shareholders will exercise its rights and achieve its return is determined by the enterprise value as of the valuation date and not at some future date. Accordingly, depending on the enterprise value and the nature and amount of the various liquidation preferences, preferred shareholders will participate in enterprise value allocation either as preferred shareholders or, if conversion would provide them with better economic results, as common shareholders. The method assumes that the value of the preferred shares is represented by the most favorable claim the preferred shareholders have on the enterprise value as of the valuation date. Had we used different estimates of the value of the preferred shares, the allocations between preferred and ordinary shares would have been different.

As our company has developed, we have started to use an option-pricing model to allocate enterprise value to preferred and ordinary shares. The option-pricing method involves making estimates of the anticipated timing of a potential liquidity event such as a sale of our company or an initial public offering and estimates of the volatility of our equity securities. The anticipated timing is based on the plans of our board and management. Estimating the volatility of the share price of a privately held company is complex because there is no readily available market for the shares. We estimated the volatility of our shares to be nil. Had we used different estimates of volatility, the allocations between preferred and ordinary shares would have been different.

Because our option plan covers all of our employees, the change in the amount of share-based compensation expenses will primarily affect our reported net income, earnings per share and each line item of our operating expenses, which includes cost of revenues, selling, general and administrative and research and development expenses.

We have used a combination of the income approach, also known as the discounted cash flow, or DCF, approach, and the market approach to reassess the fair value of ordinary shares underlying the options granted from January 2004 through May 2004.

The major assumptions used by us in calculating the fair values are as follows:

(1) Weight of DCF and market multiples: We assigned 80% weight to DCF's and 20% weight to market multiples because we had achieved better visibility of future earnings at the time, which made the DCF approach more meaningful.

(2) Weighted average costs of capital, or WACC: We decreased our estimated WACC from 28% as of January 2003 to 27% for January 2004 and to 26% for April 2004. This was the combined result of the changes in risk-free rate and the decrease in our company-specific risk as the Company continued to grow and meet important milestones.

(3) Capital market valuation multiples: We obtained and assessed updated capital market valuation data of comparable Chinese and U.S. Internet companies including Sina.com, Sohu.com, Netease.com, Yahoo!, AskJeeve, and Findwhat.com as of January 31, 2004 and April 7, 2004.

(4) Management forecast used in the DCF computation reflect the following significant events:

- increased projected revenue rate of P4P business to reflect traffic expansion and channel expansion in 2003 and early 2004;
- projections for new online advertisement revenue streams based on the actual 2003 and early 2004 data;
- lower enterprise search software and portal search service revenue projections to reflect management's more conservative view on prospects of these businesses at the time;

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- increased capital expenditures for 2005 to 2007 to reflect projected growth in traffic and revenue; and
- other relevant costs and operating expenses adjusted up to reflect expanded scale of operations.

Furthermore, to arrive at the fair market value of the ordinary shares, we have assumed that all of the Series A, B and C convertible preferred shares have been converted as of the valuation dates and have subtracted the conversion value of the series A, B and C convertible preferred shares from the enterprise value.

We did not obtain contemporaneous valuations by an independent valuation specialist because when we issued options during this period, our resources were focused on product development, and we had limited financial resources for engaging an independent expert. Subsequently, we reassessed the valuations of ordinary shares relating to grants of options during the 12 months ended December 31, 2004.

Based on an estimated offering price of US\$ per share, the mid-point of the pricing range set forth on the front cover of this prospectus, the intrinsic value of the options outstanding as of March 31, 2005 was US\$ million, of which US\$ million related to vested options and US\$ million related to unvested options. Although it is reasonable to expect that the completion of this offering should increase the value of the shares because of their increased liquidity and marketability, the amount of additional value can be measured with neither precision nor certainty.

Pro forma information regarding net income (loss) and earnings per share is required in order to show our net income (loss) as if we had accounted for employee share options under the fair value method. We use the Black-Scholes option pricing model to compute the fair value of options at the grant date. This model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the expected share price volatility. We use the minimum value method in estimating the share price volatility for options issued to employees. Because our employee share options have characteristics significantly different from those of publicly traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the Black-Scholes model may not necessarily provide a reliable single measure of the fair value of our share options.

The effects of applying pro forma disclosures of net income (loss) and earnings per share are not indicative of the pro forma effects on net income and earnings per share in the future years for the following reasons:

- the number of future shares to be issued under these plans is not known; and
- the assumptions used to determine the fair value can vary significantly.

Accounting for Share-based Compensation to Non-Employees

We have granted options to non-employees including third-party consultants. We determine the fair value of the options granted to non-employees using the Black-Scholes option pricing model at the earlier of non-employees' performance commitment date or performance completion date under the following assumptions: 100% volatility, no dividends, a risk-free interest rate of 2.79%, 2.79% and 3.60% in 2002, 2003 and 2004, respectively, and an expected option life of three years. If different assumptions were used, our share-based compensation expenses, net income and earnings per share could have been significantly different. We amortize share-based compensation expenses over non-employees' service period.

Consolidation of Variable Interest Entities

PRC law currently limits foreign ownership of companies that provide Internet content and advertising services. To comply with these foreign ownership restrictions, we operate our websites and provide online advertising services in China through Baidu Netcom, a PRC limited liability company wholly owned by our co-founder and chief executive officer, Robin Yanhong Li, and our co-founder Eric Yong Xu, both of whom are PRC citizens. Baidu Netcom holds the licenses and approvals necessary to operate our websites and to provide online advertising services in China. We have contractual arrangements with Baidu Netcom and its shareholders pursuant to which we provide technology consulting services and license certain software products and registered domain names and trademarks to Baidu Netcom. Through these contractual arrangements, we also have the ability to substantially influence Baidu Netcom's daily operations and financial affairs, appoint its senior executives and approve all matters requiring shareholder approval. As a result of these contractual arrangements, which enable us to control Baidu Netcom, we are considered the primary beneficiary of Baidu Netcom. Accordingly, we regard Baidu Netcom as a Variable Interest Entity under FASB Interpretation No. 46R, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," or FIN 46R, and consolidate its results, assets and liabilities in our financial statements.

Intangible Assets

We carry intangible assets at cost less accumulated amortization. We compute amortization using the straight-line method over the estimated five-year economic life of the domain name Hao123.com. We review and adjust the carrying value of the intangible assets if the facts and circumstances indicate that the intangible assets may be impaired. The impairment test is applied by comparing the undiscounted cash flow against the carrying value of the assets. If the undiscounted cash flow is less than the carrying value, an impairment loss is recognized as the difference between the carrying value and the fair value of the intangible assets.

Allowance for Doubtful Accounts

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

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Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. Our business has evolved rapidly since we commenced operations in 2000. Our limited operating history makes it difficult to predict future operating results. We believe that period-to-period comparisons of operating results should not be relied upon as indicative of future performance.

(in thousands)	For the Year Ended December 31,				For the Three Months Ended March 31,		
	2002	2003	2004		2004	2005	
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
Consolidated Statement of Operations Data							
Revenues:							
Online marketing services	4,292	31,775	106,854	12,910	15,695	43,019	5,198
Enterprise search software and related services	1,724	2,803	7,958	962	1,412	2,076	251
Portal search services	5,004	5,993	2,639	319	867	581	70
Total revenues	11,020	40,571	117,451	14,191	17,974	45,676	5,519
Less: Business tax and surcharges	(496)	(1,933)	(6,542)	(790)	(824)	(3,048)	(368)
Total net revenues	10,524	38,638	110,909	13,401	17,150	42,628	5,151
Operating costs and expenses:							
Cost of revenues	(9,519)	(20,703)	(32,985)	(3,985)	(5,747)	(12,570)	(1,519)
Selling, general and administrative	(11,930)	(16,930)	(39,004)	(4,713)	(5,822)	(15,698)	(1,897)
Research and development	(3,885)	(5,191)	(11,406)	(1,378)	(2,032)	(5,479)	(662)
Share-based compensation(1)	(4,233)	(5,109)	(16,510)	(1,995)	(2,607)	(6,142)	(741)
Total operating costs and expenses	(29,567)	(47,933)	(99,905)	(12,071)	(16,208)	(39,889)	(4,819)
Operating (loss)/profit	(19,043)	(9,295)	11,004	1,330	942	2,739	332
Interest income	586	325	1,135	137	31	777	94
Other expenses/income, net	(120)	85	347	42	65	—	—
Taxation	—	—	(481)	(59)	—	(1,015)	(123)
Net (loss)/income	(18,577)	(8,885)	12,005	1,450	1,038	2,501	303
(1) Share-based compensation expenses are allocated as follows:							
Cost of revenues	(313)	(648)	(1,665)	(201)	(448)	(228)	(27)
Selling, general and administrative	(3,055)	(2,669)	(11,720)	(1,416)	(1,429)	(4,825)	(582)
Research and development	(865)	(1,792)	(3,125)	(378)	(730)	(1,089)	(132)
	(4,233)	(5,109)	(16,510)	(1,995)	(2,607)	(6,142)	(741)

Three Months Ended March 31, 2005 Compared to Three Months Ended March 31, 2004

Revenues. Our total net revenues increased by 148.6% from RMB17.2 million in the first quarter of 2004 to RMB42.6 million (US\$5.2 million) in the first quarter of 2005. This increase was primarily due to a substantial increase in our revenues from online marketing services and, to a lesser extent, an increase in our revenues from enterprise search software and related services. This increase was partially offset by a decrease in our revenues from portal search services.

- **Online Marketing Services.** Our online marketing revenues increased by 174.1% from RMB15.7 million in the first quarter of 2004 to RMB43.0 million (US\$5.2 million) in the first quarter of 2005. This increase was primarily due to our customers' increased use of online marketing as a means to promote their products and services, as evidenced by the growth of our customer base and the increase in the

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average online marketing revenue per customer. The number of our online marketing customers increased from 13,879 in the first quarter of 2004 to 29,706 in the first quarter of 2005, mainly due to our more effective distribution network. The average online marketing revenue per customer increased from RMB1,131 in the first quarter of 2004 to RMB1,448 (US\$175.0) in the first quarter of 2005, resulting primarily from (i) more intense competitive bidding for keywords reflecting the expansion of our P4P customer base, and (ii) the increase in the number of larger, higher-spending online advertising customers.

- *Enterprise Search Software and Related Services.* Revenues from our enterprise search software and related services increased by 47.0% from RMB1.4 million in the first quarter of 2004 to RMB2.1 million (US\$0.3 million) in the first quarter of 2005. This increase was primarily due to increased sales of enterprise search software and performance of related services, as the case may be, during the period.
- *Portal Search Services.* Our portal search revenues decreased 33.0% from RMB0.9 million in the first quarter of 2004 to RMB0.6 million (US\$0.1 million) in the first quarter of 2005, primarily due to a decrease in the number of portal search customers.

Total Operating Costs and Expenses. Our total operating costs and expenses increased by 146.1% from RMB16.2 million in the first quarter of 2004 to RMB39.9 million (US\$4.8 million) in the first quarter of 2005. This increase was primarily due to increases in our cost of revenues and selling, general and administrative expenses, and, to a lesser extent, increases in our research and development expenses and share-based compensation expenses.

- *Cost of Revenues.* Our cost of revenues increased by 118.7% from RMB5.7 million in the first quarter of 2004 to RMB12.6 million (US\$1.5 million) in the first quarter of 2005. This increase was primarily due to substantial increases in bandwidth costs and depreciation expenses of servers and other equipment, and, to a lesser extent, increased traffic acquisition costs and salaries and benefits for our operating and technical support personnel.
- *Traffic Acquisition Costs.* Our traffic acquisition costs increased by 12.7% from RMB2.1 million in the first quarter of 2004 to RMB2.3 million (US\$0.3 million) in the first quarter of 2005. This increase is attributable to the increased number of click-throughs by users from our Baidu Union websites. The increase was partially offset by our acquisition of the domain name Hao123.com, which was the largest traffic contributor among our Baidu Union members at the time of our acquisition in August 2004. Following the acquisition, Hao123.com became one of our websites, and we no longer incurred traffic acquisition costs in connection with the revenues generated from click-throughs by users of Hao123.com.
- *Bandwidth Costs.* Our bandwidth costs increased by 189.7% from RMB1.3 million in the first quarter of 2004 to RMB3.8 million (US\$0.5 million) in the first quarter of 2005, as a result of increased bandwidth we purchased to support increased traffic on our Baidu.com website and on the Hao123.com website, which became our organic traffic beginning in August 2004.
- *Depreciation Expenses of Servers and Other Equipment.* Our depreciation expenses of servers and other computer hardware increased by 193.1% from RMB1.3 million in the first quarter of 2004 to RMB3.7 million (US\$0.4 million) in the first quarter of 2005, as we acquired more servers and computer hardware to meet higher user traffic and accommodate our growing online marketing services business.
- *Operational Expenses.* Our operational expenses increased by 148.5% from RMB1.1 million in the first quarter of 2004 to RMB2.7 million (US\$0.3 million) in the first quarter of 2005, primarily due to the increase in the number of our operating and technical support employees to meet the needs of our growing operations.

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- *Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 169.6% from RMB5.8 million in the first quarter of 2004 to RMB15.7 million (US\$1.9 million) in the first quarter of 2005. This increase was primarily due to the following factors:
 - a substantial increase in our marketing and promotional expenses from RMB0.2 million in the first quarter of 2004 to RMB2.4 million (US\$0.3 million) in the first quarter of 2005;
 - an increase in total salaries and benefits for our sales and marketing personnel from RMB2.0 million in the first quarter of 2004 to RMB3.5 million (US\$0.4 million) in the first quarter of 2005, primarily due to (i) the increased amount of sales commissions reflecting higher direct sales of our online marketing services achieved by our sales and marketing team and (ii) the increase in the number of sales and marketing personnel; and
 - a substantial increase in total salaries and benefits for our increased number of general and administrative personnel from RMB1.5 million in the first quarter of 2004 to RMB3.8 million (US\$0.5 million) in the first quarter of 2005.
- *Research and Development Expenses.* Our research and development expenses increased by 169.6% from RMB2.0 million in the first quarter of 2004 to RMB5.5 million (US\$0.7 million) in the first quarter of 2005, primarily due to an increase in salaries and benefits for our research and development personnel as a result of increased headcount.
- *Share-based Compensation Expenses.* Our share-based compensation expenses increased by 135.6% from RMB2.6 million in the first quarter of 2004 to RMB6.1 million (US\$0.7 million) in the first quarter of 2005, primarily due to the increased number of share options granted to employees in the first quarter of 2005.

Operating Profit. As a result of the foregoing, we generated an operating profit of RMB2.7 million (US\$0.3 million) in the first quarter of 2005, compared to RMB0.9 million in the first quarter of 2004.

Taxation. Our income tax expenses were RMB1.0 million (US\$0.1 million) in the first quarter of 2005, but we did not have any income tax expenses in the first quarter of 2004. We did not recognize deferred tax assets in the first quarter of 2004 because it was more likely than not that these deferred tax assets would not be recognized.

Net Income. As a result of the foregoing, we had net income of RMB2.5 million (US\$0.3 million) in the first quarter of 2005, compared to RMB1.0 million in the first quarter of 2004.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues. Our total net revenues increased by 187.0% from RMB38.6 million in 2003 to RMB110.9 million (US\$13.4 million) in 2004. This increase was primarily due to a substantial increase in our revenues from online marketing services, and, to a lesser extent, an increase in our revenues from enterprise search software and related services.

- *Online Marketing Services.* Our online marketing revenues increased by 236.3% from RMB31.8 million in 2003 to RMB106.9 million (US\$12.9 million) in 2004. This increase was mainly attributable to our customers' increased use of online marketing as a means to promote their products and services, as evidenced by the increase in the number of online marketing customers from over 24,700 in 2003 to over 34,600 in 2004, and, to a lesser extent, the increase in the average revenue per P4P customer from approximately RMB1,282 in 2003 to approximately RMB3,083 (US\$372.5) in 2004. The increase in our online marketing customers was mainly due to our more effective distribution network. The increase

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in the average revenue per customer was primarily attributable to (i) more intense competitive bidding for keywords reflecting the expansion of our P4P customer base and (ii) the increase in the number of larger, higher-spending online advertising customers.

- *Enterprise Search Software and Related Services.* Revenues from our enterprise search software and related services increased by 183.9% from RMB2.8 million in 2003 to RMB8.0 million (US\$1.0 million) in 2004. This increase was primarily due to the recognition of revenues from the enterprise search-related service contracts which we entered into in 2003 but fully performed in 2004. The increase was also partially attributable to the increase in the average revenue per contract for our enterprise search software products and related services, which resulted partly from our introduction of a higher-priced enterprise search software product.
- *Portal Search Services.* Our portal search revenues decreased 56.0% from RMB6.0 million in 2003 to RMB2.6 million (US\$0.3 million) in 2004 primarily due to a decrease in the number of portal search customers.

Total Operating Costs and Expenses. Our total operating expenses increased by 108.4% from RMB47.9 million in 2003 to RMB99.9 million (US\$12.1 million) in 2004. This increase was primarily due to increases in our selling, general and administrative expenses and share-based compensation expenses, and, to a lesser extent, increases in our cost of revenues and research and development expenses.

- *Cost of Revenues.* Our cost of revenues increased by 59.3% from RMB20.7 million in 2003 to RMB33.0 million (US\$4.0 million) in 2004. This increase was primarily due to substantial increases in bandwidth costs, depreciation expenses of servers and other equipment and salaries and benefits for our operating and technical support personnel.
- *Traffic Acquisition Costs.* Our traffic acquisition costs in 2004 compared with 2003 remained largely unchanged at RMB10.9 million (US\$1.3 million). This was primarily due to the increased number of click-throughs by users of our Baidu Union websites. The increase was partially offset by our acquisition of the domain name Hao123.com. In August 2004, we acquired the domain name Hao123.com which was at the time the largest traffic contributor among our Baidu Union members. The traffic acquisition costs associated with click-throughs by users of the Hao123.com website during the period in 2004 prior to our acquisition accounted for approximately 20% of the total traffic acquisition costs in 2004, while the traffic acquisition costs associated with click-throughs by users of the Hao123.com website contributed approximately 18% to the total traffic acquisition costs in 2003. Following the acquisition, Hao123.com became one of our websites, and we no longer incur traffic acquisition costs in connection with the revenues generated from click-throughs by users of Hao123.com.
- *Bandwidth Costs.* Our bandwidth costs increased by 282.3% from RMB2.2 million in 2003 to RMB8.5 million (US\$1.0 million) in 2004, as a result of increased bandwidth to support increased traffic on our Baidu.com website and on the Hao123.com website, which became our organic traffic in August 2004.
- *Depreciation Expenses of Servers and Other Equipment.* Our depreciation expenses of servers and other computer hardware increased by 70.6% from RMB4.1 million in 2003 to RMB7.1 million (US\$0.9 million) in 2004, as we acquired more servers and computer hardware to meet increased user traffic and accommodate growing online marketing services.
- *Operational Expenses.* Our operational expenses increased by 76.6% from RMB3.7 million in 2003 to RMB6.5 million (US\$0.8 million) in 2004, primarily due to the increase in the number of our operating and technical support employees to meet the needs of our growing operations.

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- *Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 130.4% from RMB16.9 million in 2003 to RMB39.0 million (US\$4.7 million) in 2004. This increase was primarily due to the following factors:
 - marketing and promotional expenses of RMB3.0 million (US\$0.4 million) that we incurred in 2004 (as compared to no such expenses in 2003);
 - an increase in total salaries and benefits for our sales and marketing personnel from RMB4.9 million in 2003 to RMB10.0 million (US\$1.2 million) in 2004, primarily due to the increased sales commissions in 2004 reflecting higher direct sales of our online marketing services; and
 - a substantial increase in total salaries and benefits from RMB4.8 million in 2003 to RMB7.4 million (US\$0.9 million) in 2004 as a result of the increase in the number of general and administrative personnel.
- *Research and Development Expenses.* Our research and development expenses increased by 119.7% from RMB5.2 million in 2003 to RMB11.4 million (US\$1.4 million) in 2004, primarily due to an increase in salaries and benefits resulting from the increased headcount.
- *Share-based Compensation Expenses.* Our share-based compensation expenses increased by 223.2% from RMB5.1 million in 2003 to RMB16.5 million (US\$2.0 million) in 2004, primarily because we granted more options in 2004.

Operating (Loss)/Profit. As a result of the foregoing, we generated an operating profit of RMB11.0 million (US\$1.3 million) in 2004, compared to an operating loss of RMB9.3 million in 2003.

Taxation. Our income tax expenses were RMB0.5 million (US\$0.06 million) in 2004. We did not incur any income tax expenses in 2003 because we were not profitable in 2003. We did not recognize deferred tax assets in 2003 because it was likely that these deferred tax assets would not be recognized.

Net (Loss)/Income. As a result of the foregoing, we had net income of RMB12.0 million (US\$1.5 million) in 2004, compared to a net loss of RMB8.9 million in 2003.

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. Our total net revenues increased by 267.1% from RMB10.5 million in 2002 to RMB38.6 million in 2003. This increase was primarily due to a substantial increase in our online marketing revenues and, to a lesser extent, increases in revenues from our enterprise search software and related services and portal search services.

- *Online Marketing Services.* Our online marketing revenues increased by 640.3% from RMB4.3 million in 2002 to RMB31.8 million in 2003. This increase was mainly attributable to the increase in the number of our online marketing customers from over 9,960 in 2002 to over 24,700 in 2003 and, to a lesser extent, the increase in the average revenue per customer from approximately RMB431 in 2002 to approximately RMB1,282 in 2003. The increase in our online marketing customers was mainly as a result of the growing adoption of P4P as a marketing medium by customers. The increase in the average revenue per customer was primarily attributable to the increase in the number of online marketing customers. We first recorded revenues from our tailored solutions customers in July 2003, when we commenced providing our online advertising services to tailored solutions customers.
- *Enterprise Search Software and Related Services.* Revenues from our enterprise search software and related services increased 62.6% from RMB1.7 million in 2002 to RMB2.8 million in 2003. This

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increase was primarily due to an increase in the average revenue per contract for our enterprise search software products and the recognition of revenues from the enterprise search-related service contracts into which we entered in 2002 but fully performed in 2003.

- *Portal Search Services.* Revenues from our portal search services increased by 19.8% from RMB5.0 million in 2002 to RMB6.0 million in 2003 primarily due to the increase in revenues recognized from portal search service contracts into which we entered in 2002 and 2003.

Total Operating Costs and Expenses. Our total operating expenses increased by 62.1% from RMB29.6 million in 2002 to RMB47.9 million in 2003. This increase was primarily due to a substantial increase in our cost of revenues and, to a lesser extent, increases in our other operating expenses.

- *Cost of Revenues.* Our cost of revenues increased by 117.5% from RMB9.5 million in 2002 to RMB20.7 million in 2003. This increase was primarily due to a substantial increase in traffic acquisition costs and, to a lesser extent, increases in other components of our cost of revenues.
 - *Traffic Acquisition Costs.* Our traffic acquisition costs increased by 157.7% from RMB4.1 million in 2002 to RMB10.6 million in 2003. We officially began building our Baidu Union relationships in early 2003, which resulted in a substantial increase in our traffic acquisition costs in 2003 as we shared revenues with our Baidu Union members for traffic generated by such members. Traffic acquisition costs as a percentage of total revenues declined from 2002 to 2003 because the organic traffic generated from our Baidu.com website grew more significantly than the traffic generated from our Baidu Union members.
 - *Bandwidth Costs.* Our bandwidth costs increased by 93.5% from RMB1.1 million in 2002 to RMB2.2 million in 2003, as a result of our payment for additional bandwidth to support the increased traffic on our Baidu.com website.
 - *Depreciation Expense of Servers and Other Equipment.* Our depreciation expenses for servers and other computer hardware increased by 56.7% from RMB2.6 million in 2002 to RMB4.1 million in 2003, as we acquired more servers and computer hardware to meet the needs of our increasing user traffic and growing online marketing services business.
 - *Operational Expenses.* Our operational expenses increased by 131.4% from RMB1.6 million in 2002 to RMB3.7 million in 2003, primarily due to the increase in the number of our operating and technical support employees to meet the needs of our growing business operations.
- *Selling, General and Administrative Expenses.* Our selling, general and administrative expenses increased by 41.9% from RMB11.9 million in 2002 to RMB16.9 million in 2003. This increase was primarily due to the following factors:
 - an increase in our marketing expenses relating to our general marketing and brand promotion activities; and
 - an increase in total salaries and benefits for our sales and marketing personnel, primarily due to our increased number of sales and marketing employees and the increased sales commissions related to the direct sales of our online advertising services, which commenced in July 2003.
- *Research and Development Expenses.* Our research and development expenses increased by 33.6% from RMB3.9 million in 2002 to RMB5.2 million in 2003. This increase was primarily attributable to an increase in the compensation to research and development personnel.

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- *Share-based Compensation Expenses.* Our share-based compensation expenses increased by 20.7% from RMB4.2 million in 2002 to RMB5.1 million in 2003, primarily because we granted more options to employees in 2003.

Operating Loss. As a result of the foregoing, our operating loss decreased from RMB19.0 million in 2002 to RMB9.3 million in 2003.

Taxation. Since we had a net loss before tax in 2002 and 2003, we did not incur income taxes in 2002 and 2003.

Net Loss. As a result of the foregoing, our net loss decreased to RMB8.9 million in 2003 from RMB18.6 million in 2002.

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Selected Quarterly Results of Operations

The following table sets forth our unaudited consolidated selected quarterly results of operations for the five quarters ended March 31, 2005. You should read the following table in conjunction with our unaudited financial statements and related notes contained elsewhere in this prospectus. We have prepared the unaudited consolidated financial information on the same basis as our audited consolidated financial statements. The unaudited financial information includes all adjustments, consisting only of normal and recurring adjustments, that we consider necessary for a fair presentation of our financial position and operating results for the quarters presented.

<i>(in RMB thousands)</i>	For the Three Months Ended				
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004	March 31, 2005
Consolidated Statement of Operations Data					
Revenues:					
Online marketing services	15,695	21,389	29,767	40,003	43,019
Enterprise search software and related services	1,412	2,090	2,062	2,394	2,076
Portal search services	867	669	581	522	581
Total revenues	17,974	24,148	32,410	42,919	45,676
Less: Business tax and surcharges	(824)	(1,320)	(1,922)	(2,476)	(3,048)
Total net revenues	17,150	22,828	30,488	40,443	42,628
Operating costs and expenses:					
Cost of revenues	(5,747)	(6,911)	(8,203)	(12,124)	(12,570)
Traffic acquisition costs	(2,076)	(2,762)	(3,038)	(3,025)	(2,339)
Bandwidth costs	(1,319)	(1,444)	(1,543)	(4,169)	(3,821)
Depreciation of servers and other equipment	(1,269)	(1,429)	(1,842)	(2,532)	(3,719)
Operational costs	(1,083)	(1,276)	(1,780)	(2,398)	(2,691)
Selling, general and administrative	(5,822)	(8,054)	(11,497)	(13,631)	(15,698)
Selling and marketing	(3,216)	(4,929)	(6,792)	(8,408)	(8,417)
General and administrative	(2,606)	(3,125)	(4,705)	(5,223)	(7,281)
Research and development	(2,032)	(2,276)	(3,396)	(3,702)	(5,479)
Share-based compensation(1)	(2,607)	(4,068)	(4,849)	(4,986)	(6,142)
Total operating costs and expenses	(16,208)	(21,309)	(27,945)	(34,443)	(39,889)
Operating profit	942	1,519	2,543	6,000	2,739
Interest income	31	8	356	740	777
Other income, net	65	134	41	107	—
Taxation	—	—	—	(481)	(1,015)
Net income	1,038	1,661	2,940	6,366	2,501

(1) Share-based compensation expenses are allocated as follows:

Cost of revenues	(448)	(431)	(419)	(367)	(228)
Selling, general and administrative	(1,429)	(2,896)	(3,676)	(3,719)	(4,825)
Research and development	(730)	(741)	(754)	(900)	(1,089)
	(2,607)	(4,068)	(4,849)	(4,986)	(6,142)

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The following table presents our unaudited quarterly results of operations as a percentage of total net revenues for the five quarters ended March 31, 2005.

	For the Three Months Ended				
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004	March 31, 2005
As Percentage of Net Revenues:					
Net revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Operating costs and expenses:					
Cost of revenues	(33.5%)	(30.2%)	(26.9%)	(30.0%)	(29.5%)
Traffic acquisition costs	(12.1%)	(12.0%)	(10.0%)	(7.5%)	(5.5%)
Bandwidth costs	(7.7%)	(6.3%)	(5.1%)	(10.3%)	(9.0%)
Depreciation of servers and other equipment	(7.4%)	(6.3%)	(6.0%)	(6.3%)	(8.7%)
Operational costs	(6.3%)	(5.6%)	(5.8%)	(5.9%)	(6.3%)
Selling, general and administrative	(33.9%)	(35.3%)	(37.7%)	(33.7%)	(36.8%)
Selling and marketing	(18.7%)	(21.6%)	(22.3%)	(20.8%)	(19.7%)
General and administrative	(15.2%)	(13.7%)	(15.4%)	(12.9%)	(17.1%)
Research and development	(11.9%)	(10.0%)	(11.2%)	(9.2%)	(12.9%)
Share-based compensation(1)	(15.2%)	(17.8%)	(15.9%)	(12.3%)	(14.4%)
Total operating costs and expenses	(94.5%)	(93.3%)	(91.7%)	(85.2%)	(93.6%)
Operating profit	5.5%	6.7%	8.3%	14.8%	6.4%
Interest income	0.2%	0.0%	1.2%	1.8%	1.8%
Other income, net	0.4%	0.6%	0.1%	0.3%	—
Taxation	—	—	—	(1.2%)	(2.4%)
Net income	6.1%	7.3%	9.6%	15.7%	5.8%

(1) Share-based compensation expenses are allocated as follows:

Cost of revenues	(2.6%)	(1.9%)	(1.4%)	(0.9%)	(0.5%)
Selling, general and administrative	(8.3%)	(12.7%)	(12.1%)	(9.2%)	(11.3%)
Research and development	(4.3%)	(3.2%)	(2.4%)	(2.2%)	(2.6%)
	(15.2%)	(17.8%)	(15.9%)	(12.3%)	(14.4%)

The growth of our quarterly total net revenues has primarily been driven by the continual increase in online marketing revenues. Such growth reflects both an increase in the number of online marketing customers as well as an increase in the average revenues per customer. Our quarterly total operating costs and expenses as a percentage of net revenues decreased in the first quarter of 2005 from the same period in 2004, as we have been able to achieve a greater scale of our business and grow our total net revenues.

Both seasonal fluctuations in user traffic and industry cyclicality have affected, and are likely to continue to affect, our business. We generally experience less user traffic and acquire fewer customers during national holidays in China, in particular during the first quarter of each year. In addition, advertising spending in China has historically been cyclical, reflecting overall economic conditions as well as the budgeting and buying patterns of our customers. Our total net revenues in the first quarter of 2005 increased by 5.4% to RMB42.6 million (US\$5.2 million) from RMB40.4 million in the fourth quarter of 2004, as compared to the 32.7% quarterly growth for the fourth quarter of 2004 over the third quarter of 2004. The slower growth in the first quarter of 2005 reflected primarily the seasonal impact of the Chinese New Year holidays in early February. Our total operating costs and expenses increased in first quarter of 2005 as we continued to add qualified personnel and intensified our marketing and branding campaigns. As a result, our quarterly net income for the first quarter of 2005 decreased by 60.7% from RMB6.4 million for the fourth quarter of 2004 to RMB2.5 million (US\$0.3 million).

Our rapid growth has lessened the impact of the seasonal fluctuations and cyclicality. We expect that the seasonal fluctuations and cyclicality to cause our quarterly and annual operating results to fluctuate.

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As most of our growth has occurred during the most recent quarters and because our quarterly results have fluctuated as described above, our operating results for any quarter are not necessarily indicative of results of any future quarters or for a full year. In particular, our operating results in any quarterly period may be affected by a number of factors, including those noted in “Risk Factors—Risks Related to Our Business—Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.”

Liquidity and Capital Resources

Cash Flows and Working Capital

To date, we have financed our operations primarily through cash flows from operations as well as private placements of preferred shares to investors. As of March 31, 2005, we had RMB194.3 million (US\$23.5 million) in cash and cash equivalents, of which RMB6.5 million (US\$0.8 million) was held by Baidu Netcom. As of the same date, we had no outstanding debt. Our cash and cash equivalents primarily consist of cash on hand, demand deposits and liquid investments with original maturities of three months or less that are placed with banks and other financial institutions.

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

<i>(in thousands)</i>	For the Year Ended December 31,				For the Three Months Ended March 31,		
	2002		2003		2004		2005
	RMB	RMB	RMB	US\$	RMB	RMB	US\$
Net cash (used in) generated from operating activities	(7,804)	12,702	56,509	6,828	4,595	14,811	1,789
Net cash (used in) investing activities	(5,740)	(7,958)	(39,475)	(4,769)	(4,492)	(20,597)	(2,487)
Net cash generated from (used in) financing activities	42	72	120,337	14,539	78	(155)	(19)
Net (decrease) increase in cash and cash equivalents	(13,502)	4,816	137,371	16,598	181	(5,941)	(717)
Cash and cash equivalents at beginning of the period	71,511	58,009	62,825	7,590	62,825	200,196	24,188
Cash and cash equivalents at end of the period	58,009	62,825	200,196	24,188	63,006	194,255	23,471

Operating Activities

Net cash generated from operation activities increased to RMB14.8 million (US\$1.8 million) in the first quarter of 2005 from RMB4.6 million in the first quarter of 2004. This increase was mainly attributable to several factors, including (i) the net income of RMB2.5 million (US\$0.3 million) in the first quarter of 2005 compared to a net income of RMB1.0 million incurred in the first quarter of 2004; (ii) the increase in add-back of non-cash expenses, consisting of share-based compensation and depreciation expenses; (iii) the increase in customer deposits resulting from the increased number of P4P customers; and (iv) the increase in accrued expenses and other liabilities. The increase in operating cash flow was partially offset by the increase in accounts receivable amounting to RMB6.4 million (US\$0.8 million) from our tailored solutions and enterprise search software customers.

Net cash generated from operating activities increased to RMB56.5 million (US\$6.8 million) in 2004 from RMB12.7 million in 2003. This increase was primarily due to several factors, including (i) the net income of RMB12.0 million (US\$1.5 million) in 2004 compared to a net loss of RMB8.9 million incurred in 2003; (ii) the increase in add-back of non-cash expenses, consisting of share-based compensation and depreciation expenses;

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(iii) the increase in customer deposits resulting from the increased number of P4P customers; and (iv) the increase in accrued expenses and other liabilities. The increase in operating cash flow was partially offset by the increase in accounts receivable amounting to RMB6.9 million (US\$0.8 million) from our tailored solutions and enterprise search software customers.

Net cash generated from operating activities increased by RMB20.5 million to RMB12.7 million in 2003 from a negative RMB7.8 million in 2002. This increase was mainly attributable to the effect of several factors, including (i) the decrease in net loss from RMB18.6 million in 2002 to RMB8.9 million in 2003; (ii) the increase in customer deposits resulting from the growth of our P4P business; (iii) the increase in deferred revenues; and (iv) the slight increase in add-back of non-cash items, consisting of depreciation and share-based compensation expenses.

Investing Activities

Net cash used in investing activities increased from RMB4.5 million in the first quarter of 2004 to RMB20.6 million (US\$2.5 million) in the first quarter of 2005 primarily due to our purchase of additional servers and other computer hardware, as well as our initial payment of RMB7.0 million (US\$0.8 million) in February 2005 in connection with our acquisition of the distribution business of Qilang. Net cash used in investing activities increased from RMB8.0 million in 2003 to RMB39.5 million (US\$4.8 million) in 2004 primarily due to our purchase of additional servers and other computer hardware, as well as our payment of RMB11.9 million (US\$1.4 million) in August 2004 in connection with our acquisition of the domain name Hao123.com. The increase was also attributable to our purchase of ERP software and leasehold improvements to our premises. Net cash used in investing activities increased to RMB8.0 million in 2003 from RMB5.7 million in 2002 primarily due to our purchase of additional servers.

We expect that net cash used in investing activities will increase during the three years from 2005 to 2007. The expected increase is due to our agreement to pay a total purchase price of up to RMB37.0 million (US\$4.5 million) during the three-year period beginning from 2005 for our acquisition of Qilang. See “— Contractual Obligations and Commercial Commitments.”

Financing Activities

Net cash provided by financing activities was RMB0.1 million in the first quarter of 2004, compared to RMB0.2 million (US\$0.02 million) used in financing activities in the first quarter of 2005. We began to incur expenditures in connection with this offering in the first quarter of 2005. Net cash provided by financing activities increased from RMB0.1 million in 2003 to RMB120.3 million (US\$14.5 million) in 2004 primarily due to the net proceeds from the sale of our Series C convertible preferred shares in June 2004.

We believe that our current cash and cash equivalents, anticipated cash flow from operations and the proceeds from this offering 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. We cannot assure you that financing will be available in the amounts we need or on terms acceptable to us, if at all. The sale of additional equity securities, including convertible debt securities, would dilute our shareholders. The incurrence of debt would divert cash from working capital and capital expenditures to service debt obligations and could result in operating and financial covenants that would restrict our operations and our ability to pay dividends to our shareholders. If we are unable to obtain additional equity or debt financing as required, our business, operations and prospects may suffer.

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Contractual Obligations and Commercial Commitments

The following table sets forth our contractual obligations as of December 31, 2004:

<i>(in RMB thousands)</i>	Payment Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt Obligations	—	—	—	—	—
Capital (Finance) Lease Obligations	—	—	—	—	—
Operating Lease Obligations(1)	26,911	16,633	10,278	—	—
Purchase Obligations	—	—	—	—	—
Other Long-Term Liabilities Reflected on the Balance Sheet	—	—	—	—	—
Total	26,911	16,633	10,278	—	—

(1) Operating lease obligations represent the lease obligations for our premises and bandwidth obligations.

In connection with our acquisition of Qilang in February 2005, we have agreed to pay a maximum purchase price of RMB37.0 million (US\$4.5 million) in cash. The purchase price is subject to post-closing downward adjustments if certain performance benchmarks are not met. We paid RMB7.0 million (US\$0.8 million) in February 2005 and are obligated to pay an additional RMB3.0 million (US\$0.4 million) by September 30, 2005. We will pay the remaining amounts in two equal installments, each of which is payable within 30 days after Qilang's audited annual financial results for 2005 and 2006 become available. We intend to fund the outstanding payments with cash from our operating activities.

Other than the contractual obligations set forth above, we do not have any long-term debt obligations, capital (finance) lease obligations or purchase obligations.

Capital Expenditures

We made capital expenditures of RMB3.7 million, RMB6.4 million and RMB25.4 million (US\$3.1 million) in 2002, 2003 and 2004, respectively, representing 34.9%, 16.6% and 22.9% of our total net revenues, respectively. In the past, our capital expenditures were used to purchase servers and other computer hardware for our business. Our capital expenditures may increase in the near term as our business continues to grow and as we expand and improve our network infrastructure. We also intend to upgrade our financial and accounting systems and infrastructure.

Holding Company Structure

We are a holding company with no operations of our own. We conduct our operations primarily through our indirect wholly owned subsidiary, Baidu Online, and our variable interest entity, Baidu Netcom. As a result, our ability to pay dividends and to finance any debt we may incur depends upon dividends paid by Baidu Online and license and service fees paid by Baidu Netcom. If Baidu Online or any newly formed subsidiaries incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our PRC subsidiaries are permitted to pay dividend to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, Baidu Netcom and Baidu Online are required to set aside at least 10% of their after-tax profit each year to fund a statutory reserve until the amount of the reserve reaches 50% of such entity's registered capital. Although these statutory reserves can be used, among other ways, to increase the registered capital and eliminate future losses in excess of retained earnings of the respective companies, these reserve funds are not distributable as cash dividends except in the event of a solvent liquidation of the companies. See Note 18 to our consolidated financial statements.

Off-Balance Sheet Commitments and 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 derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Inflation

Since our inception, inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the change of consumer price index in China was (0.8%), 1.2% and 3.9% in 2002, 2003 and 2004, respectively.

Quantitative and Qualitative Disclosure about Market Risk

Interest Rate Risk

Our exposure to interest rate risk primarily relates to the interest income generated by excess cash invested in demand deposits and liquid investments with original maturities of three months or less. We have not used any derivative financial instruments to manage our interest risk exposure. Interest-earning instruments carry a degree of interest rate risk. We have not been exposed nor do we anticipate being exposed to material risks due to changes in interest rates. However, our future interest income may be lower than expected due to changes in market interest rates.

Foreign Exchange Risk

Substantially all of our revenues and costs are denominated in RMB, while a significant portion of our financial assets are denominated in U.S. dollars. We rely entirely on dividends and other fees paid to us by Baidu Online and Baidu Netcom. Our exposure to foreign exchange risk primarily relates to cash and cash equivalent, denominated in U.S. dollars as a result of our past issuances of convertible preferred shares through private placements and proceeds from this offering. We do not believe that we currently have any significant direct foreign exchange risk and have not hedged exposures denominated in foreign currencies or any other derivative financial instruments. Although the exchange rate between RMB and the U.S. dollar has been effectively pegged since 1994, there can be no assurance that RMB will remain pegged. Recently, there has been significant international pressure on the Chinese government to permit the free floatation of the RMB, which could result in an appreciation of RMB against the U.S. dollar. 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 ADS 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. The functional currency of Baidu.com, Inc. is the U.S. dollar and the functional currency of Baidu Online and Baidu Netcom is RMB, and our reporting currency is RMB. As a result, an appreciation of RMB against the U.S. dollar would result in foreign currency translation or transaction losses when we translate our consolidated assets from the U.S. dollar into RMB. As of December 31, 2004, we held RMB200.2 million (US\$24.2 million) in cash and cash equivalents, of which US\$18.2 million was denominated in U.S. dollars. Assuming we had converted the U.S. dollar denominated cash balance of US\$18.2 million as of December 31, 2004 into RMB at the exchange rate of US\$1.00 for RMB 8.2765 as of June 30, 2005, this cash balance would have been RMB150.3 million. Assuming a 10% appreciation of the RMB against the U.S. dollar, this cash balance would have decreased to RMB136.6 million as of December 31, 2004.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued Statement No. 123 (revised 2004) "Share-Based Payment," or SFAS 123(R), which requires companies to measure and recognize compensation expense for all share-based payment at fair value. SFAS 123(R) replaces SFAS 123, "Accounting for Stock-based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," or Opinion 25. SFAS 123(R) is effective for interim or annual periods beginning after June 15, 2005 for public companies. SFAS 123(R) permits public companies to meet the requirements using one of two methods:

- a "modified prospective" method, in which compensation cost is recognized beginning with the effective date (1) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (2) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date; or
- a "modified retrospective" method, which includes the requirements of the modified prospective method described above, but also permits companies to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (1) all prior periods presented or (2) prior interim periods of the year of adoption.

We plan to adopt SFAS 123 (R) using the modified prospective method. As permitted by SFAS 123, we currently account for share-based payments to employees using Opinion 25's intrinsic value method. Accordingly, the adoption of SFAS 123(R)'s fair value method will have a significant impact on our result of operations, although it will have no impact on our overall financial position. We cannot predict the impact of adopting SFAS 123(R) at this time because it will depend on the levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 15 to our consolidated financial statements. On April 14, 2005, the SEC announced the adoption of a new rule that amends the compliance date of SFAS 123(R) until the beginning of the next fiscal year that begins on or after June 15, 2005. Under the SEC's rule, SFAS 123(R) is now effective for our company beginning January 1, 2006. We expect the adoption of this statement to have a material impact on our consolidated results of operations and earnings per share.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets — An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions," or SFAS 153. SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, "Accounting for Nonmonetary Transactions," and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005. We do not expect the adoption of SFAS No. 153 to have a material effect on our results of operations or financial condition.

BUSINESS

Overview

We are the leading Chinese language Internet search provider. Our search engine was the most frequently used search engine in China in 2004, according to a survey conducted by iResearch. Our Baidu.com website was the second largest website in China and the sixth largest website globally, as measured by user traffic during the three-month period ended July 9, 2005, according to Alexa.com. We offer a unique Chinese language search platform to both users and customers. Our platform consists of our websites and Baidu Union, which is our network of third-party websites.

Our services are designed to enable Internet search users to find relevant information online, including Chinese language web pages, news, images and multimedia files, through links provided on our websites. We provide our users with easy access to an index of over 690 million web pages, 80 million images and 10 million multimedia files. We also offer a query-based online community, Baidu Post Bar, which currently consists of over 820,000 message boards.

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 online advertising services allow customers to use both query sensitive and non-query sensitive advertising services, including text links, graphical advertisements and other forms of online advertising. We design and deliver our services to our P4P and tailored solutions customers based on their online marketing requirements. Our P4P customers are those who primarily use our auction-based P4P services, and our tailored solutions customers are those to whom we provide marketing solutions, which may consist of one or more forms of our online advertising services as well as P4P services. In 2004, we had over 34,600 online marketing customers.

Founded in January 2000, we launched Internet search services on our Baidu.com website and began generating revenues from P4P services in September 2001. We began offering other online marketing services in July 2003. We have grown significantly since we commenced operations. Our total net revenues increased from RMB10.5 million in 2002 to RMB110.9 million (US\$13.4 million) in 2004. In the three months ended March 31, 2005, we generated total net revenues of RMB42.6 million (US\$5.2 million). We intend to continue to leverage our broad user and customer base, brand recognition, proven P4P platform and search technology to further capture the opportunities presented by the rapid growth of Internet usage in China.

Our Industry

Internet Users in China

The number of Internet users in China has grown rapidly. According to CNNIC, there were approximately 94 million Internet users in China as of December 31, 2004. The number of Internet users is expected to reach approximately 133 million by the end of 2005 and to further grow at a CAGR of 24.2% from 2005 to 2007, according to iResearch. The table below sets forth the number of Internet users in China for the periods indicated and the CAGR from 2005 to 2007.

	2005	2006	2007	05 - 07 CAGR
Internet Users (in millions)	133	166	205	24.2%

Source: iResearch: China Internet Search Market Report 2004

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Internet Search Users in China

China's Internet search market is still at an early stage of development but is evolving rapidly as an increasing number of users seek information, products and services via the Internet. According to iResearch, there were approximately 83 million Internet search users in China in 2004, and the number of Internet search users is expected to grow at a CAGR of 27.5% from 2005 to 2007. The table below sets forth the number of Internet search users in China for the periods indicated and the CAGR from 2005 to 2007.

	2002	2003	2004	2005	2006	2007	05-07 CAGR
Internet Search Users (in millions)	38	56	83	115	149	187	27.5%

Source: iResearch: China Internet Search Market Report 2004

With the acceleration of broadband penetration in China and the proliferation of Chinese language websites, the number of search queries in China has increased significantly. According to iResearch, the total number of queries per day was estimated to have reached approximately 188 million in 2004 and is expected to grow at a CAGR of 49.8% from 2005 to 2007, and the total number of queries per user per day is expected to grow from 2.3 per user in 2004 to 4.3 per user in 2007. The table below sets forth the total number of queries per day and queries per user per day for the periods indicated and the respective CAGR from 2005 to 2007.

	2002	2003	2004	2005	2006	2007	05-07 CAGR
Total Queries Per Day (in millions)(1)	24	81	188	360	544	808	49.8%
Total Queries Per User Per Day(1)	0.6	1.4	2.3	3.1	3.6	4.3	17.8%

(1) The historical data based on the results of a survey conducted in December of each year of Chinese Internet search providers and their estimated number of daily search queries processed.

Source: iResearch: China Internet Search Market Report 2004

Online Marketing in China

Similar to the trend in the U.S., Internet search in China has evolved from directory-based search to web search. Prior to 2001, Internet search in China mainly included directory-based search. Major forms of online marketing associated with directory-based search include pay-for-inclusion and fixed ranking marketing. In September 2001, Baidu became the first auction-based P4P paid search provider in China.

With the growth of Internet usage and the rapid development of the Internet search market in China, online marketing has become a more widely adopted marketing medium. IDC reported that in 2003, 43.8% of China's Internet users clicked on various forms of online marketing, higher than Internet users in most parts of the Asia Pacific region (excluding Japan), and total online marketing revenues in China would amount to approximately US\$130 million in 2004. The paid search market is expected to be the fastest growing segment of online marketing in the Asia Pacific region (excluding Japan) through 2007.

Forms of online marketing include paid search, such as P4P and fixed ranking, as well as online advertisements such as text links and graphical advertisements. The table below sets forth the various forms of online marketing as a percentage of total online marketing revenues in China for the periods indicated.

(% of Online Marketing Revenues)	2002	2003	2004	2005	2006
Paid Search	34.7%	37.9%	37.9%	43.3%	45.4%
Online Advertisements	60.8%	59.3%	60.0%	54.9%	53.1%
Email Advertisements	4.5%	2.7%	2.1%	1.7%	1.4%

Source: iResearch: China Internet Search Market Report 2004

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Paid Search. Paid search, consisting mainly of P4P and fixed ranking, is expected to be the fastest-growing segment of online marketing in China. iResearch estimates that paid search will comprise approximately 45% of online marketing revenues in 2006, of which 58% will be attributable to P4P revenues. The table below sets forth the various forms of paid search as a percentage of total paid search revenues in China for the periods indicated.

(% of Paid Search Revenues)	2002	2003	2004	2005	2006
Pay-for-performance	14%	43%	43%	51%	58%
Fixed Ranking	32%	22%	28%	24%	21%
Address Bar	50%	29%	24%	19%	15%
Others	4%	6%	5%	6%	6%

Source: iResearch: China Internet Search Market Report 2004

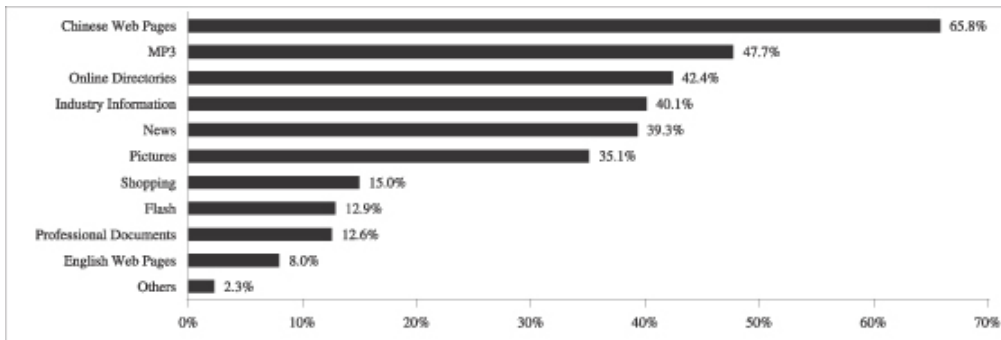
Auction-based P4P is a cost-effective platform designed to meet the need of businesses to reach the increasing number of Internet users. P4P enables a customer to bid for priority placement of its links in keyword search results. The customer is required to pay the amount of its bid when a user clicks on the customer’s listing in the search results. In the fixed ranking model, a customer pays a fixed fee to guarantee the display of its listing at a specified position on the search result page.

Online Advertisements. Online advertisements include text links, buttons, banners and other graphical advertisements. Online advertisements offered by search engines include both query sensitive and non-query sensitive advertising products. Advertisers purchase online advertising products directly from website operators or indirectly through advertising agents. iResearch estimates that online advertising revenues will comprise approximately 53% of online marketing revenues in 2006.

Unique Characteristics of Chinese Internet Search Market

Diverse Internet Search Needs. Internet users in China search for a variety of information, such as web pages, news and multimedia files. According to a survey of Internet search users in China conducted by iResearch in 2004, approximately 48% of those surveyed searched for MP3 files through search engines and approximately 35% of those surveyed searched for pictures. The following chart sets forth iResearch’s survey results.

Information Needs of Internet Search Users in China(1)



(1) Represents the percentage of Internet search users who searched for the specified type of information in 2004.

Source: iResearch: China Internet Search Market Report 2004

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Complexity of the Chinese Language. The complexity of the Chinese language requires special language processing technologies to generate relevant results. Sentences in Chinese consist of phrases, equivalent to words in English, that are formed by multiple characters. A search engine must index and segment the Chinese text phrases before conducting keyword/phrase searches. Moreover, a Chinese language phrase generally has more synonyms and closely associated phrases than an English word. As a result, a Chinese language search engine must have a comprehensive database of synonyms and closely associated phrases in order to function effectively.

Large Base of SME Customers. While large enterprises represent an important part of the paid search market, we believe that SMEs comprise a substantial and growing portion of China's potential paid search customer base. According to iResearch, the number of SMEs in China is estimated to reach 24.8 million by the end of 2006. iResearch also forecasts that the number of SMEs adopting some form of online marketing will grow from 410,000 in 2004 to 680,000 in 2006, representing a CAGR of 28.8%. SMEs are generally more likely to adopt paid search as a marketing medium given their relatively modest budgets. Paid search allows SMEs to maximize the return on their spending by reaching potential consumers that they otherwise may not be able to reach cost-effectively.

Reliance on Distributors. China's paid search market relies heavily on distributors to acquire customers, collect payments and provide customer service. This is in part due to the large, fragmented and less sophisticated SME customer base, which is at an early stage of adopting paid search as a marketing medium. Moreover, since secure online payment and credit card systems are at early stages of development in China, distributors serve as an effective channel to collect payments from customers.

Our Strengths

We focus on providing Chinese language Internet search and related services. Our services are designed to enable our users to find relevant information efficiently online and to enable our customers to reach these users cost-effectively. We believe that our leading position in China is primarily attributable to the following strengths:

Largest Chinese Language Search Audience. According to Alexa.com, our Baidu.com website attracted the largest Chinese language Internet search audience, as measured by user traffic during the three-month period ended July 9, 2005. We provide our customers with access to users from our websites and our Baidu Union websites, which consisted of over 76,000 third-party websites as of June 30, 2005. Our Baidu Union significantly enhances our ability to attract users and to provide our customers with increased exposure to users who may be interested in their offerings.

First P4P Service Provider in China with an Extensive Customer Base. We were the first P4P service provider in China. Our P4P customers include SMEs as well as large companies in a wide range of industries located throughout China. This extensive P4P customer base creates competitive bidding in many of our keyword categories, which generally results in higher price per click for a particular keyword and also higher revenue per customer.

One of the Most Widely Recognized Internet Search Brands in China. Baidu is one of the most widely recognized Internet search brands in China. Our brand has developed mainly through word-of-mouth among our users and customers. We recently initiated marketing campaigns to promote and strengthen our brand. The awareness of our "Baidu" brand enhances our ability to attract more user traffic to our Baidu.com website. It also allows us to attract more customers seeking to target a broader base of potential consumers.

Local Market Experience and Expertise. As the first Internet search provider dedicated to Chinese language searches, we have developed a significant understanding of the needs and preferences of our users and customers in China. We have expertise in developing search technologies that cater to the search behavior of Chinese users and address the unique features of Chinese language search. We also have a track record of successfully introducing and expanding our P4P services to paid search customers across different regions of

China. In addition, we have experience in operating in the highly regulated and rapidly evolving Internet industry in China.

Leading Technology. Our search technology, which we have developed over the last five years, provides users with relevant search results and customers with an efficient way to reach potential consumers. Our link-analysis, anti-spamming and Chinese language processing technologies form the core of our algorithmic search technology. We have also developed a scalable spider technology that crawls over 100 million web pages per day. Our indexer system currently refreshes our entire web page index every three weeks with partial index refreshed more frequently based on our knowledge of Internet search users' need. For example, our news index is typically updated every three to six minutes throughout the day. In addition, we have developed an easy-to-use, web-based P4P platform for our customers.

Extensive and Effective Distribution and Customer Service Network. Our customers can access our P4P services directly or through our nationwide network of over 200 regional distributors. Our distributors sell our P4P services to customers and collect payments for us. Our key distributors are restricted from selling similar products offered by our competitors during our contractual period. We also provide training to our distributors and evaluate their performance to ensure high-quality customer service. In addition, we, along with our distributors, provide training, keyword analysis and search reports to our customers to help them better understand our services and achieve higher ROIs.

Our Strategies

Our goal is to become a platform that provides users with the best way to find information and allows businesses to reach a broad base of potential customers. We intend to achieve our goal by implementing the following strategies:

Enhance User Experience and Increase Traffic. We believe that continuous improvement of our users' experience is essential to increasing traffic to our websites. We plan to develop and introduce new features and functions to our search services, including new forms of searchable content. We also plan to refine our search algorithms and other related technologies, increase the size of our indexes and improve index refresh rates to enable users to find relevant information more efficiently.

Grow Online Marketing Business. We intend to grow our online marketing business by attracting potential customers and increasing spending per customer on our services. We plan to address the specific needs of our customers by offering individual products and services and tailored solutions to maximize the effectiveness of their marketing efforts. For P4P customers, we intend to continue enhancing our P4P service offerings, expanding our distribution network and providing incentives and training to our distributors to provide more comprehensive services. For tailored solutions customers, we intend to strengthen our direct sales force to provide better customer service and build new, long-term relationships. We aim to better understand their online marketing needs through regular customer dialogues, cross selling of our various products and services and introduction of new and innovative online marketing solutions.

Expand Baidu Union. Our Baidu Union consisted of over 76,000 third-party websites as of June 30, 2005. We share with our Baidu Union members revenues generated from users of their websites. More recently, we began offering Baidu Union members contextual marketing services, which we refer to as ProTheme. We believe that a more extensive Baidu Union can provide us with a more valuable revenue stream and further enhance our market position as the leading search provider in China. We intend to recruit additional Baidu Union members by leveraging our brand and offering competitive economic arrangements.

Pursue Selective Strategic Acquisitions and Alliances. We intend to pursue selective strategic acquisitions of businesses, assets and technologies that complement our existing capabilities and business. In August 2004, we acquired the domain name Hao123.com, at that time the largest traffic contributor among our Baidu Union members. In February 2005, we acquired the distribution business of Qilang, at that time the largest distributor of

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our P4P services in Shanghai. We also intend to continue pursuing selective strategic alliances with market leaders in other business sectors to further broaden our customer base and product and service offerings. In March 2005, we established a strategic partnership with Shanda Interactive Entertainment Limited, or Shanda, the largest operator of online games in China, whereby we agreed to introduce Shanda's interactive entertainment content offerings to our users and Shanda agreed to install our Internet search tools in its user platform. In May 2005, through a collaboration with China Telecom Yellow Page Information Company Limited, or China Telecom, we launched the testing version of our local search on our Baidu.com website to enable users to search for local business information online. Successful execution of our acquisition strategy will allow us to increase user traffic, enlarge our customer base, expand our product offerings and reduce customer acquisition costs.

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 the following services at Baidu.com to users free of charge:

Baidu Web Search. Baidu's web search allows users to locate information, products and services using Chinese language search terms. Through our search software, 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 prominently features a search box that is designed to load quickly. After entering a search query, users are generally presented with a list of search results, which may include our customers' 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 more than 690 million indexed Chinese language web pages, we have integrated additional features into our web search that help users find information more easily. The Baidu web search includes the following features:

- 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 by Chinese Phonetics (Pinyin) – enables users to conduct quick searches by entering Chinese phonetics with letters of the English alphabet instead of Chinese characters;
- 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 quickly or easily opened;
- Translation – provides instant translations of words and phrases from English to Chinese or vice versa;
- Spell Checker – suggests alternate search terms when a search appears to contain misspellings or typing errors;
- Stock Quotes – provides links to stock information of companies listed on the stock exchanges in China;
- Travel Information – enables users to check domestic train and flight schedules as well as schedules of international flights departing from or arriving in China; and
- Calculator – performs basic arithmetic and complicated math and converts between units of measure.

Baidu MP3 Search. Baidu MP3 Search provides algorithm-generated links to nearly four million songs and other multimedia files found on the Internet. The user can also sort Baidu MP3 Search links by various categories, including lists of top songs and artists, which are updated automatically every week based on the number of clicks.

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Baidu Image Search. Baidu Image Search enables users to search within an index of nearly 80 million images on the Internet. Baidu Image Search offers advanced features, such as search by image size and by color format. Image listings are organized by various categories which are updated automatically through algorithms.

Baidu Search Ranking. Baidu Search Ranking 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.

Baidu Web Directory. Baidu Web Directory enables users to browse and search through websites that have been organized into categories. We also operate Hao123.com, a popular Chinese web directory navigation site in China.

Baidu Local Search. We developed Baidu Local Search jointly with China Telecom. This service allows users to conduct online searches for local business information in specific localities in China. The information is derived from yellow page phone books published by China Telecom.

Baidu Post Bar. Baidu Post Bar provides users with a query-based searchable community to exchange views and share knowledge and experience. Through Baidu Post Bar, users can search, read and browse Internet message boards and post messages to other members of the community. Baidu Post Bar contains over 820,000 message boards covering a broad range of topics and interest areas, such as society, technology, sports, entertainment and fashion.

Baidu News. Baidu News provides links to an extensive selection of local, national and international news from approximately 1,000 selected sources and presents news stories in a searchable format, typically within minutes of their publication on the web. Baidu News uses an automated process to display links to related headlines, which enables people to see many different viewpoints on the same story. Baidu News is typically updated every three to six minutes throughout the day.

Other Baidu Products. We are continuously developing and introducing new products to make Baidu.com more attractive to our users. We recently launched Baidu Movie Search, a subscription-based service, which allows users to search movies by keywords or by various categories and provides links to an extensive collection of movies hosted on the websites of certain well-known PRC media companies. These media companies have represented to us that they have valid licenses to distribute the movies on their websites. We have agreed to share with each such media company, pursuant to a pre-agreed rate, the net payment received from our users based on the number of clicks on links to movie titles provided by the media company during a given period.

We recently introduced two new free, downloadable software tools, including Baidu Desktop Search, which enables users to search all files saved on their computer without launching a web browser, and Baidu Sobar, which, once installed, shows up on a computer's tool bar and makes our search function readily available on every web page that a user browses.

Our Customers

Online Marketing. We serve a broad online marketing customer base consisting of SMEs throughout China, large domestic corporations and Chinese divisions or subsidiaries of large, multinational corporations. We have a diverse customer base in terms of industries and geographical locations. The industries in which our customers operate include e-commerce, information technology services, consumer products, manufacturing, health care, entertainment, financial services, real estate and other industries. 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.

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Our online marketing customers are increasingly seeking marketing solutions with measurable results in order to maximize their ROI. In response to this trend, we manage our sales activities for our online marketing services around two key customer categories: P4P customers and tailored solutions customers.

- **P4P Customers** – Our P4P customers are those who primarily use our auction-based P4P services. They are generally SMEs with modest marketing budgets, and, as a result, require cost-effective online marketing solutions to reach their potential customers. Our P4P platform allows them, directly or through our distributors, to easily manage their online marketing spending on a prepaid basis.
- **Tailored Solutions Customers** – Our tailored solutions customers generally seek solutions to meet certain pre-determined performance metrics, such as number of click-throughs, duration of placement, number of converted users and number of telephone calls. They are generally medium and large enterprises with dedicated online marketing budgets. Depending on their objectives and desired end results, we design customized performance-based solutions comprising of P4P, fixed ranking and other query and non-query sensitive marketing services.

Other Products and Services. Our enterprise search software customers mainly consist of large enterprises and government agencies in China. Our portal search customers consist of selected Chinese Internet portals. We intend to discontinue our portal search services in the near future.

Products and Services for Customers

We focus on providing customers with cost-effective and targeted marketing solutions. We generate revenues primarily from online marketing services and, to a lesser extent, sales of enterprise search software and portal search services.

Online Marketing Services

P4P. 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 link. Our P4P platform features an automated online sign-up process that allows customers to activate their accounts at any time.

Our P4P platform is an online marketplace that introduces Internet search users to customers who bid, or pay a fixed fee per click-through, for priority placement in the search results. We offer varying discounts to distributors in consideration for their distribution of our P4P services. Links to customers' websites are listed in descending order of customers' bids, with the highest bidder appearing as the first search result. 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. Customers can see the competing bids on the same keywords, enabling each customer to determine the bid required to achieve a desired ranking. This transparent bidding process creates competition among customers.

We offer customers additional services that help to maximize their ROIs, including:

- **Keyword Suggestions** – We suggest synonyms and associated phrases to use as keywords or text in search listings. These suggestions can improve click-through rates of the customer's listing and increase the likelihood that a user will enter into a transaction with the customer;
- **Account Management** – We help manage customers' P4P accounts by, among other things, adjusting keywords from time to time at their request to help increase the click-through rate for their listings; and

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- Performance Reporting – We provide our customers online daily reports of the number of click-throughs, clicked keywords and the total costs incurred, as well as statistical reports organized by geographic region.

ProTheme. We recently began offering ProTheme services to some of our Baidu Union members. Our services enable these Baidu Union members to display our customers' promotional links that are relevant to the content on Baidu Union members' websites. We generate revenues from our ProTheme services based on the number of clicks on our customers' links and share the revenues with our Baidu Union members in accordance with pre-agreed terms.

Fixed Ranking. Our fixed ranking services allow our customers to display query sensitive text links at a designated location on our search results pages. Our customers pay us an amount based primarily on the location of their text links on our web pages.

Other Forms of Online Advertising. Other forms of our online advertising services allow customers to display query sensitive and/or non-query sensitive advertisements on our websites, including graphical advertisements. Our advertising contracts are generally short-term. Standard rates for online advertisements vary depending on several factors, including the term of the contract, channel and traffic reach and the size and position of the advertisement on our web pages.

Other Products and Services

Enterprise Search Software. We provide enterprise search software and related services to companies and government agencies in China. We develop, market and sell software that employs our search technology to search and manage information on our customers' intranet and on the Internet. Its features include full text search, picture search and information classification. Our enterprise search software customers generally pay us a one-time fee after we deliver the software and related services. We also provide after-sale technical support services in accordance with our contracts with customers.

Portal Search. We provide our search engine to selected Chinese Internet portals that offer search results to their own users without displaying our brand. We intend to discontinue our portal search services in the near future.

Baidu Union

Our Baidu Union consisted of over 76,000 third-party websites operated in China as of June 30, 2005. Our Baidu Union members typically place a Baidu search box on their websites and allow their users to access our website by clicking the Baidu search box. Our relationships with Baidu Union members allow them to provide high-quality and relevant search results to their users without the costs associated with building and maintaining advanced search capabilities in-house. We recently began offering ProTheme services to some Baidu Union members. ProTheme allows our Baidu Union members to display our customers' promotional links that are relevant to the content on their websites. We typically share revenues with our Baidu Union members based on the number of click-throughs from users of their websites. We intend to recruit additional Baidu Union members to further increase traffic to our Baidu.com website.

Sales and Distribution

We sell our online marketing services directly and through our distribution network. We have historically acquired our P4P customers primarily through our nationwide network of distributors, and, to a lesser extent, through our direct sales force. 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 have relied on distributors for several reasons. Our P4P customer base in China is geographically diverse and fragmented as

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most 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 at early stages of development in China. Distributors serve as an efficient and effective channel to reach SME customers throughout China and collect payments from them.

We have distribution agreements with our distributors, including our key distributors on an exclusive basis, for some geographic regions. Under our standard distribution agreement, a distributor pays us a refundable deposit during the term of the agreement and maintains an advance payment account from which payments owed to us by the distributor can be deducted. We require distributors to maintain a minimum balance in their advance payment account and to replenish the account immediately or in some cases, within certain grace periods after the account balance falls below the designated amount. We require distributors to staff dedicated customer service representatives for our customers. We provide periodic training programs to our distributors to help us maintain the service quality of our distributors and strengthen our relationships with them.

To our knowledge, distributors typically require advance RMB cash payments from our customers and then may transfer a portion or all of such payments to us in exchange for buying power for our P4P services, which we refer to in this prospectus as “Baidu Currency.” We in effect provide discounts to our distributors and customers for our auction-based P4P services, and the level of discounts depends on the specific arrangement we have with a distributor or a customer. As an illustrative example, a distributor pays us RMB100 in cash and may receive 150 Baidu Currency units in its advance payment account maintained with us. In other words, the distributor is effectively paying RMB66.67 for every 100 units of Baidu Currency, receiving a discount of RMB33.33.

We also require each of our auction-based P4P customers to open an advance payment account with us and maintain a minimum balance of Baidu Currency units in this account. For a P4P customer acquired through a distributor, the distributor typically transfers certain number of Baidu Currency units from its advance payment account with us to the customer’s account. The distributor decides on the number of Baidu Currency units to be transferred to the customer’s account and the timing of such transfer. The number of Baidu Currency units that a customer receives from the distributor for the customer’s cash payment to the distributor is determined based on the negotiation between them. We are not involved in such negotiation and do not know the relevant information, either. Once the customer’s account is set up, the customer may enter keywords on which it wishes to bid, the amount it wishes to bid for each keyword, and a brief description of its product and/or service offerings and information necessary for hypertext linking. Bids are expressed as the number of Baidu Currency units that the customer is willing to pay for each click-through by our Internet search users. Our search results are prioritized based on customers’ bids for placement within the results, with the highest bidder appearing at the top of the search results. When a user clicks on the customer’s link appearing in our search results, we recognize revenue upon such click-through and concurrently deduct the number of Baidu Currency units that the customer bid from its account with us. Our distributors and customers are not entitled to any cash redemption for unused Baidu Currency units in their accounts with us. We do not recognize any unused Baidu Currency as revenue.

As an illustrative example, a distributor pays us RMB100 in cash and receives 150 Baidu Currency units. The distributor then transfers 80 Baidu Currency units to a customer’s account with us based on the negotiation between them. If a customer places a bid for one Baidu Currency unit per click-through and there are 50 click-throughs in a given day, we will deduct 50 Baidu Currency units from the customer’s account on that day. For financial reporting purposes, we recognize the cash value of the 50 Baidu Currency units as our revenue from this customer. As the distributor which introduced the customer to us is effectively paying us RMB0.667 for each Baidu Currency unit, the cash value of each Baidu Currency unit transferred by the distributor to the customer is RMB0.667. Accordingly, we recognize the cash value of 50 Baidu Currency units as our revenue, which equals to RMB33.33 in this example.

We offer our tailored marketing solutions to medium and large corporate customers primarily through our direct sales force. We also sell our enterprise search software through our direct sales personnel. We have local

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sales staff in Beijing, Shanghai and Shenzhen, covering the largest regional markets for our online advertising and enterprise search software products.

Marketing

Our user base has grown primarily through word-of-mouth. We focus on continuously 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 the Internet in China, we have built our brand with modest marketing expenditures.

We have recently initiated various marketing activities designed to further promote our brand awareness among potential users and customers. For example, we have arrangements with many leading Chinese national and regional newspapers that regularly publish our slogan, “Got a question, Baidu it,” and provide a reference to our Baidu.com website at the end of certain articles. We have also established cross-marketing relationships with a number of branded companies. For example, we have a cross-marketing relationship with McDonald’s Corporation whereby McDonald’s outlets in Shanghai promote our brand in exchange for our online advertising services.

In addition, with the assistance from our distributors, we conduct localized marketing activities tailored to potential customers in various regions. For example, we assist our distributors in conducting marketing activities tailored to potential customers in their region. We also organize and sponsor seminars and discussion forums targeted at existing and potential customers.

Competition

The Internet search industry in China is rapidly evolving and highly competitive. Our primary competitors include U.S.-based Internet search providers and Chinese Internet companies. We compete with these entities for both users and customers on the basis of user traffic, quality (relevance) and quantity (index size) of search results, availability and ease of use of our 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, Yahoo! and Microsoft, have a strong global presence, well-established brand names, more users and customers and significantly greater financial resources than we do. The PRC government regulates the Internet industry extensively, including foreign investment and license and permit requirements. We may face more intense competition from our U.S. competitors as the regulatory environment in China evolves, online payment systems and Internet infrastructure in China mature, and our U.S. competitors increase their business activities in China.

Chinese Internet Companies. Chinese Internet portals such as Sina, Sohu and Netease offer a broad range of online services, including news, wireless value-added services, email, online shopping, chat rooms and community networks. Sina recently launched its self-developed search engine, “iAsk.” Each of our Chinese Internet portal competitors has generated significant traffic, a loyal user base and a large and broad customer base. These portals have widely recognized brand names in China and greater financial resources than we do. We compete with these portals primarily for user traffic and online advertising. We also face growing competition from other Internet search service providers such as Sougou, Yisou and Zhong Sou. In addition, we compete with B2B service providers such as Alibaba.

Traditional Advertising Media. Traditional advertising media, such as newspapers, yellow pages, magazines, billboards and other forms of outdoor media, television and radio, 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 the percentage they spend on traditional advertising media.

Technology

We provide our web search and P4P technology using our network of computers running custom software developed in-house. Our key technologies include:

Web Search Technology

Our web search technology applies a combination of techniques to determine the importance of a web page independent of a 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 count 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 that have the search terms 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-spamming algorithms and tools can identify and respond to spamming web pages quickly and effectively.

Web Crawling Techniques. Our powerful computer clusters and intelligent scheduling algorithms allow us to crawl Chinese web pages efficiently. We can easily scale up our system to collect billions 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 rate based on our knowledge of Internet search users’ needs and the nature of the information. For example, our news index is typically updated every three to six minutes throughout the day given the importance of timely information for news. We also mine multimedia and other forms of files from web page repositories.

Chinese Language Processing Techniques. We analyze and understand Chinese web pages by processing word-segmentation and utilizing an encoding method based on Chinese language characteristics. 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, spell check and search by Chinese phonetics (Pinyin).

P4P Technology

Our P4P platform serves millions 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.com and Baidu Union members’ websites. The system starts by screening the relevance between the keywords bid on by a customer and the sponsored links to ensure that the sponsored links are relevant to particular user queries. Then the system automatically determines the ranking of sponsored links based on the amounts the bidders are willing to pay. For determination of cost per click, or CPC, the system allows customers to set fixed CPCs or choose an automatic price reducing mechanism which automatically lowers the CPC to the minimum needed to maintain the desired position.

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P4P Billing system. We record every click and charge customers a fee by multiplying the number of clicks by the CPC. Our system is designed to detect click fraud 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 manages customer information such as targeted keywords, costs per click and performance analysis. We suggest to customers the keywords they should target based on their website content, spelling variants and competitors' bids.

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.

Large-Scale Systems Technology

We currently use a combination of off-the-shelf and custom software running on clusters of low-cost computers. Our investment in our large-scale system infrastructure has several key benefits: simplification of the storage and processing of large amounts of data, facilitation of the deployment and operation of large-scale products and services, automation of much of the administration of large-scale clusters of computers. Moreover, this large infrastructure is easily scalable to increases in traffic and dataset volume.

Our large-scale system infrastructure uses distributed software and high performance parallel computing technologies to provide high-quality web search services and web page collection with low cost computer clusters on a Linux operating system. We also have management information systems that enable us to perform tasks such as service operations, administrations, trouble-shootings and filtering with relative ease and efficiency. In addition, we have software systems that can test new ideas with real search queries to evaluate the actual effects without affecting live services.

Our infrastructure significantly improves the relevance of our search and advertising results by allowing us to apply superior search and retrieval algorithms that are computationally intensive. We believe this infrastructure also shortens our product development cycle and allows us to innovate more cost-effectively. We also constantly evaluate new hardware alternatives and software techniques to help further reduce our computational costs.

Research and Development

We have a team of experienced engineers. As of June 30, 2005, our research and development staff consisted of 234 engineers, representing approximately 31% of our total staff. Substantially all of our engineers are 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 also recruit experienced engineers from the United States. We compete aggressively for engineering talent to help us address challenges such as Chinese language processing, information retrieval and high performance computing. In each of the three years ended December 31, 2002, 2003 and 2004, our research and development expenditures were RMB3.9 million, RMB5.2 million and RMB11.4 million (US\$1.4 million), representing 36.9%, 13.4% and 10.3% of our total net revenues for 2002, 2003 and 2004, respectively. In the three months ended March 31, 2005, our research and development expenditures were RMB5.5 million (US\$0.7 million).

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 one issued patent 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 third parties. “百度” is a registered trademark in China. We have also applied to register additional trademarks and logos, including “网址之家,” with the Trademark Office of the State Administration for Industry and Commerce in China. We have registered our domain names, including Baidu.com, with register.com, and Baidu.cn and Baidu.com.cn with 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 “Risk Factors—Risks Related to Our Business—We may face intellectual property infringement claims and other claims that could be time-consuming and costly to defend and may result in our inability to continue providing our existing services” and “—We may be subject to patent infringement claims with respect to our P4P platform.”

Employees

We had 93, 143 and 328 employees as of December 31, 2002, 2003 and 2004, respectively. As of June 30, 2005, we had 750 employees, including 74 in management and administration, 234 in research and development and 321 in sales and marketing. We also hire temporary employees and contractors from time to time. We have developed a strong company culture that encourages individual thinking and creativity, continuous self-improvement and strong commitment to providing the best experience to our users and customers. In addition, we provide share options to our employees to align their interests more closely with our shareholders’ interests.

Facilities

Our principal executive offices are located on premises comprising approximately 5,800 square meters in Beijing, China. We have regional offices in Shanghai and Shenzhen. We lease our premises from unrelated third parties. Our servers are hosted at the Internet data centers of China Telecom and China Netcom in Beijing. We believe that we will be able to obtain adequate facilities, principally through the leasing of appropriate properties, to accommodate our future expansion plans.

Legal Proceedings

From time to time, we are involved in litigation or other disputes regarding copyright and trademark infringement, defamation and unfair competition. Our search results provide links to materials, and our Baidu Post Bar may contain messages, 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 and trademark infringement, unfair competition and defamation claims against us.

We have been involved in several cases of unfair competition litigation in Beijing against Beijing 3721 Science and Technology Co., Ltd., an Internet search provider affiliated with Yahoo!.

On December 20, 2004, the Haidian District People’s Court in Beijing issued an injunctive order against Beijing 3721 in an unfair competition lawsuit brought by us. The court found that Beijing 3721 had provided misleading warnings to its users for purposes of deterring these users from downloading and using Baidu’s web search tools, and held that this act constituted unfair competition. Beijing 3721 has appealed the trial court’s order and the case is pending at the appellate court.

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On December 20, 2004, the Haidian District People's Court in Beijing issued an injunctive order against us with payment of damages of RMB6,000 (US\$725) to Beijing 3721 in an unfair competition claim brought by Beijing 3721. Beijing 3721 claimed that we had engaged in unfair competition by establishing a firewall that adversely affected Baidu users' ability to download the Beijing 3721 web search tools. We have appealed this decision and the case is pending at the appellate court.

On January 18, 2005, Beijing 3721 brought an unfair competition suit against us in the Haidian District People's Court in Beijing, claiming that the Baidu's web search tools, once installed, had interfered with the downloading, installation and use of another web search tool that Beijing 3721 provided on www.yisou.com. On May 19, 2005, we brought a counter-claim against Beijing 3721 in the Haidian District People's Court in Beijing, stating that Beijing 3721's search tool software, once installed, would interfere with the normal operation of our search tool software previously installed in the same computer. The court has not ruled on these cases.

On February 21, 2005, Beijing 3721 brought an unfair competition suit against us in the Beijing First Intermediate People's Court, claiming that certain of our search software tools, once installed, would interfere with the normal operation of the Beijing 3721 search software tools previously installed in the same computer. Beijing 3721 asserted damages of RMB2.6 million (US\$314,000). The court has not ruled on this case.

Additionally, we have been involved in two unfair competition lawsuits against 8848.com Inc., a Beijing-based e-commerce company that owns and operates 8848.net and 8848.com. On January 12, 2005, we brought an unfair competition suit in the Haidian District People's Court in Beijing against 8848.com, alleging that 8848.com had intentionally offered certain software to their users which, once installed, would substantially alter Baidu's web search page layout and search results without the knowledge of these users. The court has not ruled on this case.

On March 2, 2005, 8848.com brought an unfair competition suit against us in the Beijing First Intermediate People's Court, seeking monetary damages of RMB15 million (US\$1.8 million). 8848.com alleged that we had used certain technology to divert an overwhelming amount of user traffic to its website without the consent of 8848.com, which had caused the malfunction of its servers and as a result, 8848.com was forced to shut down its website for 26 hours. The court has not ruled on this case.

On June 20, 2005, Shanghai Busheng Music Culture Media Co., Ltd., or Shanghai Busheng, brought a copyright infringement suit against us in the Haidian District People's Court in Beijing alleging that we allowed our users to download 53 popular songs without its authorization. Shanghai Busheng sought an injunction order and damages in an amount of RMB560,000 (US\$67,661). We did not receive any copyright infringement notice from the plaintiff before this suit was brought against us. The court has not ruled on this case.

In early July, 2005, we received a copyright infringement complaint dated as of May 23, 2005 brought by Beijing New Picture Film Co., Ltd. against us. The plaintiff alleged that we provided a copyrighted movie owned by the plaintiff to users of our Baidu Movie Search without the plaintiff's authorization. We did not receive any copyright infringement notice from the plaintiff before this suit was brought against us. The plaintiff also named the Hangzhou branch of Zhejiang Telecommunication Co. Ltd. as a co-defendant, claiming that it had the ability and obligation to prevent us from providing the movie to our users on our website but failed to do so. The plaintiff sought an injunction order as well as damages and expenses in an aggregate amount of RMB166,000 (US\$20,056). The court has not ruled on this case.

Although we cannot predict with certainty the results of pending litigation and claims, we believe that the final outcome of pending litigation and claims will not have a material adverse effect on our business and results of operations. Regardless of the outcome, however, any litigation can result in substantial costs and diversion of management resources and attention.

REGULATION

The PRC government extensively regulates the telecommunications industry, including the Internet sector. The State Council, the Ministry of Information Industry 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 Commerce & Finance Law Offices, our PRC legal counsel: (1) the ownership structure of our company, Baidu Online and Baidu Netcom, complies with, and immediately after this offering, will comply with, current PRC laws and regulations; (2) our contractual arrangements with Baidu Netcom and its shareholders are valid and binding on all parties to these arrangements and do not violate existing PRC laws or regulations; and (3) the business operations of our company, Baidu Online and Baidu Netcom comply with current PRC laws and regulations.

China's Internet industry and online advertising market are at an early stage of development. 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 laws.

Regulations on Value-Added Telecommunications Services and Internet Content Services

In September 2000, the State Council promulgated the Telecommunications Regulations, or the Telecom Regulations. The Telecom Regulations 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. Under the Telecom Regulations, commercial operators of value-added telecommunications services must first obtain an operating license from the Ministry of Information Industry or its provincial level counterparts.

In September 2000, the State Council issued the Administrative Measures on Internet Information Services, or the Internet Measures. According to the Internet Measures, commercial ICP service operators must obtain an ICP license from the relevant government authorities before engaging in any commercial ICP operations within the PRC. In November 2000, the Ministry of Information Industry promulgated the Internet Electronic Messaging Service Administrative Measures, or the BBS Measures. BBS services include electronic bulletin boards, electronic forums, message boards and chat rooms. The BBS Measures require ICP operators to obtain specific approvals before providing BBS services.

In December 2001, the Ministry of Information Industry promulgated the Administrative Measures for Telecommunications Business Operating Licenses, or the Telecom License Measures. The Telecom License Measures set forth the types of licenses required to operate value-added telecommunications services and the qualifications and procedures for obtaining such licenses. For example, an ICP operator providing value-added services in multiple provinces is required to obtain an inter-regional license, whereas an ICP operator providing the same services in one province is required to obtain a local license.

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 that subject violators 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;

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- 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;
- 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 these 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

To comply with China's commitments for its entry into the World Trade Organization, or WTO, the State Council promulgated the Provisions on Administration of Foreign Invested Telecommunications Enterprises, or FITE Provisions, in December 2001. The FITE Provisions set forth detailed requirements for capitalization, investor qualifications and application and approval procedures in connection with the establishment of a foreign invested telecommunications enterprise. Under the FITE Provisions, the ultimate foreign equity ownership in a value-added telecommunications services provider must not exceed 50%. Pursuant to the latest Industry Guidance Catalogue for Foreign Investment, or Guidance Catalogue, jointly issued by the National Reform and Development Commission and the Ministry of Commerce on November 30, 2004 and effective as of January 1, 2005, foreign investors may own up to 50% of the equity interest in a company that operates a value-added telecommunications business listed in China's WTO commitments, including ICP services. However, for a foreign investor to acquire any equity interest (up to 50% as permitted under Guidance Catalogue) in a value-added telecommunication business in China, it must satisfy a number of stringent performance and operational experience requirements, including demonstrating track record and experience in operating value-added telecommunication business overseas. Moreover, foreign investors that meet these requirements must obtain approvals from the Ministry of Information Industry and the Ministry of Commerce or their authorized local counterparts, which retain considerable discretion in granting approvals. Based on the publicly available information, the PRC government has issued an ICP license to only a limited number of 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 Baidu Netcom without diverting management attention and resources. In addition, we believe that our contractual arrangements with Baidu Netcom and its owners provide us with sufficient and effective control over Baidu Netcom. Accordingly, we currently do not plan to acquire any equity interest of Baidu Netcom.

To comply with these PRC regulations, we operate our websites through Baidu Netcom, our PRC affiliated company. Baidu Netcom is wholly owned by our founders, Robin Yanhong Li and Eric Yong Xu, both of whom are PRC citizens. Baidu Netcom holds the licenses and permits necessary to operate our website.

Regulations on News Display

Displaying news on a website and disseminating news through the Internet are highly regulated in the PRC. In November 2000, the State Council News Office and the Ministry of Information Industry promulgated the Provisional Measures for Administrating Internet Websites Carrying on the News Displaying Business. These measures 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 these sources, copies of which must be filed with the relevant government authorities.

We provide our search users with links to other domestic websites that display news. According to our PRC legal counsel, providing links to news stories in response to a search query does not constitute displaying news on a website or disseminating news through the Internet. Therefore, we are not required to obtain governmental approval for providing our search users with these news links.

Regulation on Internet Culture Activities

On May 10, 2003, the Ministry of Culture promulgated the Internet Culture Administration Tentative Measures, or the Internet Culture Measures. The Internet Culture Measures require ICP operators engaging in “Internet culture activities” to obtain a license from the Ministry of Culture. The term “Internet culture activities” includes, among other things, online dissemination of Internet cultural products (such as audio-video products, gaming products, performances of plays or programs, works of art and cartoons) and the production, reproduction, importation, sale (wholesale or retail), leasing and broadcasting of Internet cultural products. The Internet Culture Measures do not state whether the measures apply to Internet search services that provide links to Internet cultural products, such as online audio-video products offered by third-party websites. According to our PRC legal counsel, Internet search services that provide links to third-party websites do not currently constitute engaging in Internet culture activities under the Internet Culture Measures. We therefore believe that we do not need to obtain an Internet culture business operation license.

Regulation on Broadcasting Audio-Video Programs through the Internet

On January 7, 2003, the State Administration of Radio, Film and Television promulgated the Rules for Administration of Broadcasting of Audio-Video Programs Through the Internet and Other Information Networks, or the Broadcasting Rules. The Broadcasting Rules regulate Internet broadcasting of audio-video programs. According to the Broadcasting Rules, anyone who wishes to engage in Internet broadcasting activities must first obtain a license.

On April 23, 2005, the State Council announced a policy regarding investment by non-state-owned companies in culture-related business in China. The policy restricts investment by non-state-owned companies in audio-video broadcasting business or website news business, whether the business is conducted via Internet or otherwise. The policy authorizes the Ministry of Culture, the State Administration of Radio, Film and Television and the State Council News Office to adopt detailed implementation rules according to the policy. As we provide algorithm-generated links to third-party websites, we do not believe this policy would have direct adverse impact on our business and operations.

Regulations on Advertisements

The PRC government regulates online advertising, principally through the State Administration for Industry and Commerce, or the SAIC. Under the Rules for Administration of Foreign Invested Advertising Enterprise, promulgated by the SAIC and Ministry of Commerce on March 2, 2004, and the Guidance Catalogue, foreign investors are currently permitted to own up to 70% of the equity interest, individually or collectively, in a PRC advertising company. Starting December 10, 2005, there will be no limit on the percentage of foreign equity ownership.

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Any entity that wishes to conduct advertising business in the PRC must first obtain approval from the SAIC or its local counterpart. Although the PRC laws or regulations at the national level do not specifically regulate online advertising businesses, certain provincial government authorities, such as the Beijing Administration for Industry and Commerce, or Beijing AIC, regulate online advertising businesses. In March 2001, Beijing AIC promulgated the Online Advertising Tentative Administrative Measures, which require ICP operators that provide online advertising services within the municipality of Beijing to obtain an advertising operations license. We conduct our online advertising business through Baidu Netcom, which holds an advertising operations license.

Regulation on Software Products

On October 27, 2000, the Ministry of Information Industry issued the Administrative Measures on Software Products, or the Software Measures, to strengthen the regulation of software products and to encourage the development of the PRC software industry. Under the Software Measures, a software developer must have all software products imported into or sold in the PRC tested by a testing organization approved by the Ministry of Information Industry. The software products must be registered with the Ministry of Information Industry or with its provincial branch. The sale of unregistered software products in the PRC is forbidden. Software products can be registered for five years, and the registration is renewable upon expiration.

Regulations on Intellectual Property Rights

China has adopted legislation governing intellectual property rights, including trademarks, patents and copyrights. China is a signatory to the main international conventions on intellectual property rights and became a member of the Agreement on Trade Related Aspects of Intellectual Property Rights upon its accession to the WTO in December 2001.

Patent. The National People's Congress adopted the Patent Law in 1984, and amended it in 1992 and 2000. The purpose of the Patent Law is to protect and encourage invention, foster applications of invention and promote the development of science and technology. To be patentable, invention or utility models must meet three conditions: novelty, inventiveness and practical applicability. Patents cannot be granted for scientific discoveries, rules and methods for intellectual activities, methods used to diagnose or treat diseases, animal and plant breeds or substances obtained by means of nuclear transformation. The Patent Office under the State Council is responsible for receiving, 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. A third-party user must obtain consent or a proper license from the patent owner to use the patent. Otherwise, the use constitutes an infringement of patent rights.

Copyright. The National People's Congress amended the Copyright Law in 2001 to widen the scope of works and rights that are eligible for copyright protection. The amended Copyright Law extends copyright protection to Internet activities, products disseminated over the Internet and software products. In addition, there is a voluntary registration system administered by the China Copyright Protection Center.

To address copyright issues relating to the Internet, the PRC Supreme People's Court on November 11, 2000 issued the Interpretations on Some Issues Concerning Applicable Laws for Trial of Disputes Over Internet Copyright, or the Interpretations, which were subsequently amended on December 23, 2003. The Interpretations establish joint liability for ICP operators if they knowingly participate in, assist in or incite infringing activities or fail to remove infringing content from their websites after receiving notice from the rights holder. In addition, any act intended to bypass circumvention technologies designed to protect copyrights constitutes copyright infringement.

To address the problem of copyright infringement related to the content posted or transmitted over the Internet, the PRC National Copyright Administration and the Ministry of Information Industry jointly promulgated the Administrative Measures for Copyright Protection Related to the Internet on April 30, 2005. This measure became effective on May 30, 2005.

This measure applies to situations where an ICP operator (i) allows another person to post or store any works, recordings, audio or video programs on the websites operated by such ICP operator or (ii) provides links to, or search results for, the works, recordings, audio or video programs posted or transmitted by such person,

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without editing, revising or selecting the content of such material. Upon receipt of an infringement notice from a legitimate copyright holder, an ICP operator must take remedial actions immediately by removing or disabling access to the infringing content. If an ICP operator knowingly transmits infringing content or fails to take remedial actions after receipt of a notice of infringement, the ICP operator could be subject to administrative penalties, including: cessation of infringement activities; confiscation by the authorities of all income derived from the infringement activities; and payment of a fine of up to three times the unlawful income or, in cases where the amount of unlawful income cannot be determined, a fine of up to RMB100,000. 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. Failure to comply with this requirement could result in an administrative warning and a fine of up to RMB30,000.

Under PRC copyright laws, a copyright holder can sue Internet service providers for copyright infringement. For example, in 2004, a Chinese record company sued a Chinese Internet music content provider, alleging that the defendant enabled users to download certain MP3 music files without the plaintiff's authorization. The Beijing Municipal Supreme People's Court found the defendant liable for knowingly participating in infringing activities and fined the defendant RMB100,000 (US\$12,082). On the other hand, in a 2001 case in which an author sued a Chinese Internet company for providing search links to a third-party website which displayed his book online without his authorization, the Haidian District People's Court in Beijing held that the Internet company was not liable for providing algorithm-generated search links to the third-party website without knowledge of the website's infringing activities. However, if an Internet search provider does not promptly remove links to the infringing content after receiving notices from the copyright holders, the Internet search provider can be held liable by a PRC court. For example, in 2000, a copyright holder of a book brought a copyright infringement claim against another Chinese Internet company in the Beijing Intermediate People's Court, alleging that the defendant provided search links to certain third-party websites that posted the plaintiff's book without authorization and refused to remove such links to the infringing websites after the plaintiff requested the defendant to do so. The court found the defendant liable based primarily on the fact that it received notices of infringement from the plaintiff but did not timely remove the search links, and ordered the defendant to pay RMB3,000 (US\$362.5) to the plaintiff as compensatory damage.

We do not host MP3 music files or movies on our servers. We provide algorithm-generated links to MP3 music files and provide index to movies located on third-party websites in response to our users' search queries. We have adopted measures to mitigate copyright infringement risks. For example, our policy is to remove links to web pages if we know these web pages contain materials that infringe third-party rights or if we are notified by the legitimate copyright holder of the infringement.

Trademark. The PRC Trademark Law, adopted in 1982 and revised in 2001, protects registered trademarks. The Trademark Office under the SAIC 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. We have registered “百度” with the Trademark Office. We have also applied to register additional trademarks and logos, including “网址之家,” with the Trademark Office.

On November 5, 2004, the Ministry of Information Industry amended the Measures for Administration of Domain Names for the Chinese Internet, or Domain Name Measures. The Domain Name Measures regulate the registration of domain names, such as the first tier domain name “.cn.” In September 2002, CNNIC issued the Implementing Rules for Domain Name Registration and the Measures on Domain Name Disputes Resolution, pursuant to which CNNIC can authorize a domain name dispute resolution institution to decide disputes. We have registered our domain names Baidu.cn and Baidu.com.cn with CNNIC.

Regulation of 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 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 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

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information concerning PRC national defense, state affairs and other matters as determined by the PRC authorities.

According to this legislation and other relevant regulations, ICP operators must complete mandatory security filing procedures with local public security authorities and must also report any public dissemination of prohibited content.

As Baidu Netcom is an ICP operator, it is subject to the regulations relating to information security. Baidu Netcom has taken measures to comply with such regulations. It is registered with the relevant government authority in accordance with the mandatory registration requirement. Its policy is to remove links to web pages which to its knowledge contain information that would be in violation of PRC laws. In addition, we monitor our websites to ensure our compliance with such regulations.

Regulations on Internet Privacy

The PRC Constitution states that PRC laws protect the freedom and privacy of communications of citizens and prohibits infringement of such rights. In recent years, PRC government authorities have enacted legislation on Internet use to protect personal information from any unauthorized disclosure. The Internet Measures 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 BBS Measures, ICP operators that provide electronic messaging services must keep users' personal information confidential and must not disclose such personal information to any third party without the users' consent or unless required by law. The regulations further authorize the relevant telecommunications authorities to order ICP operators to rectify unauthorized disclosure. ICP operators are subject to legal liability if the unauthorized disclosure results in damages or losses to users. 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 promulgated in 1996 and amended in 1997 and various regulations issued by the State Administration of Foreign Exchange, or the SAFE, and other relevant PRC government authorities, RMB is freely convertible only 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, require prior approval from the 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 the PRC.

Payments for transactions that take place within the PRC must be made in RMB. Unless otherwise approved, PRC companies must repatriate foreign currency payments received from abroad. Foreign-invested enterprises may retain foreign exchange in accounts with designated foreign exchange banks subject to a cap set by SAFE or its local counterpart. Unless otherwise approved, domestic enterprises must convert all of their foreign currency receipts into RMB.

Dividend Distribution

The principal regulations governing dividend distributions by wholly foreign-owned enterprises and Sino-foreign equity joint ventures include:

- Wholly Foreign-Owned Enterprise Law (1986), as amended;
- Wholly Foreign-Owned Enterprise Law Implementing Rules (1990), as amended;
- Sino-foreign Equity Joint Venture Enterprise Law (1979), as amended; and
- Sino-foreign Equity Joint Venture Enterprise Law Implementing Rules (1983), as amended.

Under these regulations, 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 are required to set aside certain amounts of their accumulated profits each year, if any, to fund certain reserve funds. These reserves are not distributable as cash dividends.

MANAGEMENT

Executive Officers and Directors

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

<u>Directors and Executive Officers</u>	<u>Age</u>	<u>Position/Title</u>
Robin Yanhong Li	36	Chairman and Chief Executive Officer
Shawn Wang	38	Chief Financial Officer
David Hongbo Zhu	34	Chief Operating Officer
Jerry Jianguo Liu	39	Vice President of Engineering
Dong Liang	30	Vice President of Marketing
James Ding (1)	39	Independent Director
Jixun Foo	37	Director
Asad Jamal	45	Director
Greg Penner (2)	35	Independent Director
Scott Walchek (3)	46	Director

- (1) Mr. Ding has been appointed as our independent director, effective immediately prior to the effectiveness of our registration statement on Form F-1, of which this prospectus is a part.
- (2) Mr. Penner will become an independent director immediately upon the closing of this offering.
- (3) Mr. Walchek has resigned from our board of directors, effective immediately upon the effectiveness of our registration statement on Form F-1, of which this prospectus is a part.

Robin Yanhong Li is a co-founder of our company. Mr. Li has served as our chairman of the board 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 during which he invented a patent related to a search engine technology which we have not used and do not intend to use in our operations. Mr. Li received a bachelor's degree in information science from Peking University and a master's degree in computer science from the State University of New York at Buffalo.

Shawn Wang has served as our chief financial officer since September 2004. Prior to joining our company, Mr. Wang was a partner of the global capital markets group of PricewaterhouseCoopers LLP in charge of managing PricewaterhouseCoopers' cross-border transactional, accounting and strategic advisory services to clients seeking access to U.S. capital markets, with a specific focus on clients based in Greater China. Mr. Wang served as an advisor to the China Securities Regulatory Commission, or CSRC, from November 2002 to December 2003, an expert advisor to the Ministry of Finance, Accounting Standards Board of China from December 2003 to September 2004 and an advisor to the Asset Securitization Task Force of CSRC from April 2004 to December 2004. Prior to transferring to PricewaterhouseCooper's office in Hong Kong in 1999, Mr. Wang worked at the London and New York offices of PricewaterhouseCoopers for five years. Mr. Wang received a bachelor's degree in industrial management from Northwestern Polytechnical University in China, a master's degree in Higher Education Administration from West Virginia University and a master's degree in accounting from The American University.

David Hongbo Zhu has served as our chief operating officer since January 2004. Mr. Zhu previously served as our senior vice president from May 2002 to December 2003. Mr. Zhu has more than 12 years of experience in the information and technology industry in China. Prior to joining our company, Mr. Zhu served as a vice

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president of Hanconsulting (China) Co., Ltd., the largest management consulting company in China providing management consulting, IT and systems implementation consulting from January 2002 to May 2002. He co-founded Original Power Information Technology Co., Ltd. in 2001 and served as its director and chief executive officer. From 1997 to 2001, Mr. Zhu held a number of positions at UFSOFT Group, the largest software company in China, including vice president in charge of sales, marketing, distribution channels and customer service and won several awards including the “Best Employee of UFSOFT” award and the “Outstanding Contribution to UFSOFT of the Decade” award. Mr. Zhu received a bachelor’s degree from Beijing University of Aeronautics and Astronautics.

Jerry Jianguo Liu has served as our vice president of engineering since January 2000. Mr. Liu has over 13 years of experience in software engineering, research, development and engineering management. Before joining our company, Mr. Liu was an associate professor and the head of the Computer Networks and Distribution Systems Laboratory of Peking University’s Department of Computer Science and Technology. He oversaw several research projects funded by the Chinese National Science Foundation, the National 863 Fund and National Planning Committee in China. The engineering teams led by Mr. Liu developed certain large scale software products, including TianWang, the first Chinese language search engine in China. Mr. Liu received a bachelor’s degree in computer science and engineering from Xi’an Jiaotong University and a master’s degree in computer science from Peking University. He was a visiting scholar in the Department of Computer Science of University of Illinois at Urbana-Champaign from 1997 to 1998.

Dong Liang has served as our vice president of marketing since November 2004. Mr. Liang had advised us on our branding strategy prior to joining our company. From 2003 to December 2004, Mr. Liang was the branding advisor at Yi Communications Group where he managed and supervised a team of over thirty employees who provided services related to brand promotion and public relations to Guangdong Mobile Corporation and designed and executed the largest student competition sponsored by PepsiCo in southern China. From November 1999 to 2004, Mr. Liang worked at Hong Kong-based Phoenix TV as show host and chief editor. Mr. Liang received his bachelor’s degree in television communications from China Media University. Mr. Liang is also a founding member of the Changing China Observer Forum of Peking University.

James Ding has been appointed as our independent director, effective immediately prior to the effectiveness of our registration statement on Form F-1, of which this prospectus is a part. Mr. Ding has served as the chairman of the board of directors of AsiaInfo Holdings, Inc., a Nasdaq-listed company since April 2003 and has served as a member of the board of AsiaInfo since its inception. He served as AsiaInfo’s chief executive officer from May 1999 to April 2003. He was also AsiaInfo’s senior vice president for business development and chief technology officer from 1997 to 1999. Mr. Ding received a master’s degree in information science from the University of California, Los Angeles.

Jixun Foo has served as our director since January 2004. Mr. Foo is a director of Draper Fisher Jurvetson ePlanet Ventures, or DFJ ePlanet. Prior to joining DFJ ePlanet in 2000, Mr. Foo headed the investment group of the finance and investment division of National Science & Technology Board of Singapore, or NSTB, where he focused on investing in and assisting early stage technology companies. Prior to joining NSTB in December 1995, Mr. Foo was a research and development engineer and project group leader at Hewlett-Packard. Mr. Foo received a bachelor’s degree in engineering from the National University of Singapore and received a master’s degree in management of technology from the Graduate School of Business of the National University of Singapore.

Asad Jamal has served as our director since June 2004. Mr. Jamal is co-chairman and managing director of DFJ ePlanet Ventures, a Silicon Valley headquartered technology venture capital firm, with US\$640 million under management. Mr. Jamal co-founded DFJ ePlanet Ventures in 1999 along with a leading Silicon Valley venture capital firm, Draper Fisher Jurvetson, to focus on global venture capital opportunities. Mr. Jamal has built and currently heads DFJ ePlanet’s teams and offices in Silicon Valley, London, Singapore, Beijing and Shanghai. Mr. Jamal serves on the board of directors of a number of U.S. technology companies. He has

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previously worked in a senior executive capacity with Hong Kong merchant bank Peregrine Investment Holdings, and as head of derivatives trading with Chase Manhattan Bank in London. Mr. Jamal graduated with a B.Sc. (Honors) from the London School of Economics, and is a member of The Institute of Chartered Accountants in England & Wales. He is a charter member of entrepreneurship organizations TIE Silicon Valley and OPEN Silicon Valley.

Greg Penner has served as our director since July 2004. Mr. Penner is a general partner of Madrone Capital Partners, an investment firm based in Menlo Park, California. From 2002 to 2004, he was the senior vice president and chief financial officer of Wal-Mart Japan, and he continues to serve as a director of The Seiyu, Ltd., a Japanese retailer. From 2000 to 2002, Mr. Penner was responsible for the business development, legal and finance affairs of Walmart.com, Wal-Mart's Internet business based in California. Prior to joining Wal-Mart, Mr. Penner was a general partner at Peninsula Capital, an early stage venture capital fund. In addition to Baidu and Seiyu, Mr. Penner also serves as a director of 99Bill Corporation based in Shanghai, China. Mr. Penner received a bachelor's degree in international economics from the School of Foreign Service at Georgetown University and an M.B.A. from the Stanford Graduate School of Business.

Scott Walchek has served as our director since January 2004. Mr. Walchek is a general partner of Integrity Partners, LLC, an early-stage venture capital firm and is a partner in Palm Beach Capital Partners, LLC, an asset-backed hedge fund with US\$600 million under management. Mr. Walchek was the chief executive officer and co-founder of C2B Technologies, an e-commerce infrastructure company acquired by Inktomi Corp. in 1998. Mr. Walchek is the president of two media companies involved in film and music production and currently serves on the boards of directors of Palm Beach Capital Partners, LLC and Ionic Fusion, Inc., a developer of nanotechnology for surface engineering. Mr. Walchek serves as a director for several not-for-profit community and charitable organizations. Mr. Walchek performed his undergraduate studies at the University of California at San Diego.

Employment Agreements

We have entered into employment agreements with each of our executive officers. We may terminate their employment for cause at any time, without notice or remuneration, for certain acts by an executive officer including but not limited to a conviction or plea of guilty to a felony, negligence or dishonesty to our detriment and failure to perform the agreed-to duties after a reasonable opportunity to cure the failure. An executive officer may terminate employment upon occurrence of certain change of control events, if there is a material reduction in his or her level of responsibilities or base salary, or there is a substantial relocation of his or her principal place of employment and we fail to address these issues within 20 days of the executive officer's prior written notice. Upon the occurrence of any of these events, the departing executive officer will be entitled to receive a severance payment equal to his or her then one-month base salary. An executive officer may also terminate his or her employment for other reasons or no reason at all after providing prior written notice of two months, in which case the departing executive officer will not be entitled to receive any severance payments. We may terminate the employment of any of our executive officers without cause by giving him or her a prior written notice of two months. In the case of termination without cause, the executive officer will be entitled to a severance payment in an amount equal to his or her then six-month base salary. The severance amount payable will be reduced by any remuneration paid to the executive officer because of his or her employment or self-employment during the six-month severance period.

Each executive officer has agreed to hold, both during and after his employment agreement expires or is terminated, in strict confidence and not to use, except as required in the performance of his or her duties in connection with the employment, any confidential information, technical data, trade secrets or know-how of our company or the confidential information of any third party, including our affiliated entities and our subsidiaries that we receive. Each executive officer has also agreed to disclose in confidence to us all inventions, designs and trade secrets that he or she conceives of, develops or reduces to practice and to assign all rights, title and interests in them to us. In addition, each executive officer has agreed to be bound by the non-competition restrictions set

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forth in his or her employment agreement and the separate non-competition agreement with us. Specifically, each executive officer has agreed, while employed by us and for a period of one year after termination of his or her employment, not to:

- solicit business from or perform services for any person who was a client, customer, supplier or prospective client of us or our affiliated entities during the executive officers' employment;
- solicit or induce any person to terminate his or her employment or consulting relationship with us or our affiliated entities; or
- engage, invest or assist in any business that competes with the business or future business of us or our affiliated entities.

Board of Directors

Our board of directors currently has five directors and consists of two directors designated by the holders of our Series A convertible preferred shares so long as any Series A convertible preferred shares are outstanding, two directors designated by the holders of our Series B convertible preferred shares so long as any Series B convertible preferred shares are outstanding and Robin Yanhong Li, our chairman and chief executive officer. All of our preferred shares will automatically convert into ordinary shares immediately prior to the closing of this offering. Our board composition after the closing of this offering will be governed by our articles of association then in effect. 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 or she 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.

Committees of the Board of Directors

Prior to the closing of this offering, we intend to establish three committees under the board of directors: an audit committee, a compensation committee and a corporate governance and nominating committee. We intend to adopt a charter for each of the three committees prior to the closing of this offering.

Audit Committee

The audit committee will oversee our accounting and financial reporting processes and the audits of the financial statements of our company. The audit committee will be responsible for, among other things:

- selecting the independent auditors and pre-approving all auditing and non-auditing services permitted to be performed by the independent auditors;
- reviewing with the independent auditors any audit problems or difficulties and management's responses;
- reviewing and approving all proposed related party transactions, as defined in Item 404 of Regulation S-K under the Securities Act;
- discussing the annual audited financial statements with management and the independent auditors;
- reviewing major issues as to the adequacy of our internal controls and any special audit steps adopted in light of material internal control deficiencies;
- annually reviewing and reassessing the adequacy of our audit committee charter;

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- meeting separately and periodically with management and the independent auditors; and
- attending to such other matters that are specifically delegated to our audit committee by our board of directors from time to time.

Compensation Committee

The compensation committee will assist 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 will be responsible for, among other things:

- reviewing and approving executive compensation;
- reviewing and making recommendations to the board with respect to the compensation of our directors; and
- reviewing periodically and approving any long-term incentive compensation or equity plans, programs or similar arrangements, annual bonuses, employee pension and welfare benefit plans.

Corporate Governance and Nominating Committee

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 will be responsible for, among other things:

- selecting and recommending to the board nominees for election or re-election to the board or for appointments to fill any vacancies;
- reviewing annually with the board the current composition of the board with regards to characteristics such as independence, age, skills, experience and availability of service to us;
- advising the board periodically with regards to significant developments in the law and practice of corporate governance as well as our compliance with applicable laws and regulations and making recommendations to the board on all matters of corporate governance and on any remedial action to be taken; and
- monitoring compliance with our code of business conduct and ethics, including reviewing the adequacy and effectiveness of our procedures to ensure proper compliance.

Duties of Directors

Under Cayman Islands law, our directors have a fiduciary duty to the company to act in good faith in their dealings with or on behalf of our company and exercise their powers and fulfill the duties of their office honestly. This duty has four essential elements:

- a duty to act in good faith in the best interests of the company;
- a duty not to personally profit from opportunities that arise from the office of director;
- a duty to avoid conflicts of interest; and
- a duty to exercise powers for the purpose for which such powers were intended.

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In general, the Companies Law imposes various duties on officers of a company with respect to certain matters of management and administration of the company. The Companies Law imposes fines on persons who fail to satisfy those requirements. However, in many circumstances, an individual is only liable if he is knowingly guilty of the default or knowingly and willfully authorizes or permits the default. In comparison, under Delaware law, the business and affairs of a corporation are managed by or under the direction of its board of directors. In exercising their powers, directors are charged with a fiduciary duty of care to protect the interests of the corporation and a fiduciary duty of loyalty to act in the best interests of its shareholders. In addition, under Delaware law, a party challenging the propriety of a decision of the directors bears the burden of rebutting the applicability of the presumptions afforded to directors by the “business judgment rule.” If the presumption is not rebutted, the business judgment rule protects the directors and their decisions, and their business judgments will not be second guessed. If the presumption is rebutted, the directors bear the burden of demonstrating the entire fairness of the relevant transaction. Notwithstanding the foregoing, Delaware courts subject directors’ conduct to enhanced scrutiny in respect of defensive actions taken in response to a threat to corporate control and approval of a transaction resulting in a sale of control of the corporation.

Terms of Directors and Executive Officers

Currently, all directors hold office in accordance with our articles of association and our shareholders’ agreement. A director (other than a Series A director or a Series B director) may only be removed by the shareholders. A Series A director or a Series B director may only be removed by the holders of Series A or Series B convertible preferred shares, respectively, who appointed him. Our current articles of association do not contain a limit on the term of office for any of our current directors, except that the directors appointed by the holders of our Series A convertible preferred shares and the holders of our Series B convertible preferred shares, respectively, will cease to be our directors once none of the Series A shares or Series B shares, as the case may be, are outstanding. Officers are elected by and serve at the discretion of the board of directors.

Compensation of Directors and Executive Officers

In 2004, we paid an aggregate of approximately RMB4.0 million (US\$0.5 million) in cash compensation to our executive officers, and we did not pay any compensation to our non-executive directors.

Share Options

2000 Option Plan. Our board of directors authorized the issuance of up to 5,040,000 ordinary shares upon exercise of awards granted under our 2000 option plan. As of June 30, 2005, options to purchase 1,963,996 Class B ordinary shares were outstanding. The following table summarizes, as of June 30, 2005, the outstanding options that we granted to several of our directors and executive officers and to other individuals as a group under our 2000 option plan.

<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	83,333	2.5	April 1, 2004	March 31, 2009
Shawn Wang	322,488	4.5	July 15, 2004	July 14, 2009
David Hongbo Zhu	50,000	0.2	May 16, 2002	May 15, 2007
	12,084	0.2	October 16, 2003	October 15, 2008
	26,667	2.5	January 15, 2004	January 14, 2009
	50,000	6.5	January 18, 2005	January 17, 2010
Jerry Jianguo Liu	417	0.2	July 1, 2001	June 30, 2006
	11,667	0.2	August 15, 2002	August 14, 2007
	9,334	0.2	October 16, 2003	October 15, 2008
	30,000	5.5	October 19, 2004	October 18, 2009
Dong Liang	120,000	6.5	January 18, 2005	January 17, 2010
Other individuals as a group	1,248,006			

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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 grant. 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.

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. 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.

Repurchase Rights. If an award agreement provides for repurchase rights upon termination of the grantee's employment or service to us or any of our related entities, the repurchase rights must be exercised within 90 days of termination of the employment or service. The exercise price must be either equal to the original purchase price paid by the grantee for ordinary shares issued under the award or not less than the fair market value of ordinary shares, depending on the circumstances.

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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. Unless terminated earlier, our 2000 option plan shall continue in effect for a term of ten years from the date of adoption.

2005 Share Incentive Plan. Our board of directors intends to adopt a 2005 Share Incentive Plan, or the 2005 plan. We will not grant any awards under our 2000 option plan after the 2005 plan is adopted by the board and approved by our shareholders. We intend to reserve for issuance up to _____ Class A ordinary shares upon exercise of awards granted under our 2005 plan.

Types of Awards. We may grant the following types of awards under our 2005 plan:

- our ordinary shares;
- options to purchase our ordinary shares;
- restricted shares, which are non-transferable ordinary shares, that may be subject to forfeiture;
- restricted share units, which represent the right to receive our ordinary shares at a specified date in the future, which may be subject to forfeiture;
- share appreciation rights, which provide for the payment to the grantee based upon increases in the price of our ordinary shares over a set base price; and
- dividend equivalent rights, which represent the value of the dividends per share that we pay.

Awards may be designated in the form of ADSs instead of ordinary shares. If we designate an award in the form of ADSs, the number of shares issuable under the 2005 plan will be adjusted to reflect that one ADS represents one Class A ordinary share.

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

Plan Administration. Our board of directors or a committee designated by our board of directors will administer the 2005 plan. However, with respect to awards made to our non-employee directors and executive officers, the entire board of directors will administer the 2005 plan. The committee or the full board of directors, as appropriate, will determine the individuals who will receive grants, the types of awards to be granted and the terms and conditions of each award grant, including any vesting or forfeiture restrictions.

Award Agreement. Awards granted under our 2005 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 ISO or a non-qualifying stock option.

Acceleration of Awards upon Corporate Transactions. The outstanding awards will accelerate upon occurrence of a change-of-control corporate transaction where the successor entity does not assume our outstanding awards under the 2005 plan. In such event, each outstanding award will become fully vested and immediately exercisable, and the transfer restrictions on the awards will be released and any forfeiture provisions will terminate immediately before the date of the change-of-control transaction. If the successor entity assumes

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our outstanding awards and later terminates the grantee's service without cause within 12 months of the change-of-control transaction, the outstanding awards will automatically become fully vested and exercisable.

Exercise Price and Term of Awards. In general, the plan administrator determines the exercise price of an option and sets forth the price in the award agreement. The exercise price may be a fixed or variable price related to the fair market value of our ordinary shares. However, ISOs may not be granted at an exercise price that is less than the fair market value of our ordinary shares on the date of grant. Also, 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 term of each award shall be stated in the award agreement. The term of an award shall 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.

Amendment and Termination. Our board of directors may at any time amend, suspend or terminate the 2005 plan. Amendments to the 2005 plan are subject to shareholder approval to the extent required by law or stock exchange rules or regulations. Additionally, shareholder approval will be specifically required to increase the number of shares available for issuance under the 2005 plan or to extend the term of an option beyond ten years. Unless terminated earlier, the 2005 plan will expire and no further awards may be granted under the plan after the tenth anniversary of shareholder approval of the 2005 plan.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth information with respect to the beneficial ownership of our ordinary shares as of the date of this prospectus, assuming conversion of all of our outstanding preferred shares into the same number of ordinary shares, by:

- each of our directors and executive officers;
- each person known to us to own beneficially more than 5.0% of our ordinary shares; and
- each selling shareholder.

	Ordinary Shares Beneficially Owned Prior to This Offering		Ordinary Shares Sold in This Offering		Shares Beneficially Owned After This Offering (1)	
	Number (2)	% (3)	Number (2)	% (3)	Number (2)	% (3)
Directors and Executive Officers:						
Robin Yanhong Li (4)	7,520,000	25.8%				
Jerry Jianguo Liu (5)	328,000	1.1%				
Shawn Wang (6)	322,488	1.1%				
David Hongbo Zhu (7)	310,000	1.0%				
Dong Liang (8)	120,000	0.4%				
All Directors and Executive Officers as a Group (9)	8,600,488	29.5%				
Principal Shareholders:						
Draper Fisher Jurvetson ePlanet Ventures L.P. (10)	8,186,591	28.1%				
Integrity Partners IV, LLC (11)	3,202,399	11.0%				
Peninsula Capital Fund I, LLC (12)	2,953,403	10.1%				
Eric Yong Xu (13)	2,380,000	8.2%				
IDG Technology Venture Investment L.P. (14)	1,440,000	4.9%				
Selling Shareholders:						
CMT CV-BD Limited (15)	164,918	0.6%				

(1) Assumes that the underwriters do not exercise the over-allotment option.

(2) Beneficial ownership of a party listed in the table is determined assuming the conversion of all outstanding preferred shares into ordinary shares and the exercise of all share options held by such party.

(3) The number of ordinary shares outstanding in calculating the percentages for each listed person includes the ordinary shares underlying options held by such person. The calculation of this number also assumes the conversion of all of our preferred shares into Class B ordinary shares immediately prior to the closing of this

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offering. Percentage of beneficial ownership is based on 29,109,897 shares outstanding as of June 30, 2005, including ordinary shares convertible from our preferred shares outstanding as of that date.

- (4) Includes 1,946,667 Class B ordinary shares and 83,333 Class A ordinary shares issuable upon exercise of options held by Mr. Li and 5,470,000 Class B ordinary shares held by Handsome Reward Limited, a company wholly owned and controlled by Mr. Li. The business address for Mr. Li is Baidu.com, Inc., Ideal International Plaza, 12/F, No. 58 West-North 4th Ring, Beijing, 100080, PRC.
- (5) Includes 232,000 Class B ordinary shares held by Yoyme.com Inc., a British Virgin Islands company wholly owned and controlled by Mr. Liu, 43,416 Class B ordinary shares held by Mr. Liu, and 52,584 Class A ordinary shares issuable upon exercise of options held by Mr. Liu. The business address for Mr. Liu is Baidu.com, Inc., Ideal International Plaza, 12/F, No. 58 West-North 4th Ring, Beijing, 100080, PRC.
- (6) Includes 322,488 Class A ordinary shares issuable upon exercise of options held by Mr. Wang. The business address for Mr. Wang is Baidu.com, Inc., Ideal International Plaza, 12/F, No. 58 West-North 4th Ring, Beijing, 100080, PRC.
- (7) Includes 171,249 Class B ordinary shares and 138,751 Class A ordinary shares issuable upon exercise of options held by Mr. Zhu. The business address for Mr. Zhu is Baidu.com, Inc., Ideal International Plaza, 12/F, No. 58 West-North 4th Ring, Beijing, 100080, PRC.
- (8) Includes 120,000 Class A ordinary shares issuable upon exercise of options held by Mr. Liang. The business address for Mr. Liang is Baidu.com, Inc., Ideal International Plaza, 12/F, No. 58 West-North 4th Ring, Beijing, 100080, PRC.
- (9) Includes ordinary shares, preferred shares and ordinary shares issuable upon exercise of all options held by all of our directors and executive officers as a group.
- (10) Includes 228,199 Class B ordinary shares and 7,655,488 preferred shares held by Draper Fisher Jurvetson ePlanet Ventures L.P., 4,739 Class B ordinary shares and 158,993 preferred shares held by Draper Fisher Jurvetson ePlanet Partners Fund, LLC, and 4,028 Class B ordinary shares and 135,144 preferred shares held by Fisher Jurvetson ePlanet Ventures GmbH & Co. KG. Draper Fisher Jurvetson ePlanet Ventures L.P., Draper Fisher Jurvetson ePlanet Partners Fund, LLC and Draper Fisher Jurvetson ePlanet Ventures GmbH & Co. KG are affiliated entities, comprising Draper Fisher Jurvetson ePlanet Ventures. Mr. Jamal is a managing director of the general partner of Draper Fisher Jurvetson ePlanet Ventures L.P. Mr. Jamal disclaims beneficial ownership of these shares except to the extent of his pecuniary interest in these shares.
The registered address for Draper Fisher Jurvetson ePlanet Ventures L.P. is c/o Walkers, Walker House, PO Box 265GT, Mary Street, George Town, Grand Cayman, Cayman Islands. The registered address for Draper Fisher Jurvetson ePlanet Partners Fund, LLC is 2882 Sand Hill Road, Ste. 150, Menlo Park, California, 94025, U.S.A. The registered address for Draper Fisher Jurvetson ePlanet GmbH & Co. KG is c/o Ernst & Young AG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft mbH, Arnulfstraße 126, 80636 München, Germany.
- (11) Includes 3,060,720 preferred share held by Integrity Partners IV, LLC and Integrity Partners V, LLC. Scott Walchek and Gregory Newman are managing members of Integrity Partners IV, LLC. The business address for Integrity Partners LLC is 50 Oak Ct., Suite 110, Danville, California, 94526, U.S.A.
- (12) Includes 2,953,403 preferred shares held by Peninsula Capital Fund I, LLC, which is managed by Greg Penner and Robert King. Each preferred share will automatically convert into one Class B ordinary share immediately prior to the closing of this offering. The business address for Peninsula Capital Fund I, LLC is 3000 Sand Hill Road, Building 2, Suite 150, Menlo Park, California, 94025, U.S.A.
- (13) Includes 600,000 Class B ordinary shares held by Mr. Xu and 1,780,000 Class B ordinary shares held by ChinaSpec Strategic Partners, Ltd., a British Virgin Islands company wholly owned and controlled by Mr. Xu. The business address for Mr. Xu is Baidu.com, Inc., Ideal International Plaza, 12/F, No. 58 West-North 4th Ring, Beijing, 100080, PRC.

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- (14) Includes 1,440,000 preferred shares held by IDG Technology Venture Investment LP. IDG Technology Venture Investments LP, or IDG, is a Delaware limited partnership with two partners. IDG's limited partner is IDG Technology Venture Investment, Inc., which is wholly owned by International Data Group, Inc., which in turn is majority owned by Mr. Patrick J. McGovern. IDG's general partner is IDG Technology Venture Investments, LLC, which is controlled and managed by its two managing members, Mr. Quan Zhou and Mr. Patrick J. McGovern. The business address for IDG is Room 616, Tower A, COFCO Plaza, 8 Jianguomenwai Avenue, Beijing, 100005, PRC.
- (15) Includes 164,918 preferred shares held by CMT CV-BD Limited. The business address for CMT CV-BD Limited is c/o CMT ChinaValue Capital Advisors Limited, 11/F., Ming An Plaza, 8 Sunning Road, Causeway Bay, Hong Kong.

As of the date of this prospectus, approximately 17%, 100%, 25% and 65.6% of our outstanding ordinary shares, Series A, Series B and Series C convertible preferred shares, respectively, are held by four, two, three and six record holders in the United States, respectively. None of our shareholders has informed us that he or she is affiliated with a registered broker-dealer or is in the business of underwriting securities.

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 10 votes per share. We will issue Class A ordinary shares represented by our ADSs in this offering. All of our existing shareholders will hold our Class B ordinary shares upon the closing of this offering and may choose to convert their Class B ordinary shares into the same number of Class A ordinary shares at any time. See "Description of Share Capital—Ordinary Shares" for a more detailed description of our Class A ordinary shares and Class B ordinary shares. We are not aware of any arrangement that may, at a subsequent date, result in a change of control of our company.

RELATED PARTY TRANSACTIONS

Contractual Arrangements with Baidu Netcom and its Shareholders

PRC law currently limits foreign equity ownership of companies that provide Internet content and advertising businesses. To comply with these foreign ownership restrictions, we operate our websites and provide online advertising services in China through a series of contractual arrangements with Baidu Netcom and its shareholders, Robin Yanhong Li and Eric Yong Xu. In March 2005, we restructured these contractual arrangements. For a description of these contractual arrangements, see “Corporate Structure—Contractual Arrangements with Baidu Netcom and Its Shareholders.”

Private Placements

In February 2000, we sold a total of 4,800,000 shares of Series A convertible preferred shares in a private placement at a price of US\$0.25 per share. Each of Integrity Partners, LLC and Peninsula Capital Fund, LLC purchased 2,400,000 shares from us in our Series A convertible preferred share private placement.

In September 2000, we sold a total of 9,600,000 shares of Series B convertible preferred shares in a private placement at a price of US\$1.0415 per share. The investors in our Series B preferred share private placement consisted of Draper Fisher Jurvetson ePlanet Ventures L.P., which purchased 7,200,000 shares, IDG Technology Venture Investment L.P., which purchased 1,440,000 shares, Integrity Partners, LLC, which purchased 600,000 shares, and Peninsula Capital Fund, LLC, which purchased 360,000 shares.

In June 2004, we sold a total of 2,248,877 shares of Series C convertible preferred shares in a private placement at a price of US\$6.67 per share. The investors in our Series C convertible preferred share private placement consisted of Google, Inc., which purchased 749,625 shares, Draper Fisher Jurvetson ePlanet Ventures L.P. and its affiliates, which purchased 749,625 shares, Integrity Partners V, LLC, which purchased 202,399 shares, Peninsula Capital Fund I, LLC, which purchased 193,403 shares, CMT CV-BD Limited, which purchased 164,918 shares, Venture TDF Technology Fund III LP, which purchased 149,926 shares, China Equity International Holding Company Limited (BVI), which purchased 23,988 shares, and Swiftcurrent Offshore, Ltd., which purchased 14,993 shares from us.

The price of each series of preferred shares was determined based on arm’s-length negotiations between us and the investors and approved by our board of directors. Holders of each series of preferred shares may elect to convert part or all of the preferred shares held by them into our Class A or Class B ordinary shares. The initial conversion price is equal to the original per share purchase price of each series of preferred shares, subject to adjustment. Each share of Series A, B and C convertible preferred share will automatically convert into one Class B ordinary shares immediately prior to the closing of this offering.

Shareholders’ Agreement

In connection with our Series C convertible preferred shares private placement in June 2004, we and our shareholders entered into a Second Amended and Restated Shareholders’ Agreement, which amended and restated the shareholders agreements we had previously entered into with the investors of our Series A and Series B convertible preferred shares. Under this shareholders’ agreement, our board of directors is comprised of five directors, including two directors designated by the holders of our Series A convertible preferred shares so long as any Series A convertible preferred shares are outstanding, two directors designated by the holders of our Series B convertible preferred shares so long as any Series B convertible preferred shares are outstanding and Robin Yanhong Li, who is our chairman and chief executive officer. The preferred shareholders have preemptive rights with respect to any issuance of securities by us, subject to certain exceptions, including our issuance of securities in connection with this offering. We and the preferred shareholders have a right of first refusal for any proposed share transfers by any of the non-transferring shareholders. Our founders are prohibited from

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transferring any or all of their shares without prior written consent of the holders of a majority of each series of our outstanding preferred shares. Under this agreement, our preferred shareholders and the holders of ordinary shares converted from our preferred shares are also entitled to certain registration rights, including demand registration, piggyback registration and Form F-3 or Form S-3 registration. See “Description of Share Capital—Registration Rights.” Except for the registration rights, the shareholders’ rights under the shareholders’ agreement will terminate automatically upon the closing of this offering.

Employment Agreements

See “Management—Employment Agreements.”

Share Options

See “Management—Share Options.”

DESCRIPTION OF SHARE CAPITAL

We are a Cayman Islands company and our affairs are governed by our memorandum and articles of association and the Companies Law (2004 Revision) of the Cayman Islands, which is referred to as the Companies Law below.

As of the date of this prospectus, our authorized share capital consists of 822,424,322 Class A ordinary shares, par value of US\$0.00005 per share, 31,326,801 Class B ordinary shares, par value of US\$0.00005 per share, 4,800,000 Series A convertible preferred shares, par value of US\$0.00005 per share, 9,600,000 Series B convertible preferred shares, par value of US\$0.00005 per share, and 2,248,877 Series C convertible preferred shares, par value of US\$0.00005 per share. As of the date hereof, there are 304,475 shares of Class A ordinary shares issued and outstanding, 12,156,545 Class B ordinary shares issued and outstanding, 4,800,000 Series A convertible preferred shares issued and outstanding, 9,600,000 Series B convertible preferred shares issued and outstanding and 2,248,877 Series C convertible preferred shares issued and outstanding. Each issued and outstanding preferred share will automatically convert into one share of Class B ordinary shares immediately prior to the closing of this offering.

Upon the closing of this offering, an amended and restated memorandum and articles of association will replace our current memorandum and articles of association in their entirety. Our amended and restated memorandum and articles of association will provide that, upon the closing of this offering, we will have two classes of ordinary shares: 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, as described in the following paragraphs. Immediately following the closing of this offering, our authorized share capital will consist of _____ shares, par value of US\$0.00005 per share, of which _____ shares are designated as Class A ordinary shares, _____ shares are designated as Class B ordinary shares, and _____ shares are designated as preferred shares.

The following are summaries of material provisions of our amended and restated memorandum and articles of association, which we expect will become effective upon the closing of this offering, as well as the Companies Law (2004 Revision) insofar as they relate to the material terms of our ordinary shares.

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. 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.

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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. A poll may be demanded by our chairman or any shareholder holding at least 50% of the issued shares of a class given a right to vote at the meeting, present in person or by proxy.

A quorum for a shareholders' meeting consists of at least two shareholders present in person or by proxy or, if a corporation or other non-natural person, by its duly authorized representative. Shareholders' meetings are held annually and may only be convened by our board of directors on its own initiative. 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. A special resolution is required for important matters such as a change of name. Holders of the ordinary shares may effect certain changes by ordinary resolution, including altering the amount of our authorized share capital, 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 its sole discretion, decline to register any transfer of any ordinary share which is not fully paid up or on which we have a lien. Our directors may also decline to register any transfer of any ordinary share unless (1) the instrument of transfer is lodged with us, accompanied by the certificate for the ordinary shares to which it relates and such other evidence as our board of directors may reasonably require to show the right of the transferor to make the transfer; (2) the instrument of transfer is in respect of only one class of ordinary shares; (3) the instrument of transfer is properly stamped, if required; (4) in the case of a transfer to joint holders, the number of joint holders to whom the ordinary share is to be transferred does not exceed four; (5) the shares conceded are free of any lien in favor of us; and (6) a fee of such maximum sum as the Nasdaq National Market may determine to be payable, or such lesser sum as our board of directors may from time to time require, has been paid to us in respect thereof.

If our directors refuse to register a transfer they shall, within two months after the date on which the instrument of transfer was lodged, send to each of the transferor and the transferee notice of such refusal. The registration of transfers may, on 14 days' notice being given by advertisement in such one or more newspapers or by electronic means, be suspended and the register closed at such times 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 nor the register closed for more than 30 days in any year.

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 shall be distributed among the holders of the ordinary shares on a pro rata basis. 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.

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.

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Redemption of Shares. Subject to the provisions of the Companies Law, 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 may be determined by special resolution.

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. Holders of our ordinary shares will have no general right under Cayman Islands law to inspect or obtain copies of our list of shareholders or our corporate records. However, we will provide our shareholders with annual audited financial statements. See “Where You Can Find Additional Information.”

Preferred Shares

Immediately prior to the closing of this offering, each outstanding share of our preferred shares will be converted into one share of Class B ordinary share.

After the closing of this offering, our board of directors will have the authority, without shareholder approval, to issue up to a total of _____ 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.

History of Securities Issuances

The following is a summary of our securities issuances during the past three years:

Series C Convertible Preferred Shares. In June 2004, we issued in a private placement an aggregate of 2,248,877 shares of Series C preferred shares at a price of US\$6.67 per share to a group of investors including Google, Inc., Draper Fisher Jurvetson ePlanet Ventures L.P. and its affiliates, Integrity Partners V, LLC, and Peninsula Capital Fund I, LLC. Each Series C preferred share will automatically convert into one ordinary share immediately prior to the closing of this offering.

Option Grants. Since January 2000, we have granted options to certain of our directors, officers, employees and consultants. As of December 31, 2004, options to purchase an aggregate of 2,372,152 ordinary shares of our company were outstanding. See “Management—Share Options.”

Exempted Company

We are an exempted company with limited liability under the Companies Law (2004 Revision) of the Cayman Islands. The Companies Law in the Cayman Islands distinguishes between ordinary resident companies and exempted companies. Any company that is registered in the Cayman Islands but conducts business mainly outside of the Cayman Islands may apply to be registered as an exempted company. The requirements for an exempted company are essentially the same as for an ordinary company except for the exemptions and privileges listed below:

- an exempted company does not have to file an annual return of its shareholders with the Registrar of Companies;

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- an exempted company's register of members is not open to inspection;
- an exempted company does not have to hold an annual general meeting;
- an exempted company may issue no par value, negotiable or bearer shares;
- an exempted company may obtain an undertaking against the imposition of any future taxation (such undertakings are usually given for 20 years in the first instance);
- an exempted company may register by way of continuation in another jurisdiction and be deregistered in the Cayman Islands;
- an exempted company may register as a limited duration company; and
- an exempted company may register as a segregated portfolio company.

"Limited liability" means that the liability of each shareholder is limited to the amount paid by the shareholder on the shares of the company.

Differences in Corporate Law

The Companies Law is modeled after that of the United Kingdom but does not follow recent United Kingdom statutory enactments. In addition, the Companies Law differs from laws applicable to United States corporations and their shareholders. Set forth below is a summary of the significant differences between the provisions of the Companies Law applicable to us and the laws applicable to companies incorporated in the United States and their shareholders.

Mergers and Similar Arrangements. Cayman Islands law does not provide for mergers as that expression is understood under United States corporate law. However, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting, or meetings, convened for that purpose. The convening of the meetings and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction should not be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to majority vote have been met;
- the shareholders have been fairly represented at the meeting in question;
- the arrangement is such that a businessman would reasonably approve; and
- the arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

When a take-over offer is made and accepted by holders of 90.0% of the shares within four months, the offerer may, within a two month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands, but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

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If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of United States corporations, providing rights to receive payment in cash for the judicially determined value of the shares.

Shareholders' Suits. We are not aware of any reported class action or derivative action having been brought in a Cayman Islands court. In principle, we will normally be the proper plaintiff and a derivative action may not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, exceptions to the foregoing principle apply in circumstances in which:

- a company is acting or proposing to act illegally or ultra vires;
- the act complained of, although not ultra vires, could be effected duly if authorized by more than a simple majority vote that has not been obtained; and
- those who control the company are perpetrating a “fraud on the minority.”

Indemnification. Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences of committing a crime.

We intend to adopt an amended and restated memorandum and articles of association upon the closing of this offering. Under our amended and restated memorandum and articles of association, we may indemnify our directors, officers, employees and agents against expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by such persons in connection with actions, suits or proceedings to which they are party or are threatened to be made a party by reason of their acting as our directors, officers, employees or agents. To be entitled to indemnification, these persons must have acted in good faith and in the best interest and not contrary to the interest of our company and must not have acted in a manner willfully or grossly negligent and, with respect to any criminal action, they must have had no reasonable cause to believe their conduct was unlawful. Our amended and restated memorandum and articles of association may also provide for indemnification of such person in the case of a suit initiated by our company or in the right of our company.

We intend to enter into indemnification agreements with our directors and executive officers to indemnify them to the fullest extent permitted by applicable law and our amended and restated memorandum and articles of association, from and against all costs, charges, expenses, liabilities and losses incurred in connection with any litigation, suit or proceeding to which such director or executive officer is or is threatened to be made a party, witness or other participant.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us under the foregoing provisions, we have been advised that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and therefore is unenforceable.

Duties of Directors. See “Management—Duties of Directors.”

Registration Rights

Pursuant to our current shareholders' agreement entered into in June 2004, we have granted certain registration rights to holders of our registrable securities, which include our preferred shares and ordinary shares converted from our preferred shares. Set forth below is a description of the registration rights granted under the agreement.

Demand Registration Rights. Holders of at least 50% of registrable securities have the right to demand that we file a registration statement covering the offer and sale of their securities as long as the securities to be

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registered exceed 20% of the total registrable securities then outstanding and the aggregate gross proceeds of the registration exceed US\$2 million. We, however, are not obligated to effect a demand registration if (1) we have already effected one demand registration, (2) during the period beginning on the 60th day prior to our good faith estimate of the filing date of, and ending on the 180th day after the effective date of, a public offering of our securities initiated by us, or (3) if the securities to be registered can be immediately registered on Form S-3 or Form F-3, as applicable. We have the right to defer filing of a registration statement for up to 90 days if a majority of our independent directors determine in good faith that filing of a registration will be detrimental to us, but we cannot exercise the deferral right more than once in any 12 month period.

Form F-3 or S-3 Registration Rights. When we are eligible for use of Form F-3 or Form S-3, holders of at least 15% of registrable securities then outstanding have the right to request that we file a registration statement under Form F-3 or Form S-3. We may defer filing of a registration statement on Form F-3 or Form S-3 for up to 60 days if a majority of our independent directors determine in good faith that filing such a registration statement will be detrimental to us and our shareholders. We are not obligated to file a registration statement on Form F-3 or Form S-3 if, among other things, we have already effected two registrations on Form F-3 or Form S-3.

Piggyback Registration Rights. If we propose to file a registration statement for a public offering of our securities other than pursuant to an S-3 or F-3 registration statement or relating to an employee benefit plan or a corporate reorganization, then we must offer holders of registrable securities an opportunity to include in this registration all or any part of their registrable securities. We must use our best effort to cause the underwriters in any underwritten offering to permit these shareholders who so requested to include their shares on the same terms and conditions as our securities to be registered.

Expenses of Registration. We will pay all expenses relating to any demand, piggyback or F-3 or S-3 registration other than underwriting commissions and discounts, and fees and disbursements for counsel for selling shareholders, if applicable.

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

American Depositary Receipts

The Bank of New York, as depositary, will execute and deliver ADRs. ADRs are American Depositary Receipts. Each ADR is a certificate evidencing a specific number of American Depositary Shares, also referred to as ADSs. Each ADS will represent one Class A ordinary share (or a right to receive one Class A ordinary share) deposited with the office of The Hongkong and Shanghai Banking Corporation Limited, as custodian for the depositary in Hong Kong. Each ADS will also represent any other securities, cash or other property which may be held by the depositary. The depositary's office at which the ADRs will be administered is located at 101 Barclay Street, New York, New York 10286.

You may hold ADSs either directly (by having an ADR registered in your name) or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADR holder. This description assumes you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADR holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an ADR holder, we will not treat you as one of our shareholders and you will not have shareholder rights. Cayman Islands law governs shareholder rights. The depositary will be the holder of the shares underlying your ADSs. As a holder of ADRs, you will have ADR holder rights. A deposit agreement among us, the depositary and you, as an ADR holder, and the beneficial owners of ADRs set out ADR holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADRs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of ADR, which are filed as exhibits to the registration statement that includes this prospectus.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

- **Cash.** The depositary will convert any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any government approval is needed and cannot be obtained, the deposit agreement allows the depositary to distribute the foreign currency only to those ADR holders to whom it is possible to do so. It will hold the foreign currency it cannot convert for the account of the ADR holders who have not been paid. It will not invest the foreign currency and it will not be liable for any interest.

Before making a distribution, the depositary will deduct any withholding taxes that must be paid. See "Taxation—United States Federal Income Taxation." It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.*

- **Shares.** The depositary may distribute additional ADSs representing any shares we distribute as a dividend or free distribution. The depositary will only distribute whole ADSs. It will try to sell shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it

does with cash. If the depositary does not distribute additional ADRs, the outstanding ADSs will also represent the new shares.

- **Rights to purchase additional shares.** If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you. If the depositary decides it is not legal and practical to make the rights available but that it is practical to sell the rights, the depositary may sell the rights and distribute the proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADRs described in this section except for changes needed to put the necessary restrictions in place.

- **Other distributions.** The depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case ADSs will also represent the newly distributed property. However, the depositary is not required to distribute any securities (other than ADSs) to you unless it receives satisfactory evidence from us that it is legal to make that distribution.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any ADR holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADRs, shares, rights or anything else to ADR holders. *This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.*

Deposit and Withdrawal

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposits shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADRs at its office to the persons you request.

How do ADS holders cancel an ADR and obtain shares?

You may surrender your ADRs at the depositary's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the shares and any other deposited securities underlying the ADR to you or a person you designate at the office of the custodian. Or, at your request, risk and expense, the depositary will deliver the deposited securities to its office, if feasible.

Voting Rights

How do you vote?

You may instruct the depositary to vote the number of shares your ADSs represent. The depositary will notify you of shareholders' meetings and arrange to deliver our voting materials to you if we ask it to. Those materials will describe the matters to be voted on and explain how you may instruct the depositary how to vote. For instructions to be valid, they must reach the depositary by the date set by the depositary.

The depositary will try, as far as practical, subject to Cayman Islands law and the provisions of our constitutive documents, to vote the number of shares or other deposited securities represented by your ADSs as you instruct. The depositary will only vote or attempt to vote as you instruct.

We cannot ensure that you will receive voting materials or otherwise learn of an upcoming shareholders' meeting in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to vote and there may be nothing you can do if your shares are not voted as you requested.

Fees and Expenses

Persons depositing shares or ADR holders must pay:

US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

US\$.02 (or less) per ADS

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

US\$.02 (or less) per ADSs per calendar year (if the depositary has not collected any cash distribution fee during that year)

Expenses of the depositary

Registration or transfer fees

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 you
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR 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

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Persons depositing shares or ADR holders must pay:

Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or share underlying an ADR, 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:

• As necessary

• As necessary

The depositary has agreed to waive the ADS issuance fee in connection with this offering.

Payment of Taxes

The depositary may deduct the amount of any taxes owed from any payments to you. It may also sell deposited securities, by public or private sale, to pay any taxes owed. You will remain liable if the proceeds of the sale are not enough to pay the taxes. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

Reclassifications, Recapitalizations and Mergers

If we:

- Change the nominal or par value of our shares;
- Reclassify, split up or consolidate any of the deposited securities;
- Distribute securities on the shares that are not distributed to you; or
- Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action.

Then:

The cash, shares or other securities received by the depositary will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities.

The depositary may distribute some or all of the cash, shares or other securities it receives. It may also deliver new ADRs or ask you to surrender your outstanding ADRs in exchange for new ADRs identifying the new deposited securities.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the ADRs without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, or prejudices a substantial right of ADR holders, it will not become effective for outstanding ADRs until 30 days after the depositary notifies ADR holders of the amendment. *At the time an amendment becomes effective, you are considered, by continuing to hold your ADR, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so. The depositary may also terminate the deposit agreement if the depositary has told us that it would like to resign and we have not appointed a new depositary bank within 60 days. In either case, the depositary must notify you at least 30 days before termination.

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After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: (1) collect distributions on the deposited securities, (2) sell rights and other property, and (3) deliver shares and other deposited securities upon cancellation of ADRs. Four months or more after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement for the *pro rata* benefit of the ADR holders that have not surrendered their ADRs. It will not invest the money and has no liability for interest. The depositary's only obligations will be to account for the money and other cash. After termination our only obligations will be to indemnify the depositary and to pay fees and expenses of the depositary that we agreed to pay.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of ADRs

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;
- are not liable if either of us exercises discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the ADRs or the deposit agreement on your behalf or on behalf of any other person; and
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party.

In the deposit agreement, we agree to indemnify the depositary for acting as depositary, except for losses caused by the depositary's own negligence or bad faith, and the depositary agrees to indemnify us for losses resulting from its negligence or bad faith.

Requirements for Depositary Actions

Before the depositary will deliver or register a transfer of an ADR, make a distribution on an ADR, or permit withdrawal of shares or other property, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver ADRs or register transfers of ADRs generally when the transfer books of the depositary or our transfer books are closed or at any time if the depositary or we think it advisable to do so.

Your Right to Receive the Shares Underlying your ADRs

You have the right to cancel your ADRs and withdraw the underlying shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books, (2) the transfer of shares is blocked to permit voting at a shareholders' meeting, or (3) we are paying a dividend on our shares;
- when you or other ADR holders seeking to withdraw shares owe money to pay fees, taxes and similar charges; and
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADRs or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-release of ADRs

The deposit agreement permits the depositary to deliver ADRs before deposit of the underlying shares. This is called a pre-release of the ADR. The depositary may also deliver shares upon surrender of pre-released ADRs (even if the ADRs are surrendered before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive ADRs instead of shares to close out a pre-release. The depositary may pre-release ADRs only under the following conditions: (1) before or at the time of the pre-release, the person to whom the pre-release is being made represents to the depositary in writing that it or its customer owns the shares or ADRs to be deposited; (2) the pre-release is fully collateralized with cash or other collateral that the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days' notice. In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so.

SHARES ELIGIBLE FOR FUTURE SALE

Upon completion of this offering, we will have outstanding _____ ADSs representing approximately _____ % of our issued and outstanding ordinary shares. All of the ADSs sold in this offering will be freely transferable by persons other than our “affiliates” without restriction or further registration under the Securities Act. Sales of substantial amounts of our ADSs in the public market could adversely affect prevailing market prices of our ADSs. Prior to this offering, there has been no public market for our ordinary shares or the ADSs, and while application has been made for the ADSs to be quoted on the Nasdaq National Market, we cannot assure you that a regular trading market will develop in the ADSs. Our ordinary shares will not be listed on any exchange or quoted for trading on any over-the-counter trading system. We do not expect that a trading market will develop for our ordinary shares not represented by the ADSs.

Lock-Up Agreements

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any ADSs or ordinary shares, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of the representatives for a period of 180 days after the date of this prospectus, except for (1) issuance of ordinary shares upon the conversion of convertible securities outstanding on the date of this prospectus, (2) issuance of securities pursuant to our 2000 option plan or 2005 share incentive plan outstanding on the date of this prospectus, and (3) issuance of securities in connection with acquisitions made by us, provided that no more than 10% of the number of ordinary shares then outstanding are issued in connection with such acquisitions and provided, further, that the recipients receiving our securities in connection with such acquisitions agree in writing with the underwriters to the lock-up restrictions.

Our officers and directors and certain existing shareholders, who collectively hold approximately 94.8% of our outstanding shares immediately before this offering, have also agreed with the underwriters on lockup restrictions which restrict them from offering, selling, contracting to sell, pledging or otherwise disposing of, directly or indirectly, any ADSs or ordinary shares or securities convertible into or exchangeable or exercisable for any ADSs or ordinary shares, entering into a transaction that would have the same effect, or entering into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our ADSs, whether any of these transactions are to be settled by delivery of our ADSs or other securities, in cash or otherwise, or publicly disclosing the intention to make any offer, sale, pledge or disposition, or to entering into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 180 days after the date of this prospectus. After the expiration of the 180-day lock-up period, the ordinary shares or ADSs held by our directors, executive officers or certain shareholders may be sold subject to the restrictions under Rule 144 under the Securities Act or by means of registered public offerings.

The 180-day lock-up period is subject to adjustment under certain circumstances. If in the event that either (1) during the last 17 days of the 180-day lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 180-day lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day lock-up period, then in either case the expiration of the 180-day lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

Other than Google Inc., which holds approximately 2.6% of our total outstanding ordinary shares immediately before this offering, shareholders with ownership of 2% or more of our total outstanding ordinary shares (calculated on a fully diluted basis and assuming the exercise of all options held) immediately after the closing of this offering have agreed to be subject to the above lock-up restrictions for an additional 540-day period commencing on the date of the expiration of the 180-day lock-up period. Commencing on the date of the expiration of the 180-day lock-up period and at the beginning of each 180-day period thereafter, or “the additional lock-up period,” until the expiration of the 540-day extended lock-up period, 25% of the shares held

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immediately after the completion of this offering of such shareholder will be released from the lock-up restrictions. The 25% limit for each additional lock-up period is cumulative, such that if such shareholder does not sell or transfer the 25% released shares from a previous additional lock-up period, any unsold or non-transferred released shares will roll over and may be sold or transferred at any time in the future, together with all other accumulated released shares from previous periods. For purposes of determining the shares subject to the restrictions above, share ownership includes (i) the number of shares owned directly by the such shareholder (including holding as custodian) or with respect to which such shareholder has beneficial ownership within the rules and regulations of the SEC and (ii) the number of shares issuable upon the assumed exercise of all options held by such shareholder immediately after the completion of the offering.

However, in the event that either (1) during the last 17 days of the relevant additional lock-up period, we release earnings results or material news or a material event relating to us occurs; or (2) prior to the expiration of the relevant additional lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the relevant additional lock-up period, the 25% released shares for that additional lock-up period will be subject to the lock-up restrictions described above for an 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

In addition, we have instructed The Bank of New York, as depositary, and The Bank of New York has agreed, not to accept any deposit of any ordinary shares or issue any ADSs for 180 days after the date of this prospectus (other than in connection with this offering), unless we otherwise instruct. The foregoing restrictions do not apply to (1) the deposit of ordinary shares and the issuance of ADSs in connection with our 2000 option plan or 2005 share incentive plan or (2) the deposit of ordinary shares (up to 10% of our ordinary shares then outstanding) and the issuance of ADSs in connection with any acquisitions we make. As a result, ADS holders who cancel their ADSs and withdraw the underlying ordinary shares will not be able to re-deposit such shares for issuance of ADSs until the expiration of the 180-day period described above. The foregoing does not affect the right of ADS holders to cancel their ADSs and withdraw the underlying ordinary shares.

Rule 144

In general, under Rule 144 as currently in effect, a person (or persons whose shares are aggregated) who has beneficially owned our ordinary shares for at least one year, is entitled to sell within any three-month period a number of ordinary shares that does not exceed the greater of the following:

- 1% of the then outstanding ordinary shares, in the form of ADSs or otherwise, which will equal approximately _____ ordinary shares immediately after this offering; or
- the average weekly trading volume of our ordinary shares in the form of ADSs or otherwise, during the four calendar weeks preceding the date on which notice of the sale is filed with the SEC.

Sales under Rule 144 must be made through unsolicited brokers' transactions. They are also subject to manner of sale provisions, notice requirements and the availability of current public information about us.

Rule 144(k)

Under Rule 144(k), a person who is not our affiliate at any time during the three months preceding a sale, and who has beneficially owned the ordinary shares, in the form of ADSs or otherwise, proposed to be sold for at least two years, including the holding period of any prior owner other than an affiliate, is entitled to sell those ordinary shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144. Therefore, unless otherwise restricted, 144(k) shares may be sold at any time.

Rule 701

In general, under Rule 701 of the Securities Act as currently in effect, each of our employees, consultants or advisors who purchases our ordinary shares from us in connection with a compensatory stock plan or other written agreement executed prior to the completion of this offering is eligible to resell such ordinary shares in reliance on Rule 144, but without compliance with some of the restrictions, including the holding period, contained in Rule 144.

Registration Rights

Upon completion of this offering, certain holders of our ordinary shares or their transferees will be entitled to request that we register their shares under the Securities Act, following the expiration of the lock-up agreements described above. See “Description of Share Capital—Registration Rights.”

TAXATION

The following summary of the material Cayman Islands 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 registration statement, 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 U.S., state, local and other tax laws. To the extent that the discussion relates to matters of Cayman Islands tax law, it represents the opinion of Maples and Calder, our Cayman Islands counsel. To the extent that the discussion relates to matters of U.S. federal income tax law, it represents the opinion of Latham & Watkins LLP, our special U.S. counsel.

Cayman Islands Taxation

The Cayman Islands currently levies no taxes on individuals or corporations based upon profits, income, gains or appreciation and there is no taxation in the nature of inheritance tax or estate duty. 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. There are no exchange control regulations or currency restrictions in the Cayman Islands.

United States Federal Income Taxation

The following discussion describes the material U.S. federal income tax consequences to U.S. Holders (defined below) under present law of an investment in the ADSs or ordinary shares. This summary applies only to investors that hold the ADSs or ordinary shares as capital assets and that have the U.S. dollar as their functional currency. This discussion is based on the tax laws of the United States as in effect on the date of this Registration Statement and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this Registration Statement, 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 consequences 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;
- certain financial institutions;
- insurance companies;
- broker dealers;
- traders that elect to mark to market;
- tax-exempt entities;
- persons liable for alternative minimum tax;
- 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 stock; or
- persons holding ADSs or ordinary shares through partnerships or other pass-through entities.

PROSPECTIVE PURCHASERS 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 United States federal income tax consequences to “U.S. Holders” will apply if you are a beneficial owner of ADSs or ordinary shares and you are, for U.S. federal income tax purposes,

- a citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation) organized 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 (1) is subject to the supervision of a court within the United States and the control of one or more U.S. persons or (2) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

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 should be treated as the holder of the underlying ordinary shares represented by those ADSs for U.S. federal income tax purposes.

The U.S. Treasury has expressed concerns that parties to whom ADSs are pre-released may be taking actions that are inconsistent with the claiming, by U.S. Holders of ADSs, of foreign tax credits for U.S. federal income tax purposes. Such actions would also be inconsistent with the claiming of the reduced rate of tax applicable to dividends received by certain non-corporate U.S. Holders, as described below. Accordingly, the availability of the reduced tax rate for dividends received by certain non-corporate U.S. Holders could be affected by future actions that may be taken by the U.S. Treasury or parties to whom ADSs are pre-released.

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 generally will be included in your gross income as dividend income on the date of receipt by the depositary, 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 (as determined under U.S. federal income tax principles). The dividends will not be eligible for the dividends-received deduction allowed to corporations in respect of dividends received from other U.S. corporations.

With respect to non-corporate U.S. Holders including individual U.S. Holders, for taxable years beginning before January 1, 2009, dividends may be taxed at the lower applicable capital gains rate (“qualified dividend income”) provided that (1) the ADSs or ordinary shares are readily tradable on an established securities market in the United States; (2) we are not a passive foreign investment company (as discussed below) for either our taxable year in which the dividend was paid or the preceding taxable year; and (3) certain holding period requirements are met. Under recently published Internal Revenue Service authority, common or ordinary shares, or ADSs representing such shares, are considered for purpose of clause (1) above to be readily tradable on an established securities market in the United States if they are listed on Nasdaq National Market, as our ADSs are expected to be. You should consult your tax advisors regarding the availability of the lower rate for dividends paid with respect to our ADSs or ordinary shares.

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Dividends will constitute foreign source income for foreign tax credit limitation purposes. If the dividends are qualified dividend income (as discussed above), the amount of the dividend taken into account for purposes of calculating the foreign tax credit limitation will in general be limited to the gross amount of the dividend, multiplied by the reduced rate divided by the highest rate of tax normally applicable to dividends. The limitation on foreign taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, dividends distributed by us with respect to the ADSs or ordinary shares will be “passive income” or, in the case of certain U.S. Holders, “financial services income.” Recently enacted legislation will modify the foreign tax credit limitation by reducing the number of classes of foreign source income to two for taxable years beginning after December 31, 2006. Under this recently enacted legislation, dividends distributed by us with respect to ADSs or ordinary shares would generally constitute “passive category income” but could, in the case of certain U.S. Holders, constitute “general category income.”

To the extent that the amount of the distribution exceeds our current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your ADSs or ordinary shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be treated as a dividend.

Taxation of Disposition of Shares

Subject to the passive foreign investment company rules discussed below, you will recognize taxable gain or loss on any sale, exchange or other taxable disposition of an ADS or ordinary share equal to the difference between the amount realized for the ADS or ordinary share and your tax basis in the ADS or ordinary share. The gain or loss generally will 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 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.

Passive Foreign Investment Company

We do not expect to be a passive foreign investment company, or PFIC, for United States federal income tax purposes for our current taxable year. Our expectation for our current taxable year ending December 31, 2005 is based in part on our estimates of the value of our assets as determined based on the assumed initial public offering price of the ADSs and our ordinary shares in this offering and the expected price of the ADSs and our ordinary shares following the offering. Our actual PFIC status for the current taxable year ending December 31, 2005 will not be determinable until the close of the current taxable year ending December 31, 2005, and, accordingly, there is no guarantee that we will not be a PFIC for the current 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; 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.

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 stock.

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, our PFIC status may be determined in large part based on the market price of our ADSs and ordinary shares which is likely to fluctuate after the offering (and may fluctuate considerably given that market prices of technology companies have been especially volatile). Accordingly, fluctuations in the market price of the ADSs and ordinary shares may result in our being a PFIC for any year. In addition, the

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composition of our income and assets will be affected by how, and how quickly, we spend the cash we raise in this offering. If we are a PFIC for any year during which you hold ADSs or ordinary shares, we generally will continue to be treated as a PFIC for all succeeding years during which you hold ADSs or ordinary shares.

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 other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such 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 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. However, deductions are allowable only to the extent of any net mark-to-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. The tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by us.

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 on a qualified exchange, including the Nasdaq National Market, or other market, as defined in applicable U.S. Treasury Regulations. We expect that the ADSs will be listed on Nasdaq National Market and, consequently, if you are a holder of ADSs the mark-to-market election would be available to you were we to be or become a PFIC.

If you hold ADSs or ordinary shares in any year in which we are a PFIC, you will be required to file Internal Revenue Service Form 8621 regarding distributions received on the ADSs or ordinary shares and any gain realized on the disposition of the ADSs or ordinary shares.

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You are urged to consult your tax advisor regarding the application of the PFIC rules to your investment in 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 Internal Revenue Service and possible U.S. backup withholding at a current rate of 28%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors 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 may 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 filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

UNDERWRITING

We, the selling shareholders and the underwriters named below, have entered into an underwriting agreement dated _____, 2005 with respect to the ADSs being offered. Subject to certain conditions, each underwriter has severally agreed to purchase the number of ADSs indicated in the following table. Goldman Sachs (Asia) L.L.C. and Credit Suisse First Boston LLC are acting as the representatives for the underwriters named below. Goldman Sachs (Asia) L.L.C.'s address is 68th Floor, Cheung Kong Center, 2 Queen's Road, Central, Hong Kong. Credit Suisse First Boston LLC's address is Eleven Madison Avenue, New York, NY 10010-3629.

<u>Underwriters</u>	<u>Number of ADSs</u>
Goldman Sachs (Asia) L.L.C.	
Credit Suisse First Boston LLC	
Piper Jaffray & Co.	
Total	

The underwriters are obligated to take and pay for all of the ADSs being offered, if any are taken, other than the ADSs covered by the option described below unless and until this option is exercised.

The underwriters have an option to buy up to an additional _____ ADSs from us and certain selling shareholders only to cover any over-allotments. They may exercise this option for 30 days, commencing from the date of this prospectus. If any ADSs are purchased pursuant to this option, the underwriters will severally purchase ADSs in approximately the same proportion as the number listed next to the underwriter's name in the table above bears to the total number of ADSs listed next to the names of all underwriters in the table above.

The following table shows the per ADS and total underwriting discounts and commissions to be paid to the underwriters by us and the selling shareholders. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase a total of _____ additional ADSs.

<u>Paid by the Company and the Selling Shareholders</u>	<u>No Exercise</u>	<u>Full Exercise</u>
Per ADS	US\$	US\$
Total	US\$	US\$

Total underwriting discounts and commissions to be paid to the underwriters amount to US\$ _____, representing _____ % of the total amount of the offering.

ADSs sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any ADSs sold by the underwriters to securities dealers may be sold at a discount of up to US\$ _____ per ADS from the initial public offering price. Any such securities dealers may resell any ADSs purchased from the underwriters to certain other brokers or dealers at a discount of up to US\$ _____ per ADS from the initial public offering price. If all the ADSs are not sold at the initial public offering price, the representatives may change the offering price and the other selling terms.

[We have agreed to pay certain fees and expenses in connection with this offering including certain out-of-pocket expenses incurred by the underwriters, and the selling shareholders have agreed to pay costs and expenses incident to the performance of the selling shareholders' obligation under the underwriting agreement.]

Some of the underwriters are expected to make offers and sales both inside and outside the United States through their respective selling agents. Any offers and sales in the United States will be conducted by broker-dealers registered with the SEC. Goldman Sachs (Asia) L.L.C. is expected to make offers and sales in the United States through its selling agent, Goldman, Sachs & Co.

The underwriters have entered into an agreement in which they agree to restrictions on where and to whom they and any dealer purchasing from them may offer ADSs as a part of the distribution of the ADSs. The underwriters also have agreed that they may sell ADSs among themselves.

We have agreed that we will not offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, or file with the SEC a registration statement under the Securities Act relating to, any ADSs or ordinary

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shares, or publicly disclose the intention to make any offer, sale, pledge, disposition or filing, without the prior written consent of the representatives for a period of 180 days after the date of this prospectus except for the (1) issuance of ordinary shares upon the conversion of convertible securities outstanding on the date of this prospectus, (2) issuance of securities pursuant to our 2000 option plan or 2005 share incentive plan outstanding on the date of this prospectus, and (3) issuance of securities in connection with acquisitions made by us, provided that no more than 10% of the number of ordinary shares then outstanding are issued in connection with such acquisitions and provided, further, that the recipients receiving our securities in connection with such acquisitions agree in writing with the underwriters to the lock-up restrictions. However, in the event that either (1) during the last 17 days of the 180-day lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 180-day lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 180-day lock-up period, then in either case the expiration of the 180-day lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

Our officers and directors and certain existing shareholders, who collectively hold approximately 94.8% of our outstanding shares immediately before this offering, have also agreed with the underwriters on lockup restrictions which restrict them from offering, selling, contracting to sell, pledging or otherwise disposing of, directly or indirectly, any ADSs or ordinary shares or securities convertible into or exchangeable or exercisable for any ADSs or ordinary shares, entering into a transaction that would have the same effect, or entering into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of our ADSs, whether any of these transactions are to be settled by delivery of our ADSs or other securities, in cash or otherwise, or publicly disclosing the intention to make any offer, sale, pledge or disposition, or to entering into any transaction, swap, hedge or other arrangement, without, in each case, the prior written consent of the representatives for a period of 180 days after the date of this prospectus. However, in the event that either (1) during the last 17 days of the 180-day lock-up period, we release earnings results or material news or a material event relating to us occurs or (2) prior to the expiration of the 180-day lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the lock-up period, then in either case the expiration of the 180-day lock-up will be extended until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

Other than Google Inc., which holds approximately 2.6% of our total outstanding ordinary shares immediately before this offering, shareholders with ownership of 2% or more of our total outstanding ordinary shares (calculated on a fully diluted basis and assuming the exercise of all options held) immediately after the closing of this offering have agreed to be subject to the above lock-up restrictions for an additional 540-day period commencing on the date of the expiration of the 180-day lock-up period. Commencing on the date of the expiration of the 180-day lock-up period and at the beginning of each 180-day period thereafter, or “the additional lock-up period,” until the expiration of the 540-day extended lock-up period, 25% of the shares held immediately after the completion of this offering of such shareholder will be released from the lock-up restrictions. The 25% limit for each additional lock-up period is cumulative, such that if such shareholder does not sell or transfer the 25% released shares from a previous additional lock-up period, any unsold or non-transferred released shares will roll over and may be sold or transferred at any time in the future, together with all other accumulated released shares from previous periods. For purposes of determining the shares subject to the restrictions above, share ownership includes (i) the number of shares owned directly by the such shareholder (including holding as custodian) or with respect to which such shareholder has beneficial ownership within the rules and regulations of the SEC and (ii) the number of shares issuable upon the assumed exercise of all options held by such shareholder immediately after the completion of the offering. However, in the event that either (1) during the last 17 days of the relevant additional lock-up period, we release earnings results or material news or a material event relating to us occurs; or (2) prior to the expiration of the relevant additional lock-up period, we announce that we will release earnings results during the 16-day period beginning on the last day of the relevant additional lock-up period, the 25% released shares for that additional lock-up period will be subject to the lock-up restrictions described above for an 18-day period beginning on the date of the release of the earnings results or

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the occurrence of the material news or event, as applicable, unless the representatives waive, in writing, such an extension.

In addition, we have instructed The Bank of New York, as depositary, and The Bank of New York has agreed, not to accept any deposit of any ordinary shares or to issue any ADSs for 180 days after the date of this prospectus (other than in connection with this offering), unless we otherwise instruct. The foregoing restrictions do not apply to (1) the deposit of ordinary shares and the issuance of ADSs in connection with our 2000 option plan or 2005 share incentive plan or (2) the deposit of ordinary shares (up to 10% of our ordinary shares then outstanding) and the issuance of ADSs in connection with any acquisitions we make. As a result, ADS holders who cancel their ADSs and withdraw the underlying ordinary shares will not be able to re-deposit such shares for issuance of ADSs until the expiration of the 180-day period described above. The foregoing does not affect the right of ADS holders to cancel their ADSs and withdraw the underlying ordinary shares.

At our request, the underwriters are reserving up to _____ ADSs for sale at the initial public offering price to our directors, officers, employees and friends through a directed share program. The number of ADSs available for sale to the general public in this offering will be reduced to the extent that these persons purchase these reserved ADSs. Any ADSs not so purchased through the directed share program will be offered to the general public on the same basis as the ADSs offered hereby.

Prior to the offering, there has been no public market for our ADSs or ordinary shares. The initial public offering price of the ADSs will be determined by agreement between us and the representatives. Among the factors to be considered in determining the initial public offering price of the ADSs, in addition to prevailing market conditions, will be our historical performance, estimates of our business potential and earnings prospects, an assessment of our management and the consideration of the above factors in relation to market valuation of companies in related businesses.

We have applied to have the ADSs quoted on the Nasdaq National Market under the symbol "BIDU."

In connection with the offering, the underwriters may purchase and sell ADSs in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of ADSs than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriters' option to purchase additional ADSs from us and certain selling shareholders. The underwriters may close out any covered short position by either exercising their option to purchase additional ADSs or purchasing ADSs in the open market. In determining the source of ADSs to close out the covered short position, the underwriters will consider, among other things, the price of ADSs available for purchase in the open market as compared to the price at which they may purchase additional ADSs pursuant to the option granted them. "Naked" short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing ADSs in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the ADSs in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for, or purchases of, ADSs made by the underwriters in the open market prior to the completion of the offering.

The underwriters may also impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased ADSs sold by, or for the account of, such underwriter in stabilizing or short covering transactions.

Purchases to cover a short position and stabilizing transactions may have the effect of preventing or retarding a decline in the market price of the ADS, and together with the imposition of the penalty bid, may stabilize, maintain or otherwise affect the market price of the ADSs. As a result, the price of the ADS may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they are required to be conducted in accordance with applicable laws and regulations, and they may be discontinued at

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any time. These transactions may be effected on the Nasdaq National Market, in the over-the-counter market or otherwise.

We will not offer to sell any ordinary shares or ADSs to any member of the public in the Cayman Islands.

The ADSs may not be offered to the public in the United Kingdom within the meaning of section 102B of the Financial Services and Markets Act 2000 (as amended), or the FSMA, except to legal entities which have been authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities or otherwise in circumstances which do not require the publication by the company of a prospectus within the meaning of the Prospectus Rules of the Financial Services Authority. Any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) has only been communicated or caused to be communicated and will only be communicated or caused to be communicated to persons who have professional experience in matters relating to investments falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 or in circumstances in which section 21 of the FSMA would not apply to us if we were not an authorized person. In addition, all applicable provisions of the FSMA with respect to anything done in relation to the ADSs in, from or otherwise involving the United Kingdom, have been or will be complied with.

The ADSs may not be offered or sold in Hong Kong, by means of any document, other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong. No advertisement, invitation or document relating to the ADSs, whether in Hong Kong or elsewhere, may be issued, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to ADSs which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made thereunder.

The ADSs have not been and will not be registered under the Securities and Exchange Law of Japan (Law No. 235 of 1948 as amended), or the Securities Exchange Law, and disclosure under the Securities Exchange Law has not been and will not be made with respect to the ADSs. Accordingly, the ADSs may not be, directly or indirectly, offered or sold in Japan or to, or for the benefit of, any resident of Japan or to others for re-offering or re-sale, directly or indirectly in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities Exchange Law and other relevant laws and regulations of Japan. As used in this paragraph, “resident of Japan” means any person residing in Japan, including any corporation or other entity organized under the laws of Japan.

This prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Cap. 289) of Singapore, or the Securities and Futures Act. Accordingly the ADSs may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of such ADSs be circulated or distributed, whether directly or indirectly, to the public or any members of the public in Singapore other than: (1) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (2) to a sophisticated investor, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (3) pursuant to, and in accordance with the conditions of any other applicable provision of the Securities and Futures Act.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), and effective as of the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), no ADSs has been offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the ADSs which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in

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another Relevant Member State and brought to the attention of the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive. Notwithstanding the foregoing, an offer of ADSs may be made effective as of the Relevant Implementation Date to the public in that Relevant Member State at any time: (1) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (2) to any legal entity which has two or more of (a) an average of at least 250 employees during the last financial year; (b) a total balance sheet of more than €43,000,000 and (c) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or (3) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this paragraph, the expression an “offer of ADSs to the public” in relation to any ADSs in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the ADSs to be offered so as to enable an investor to decide to purchase or subscribe the ADSs, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

No action may be taken in any jurisdiction other than the United States that would permit a public offering of the ADSs or the possession, circulation or distribution of this prospectus in any jurisdiction where action for that purpose is required. Accordingly, the ADSs may not be offered or sold, directly or indirectly, and neither the prospectus nor any other offering material or advertisements in connection with the ADSs may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

A prospectus in electronic format will be made available on the website maintained by one or more of the lead managers of this offering and may also be made available on websites maintained by other underwriters. One or more of the underwriters may distribute prospectuses electronically. Neither we nor the underwriters will rely on third-party providers to comply with the prospectus delivery requirements. The underwriters may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. Internet distributions will be allocated by the lead managers to underwriters that may make Internet distributions on the same basis as other allocations.

The underwriters do not expect sales to discretionary accounts to exceed five percent of the total number of ADSs offered by them.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

Some of the underwriters and their affiliates have provided, and may in the future provide, investment banking and other services to us, our officers or our directors. To date, none of the transactions for which we have received advice from the underwriters and their affiliates have been consummated and we have not paid any fees to the underwriters and their affiliates in connection with such advice. The underwriters and their affiliates have, from time to time, provided services to our officers and directors for which they have received customary fees and commissions.

Goldman Sachs (Asia) L.L.C. and Credit Suisse First Boston LLC are acting as the global coordinators and joint bookrunners for this offering.

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EXPENSES RELATING TO THIS OFFERING

Set forth below is an itemization of the total expenses, excluding underwriting discounts and commissions, that we and the selling shareholders expect to incur in connection with this offering. With the exception of the SEC registration fee and the National Association of Securities Dealers, Inc. filing fee, all amounts are estimates.

SEC Registration Fee	US\$
Nasdaq National Market Listing Fee	
National Association of Securities Dealers, Inc. Filing Fee	
Printing Expenses	
Legal Fees and Expenses	
Accounting Fees and Expenses	
Miscellaneous	
Total	US\$

Expenses will be borne in proportion to the numbers of ADSs sold in the offering by us and the selling shareholders, respectively, unless otherwise agreed upon between us and any of the selling shareholders.

LEGAL MATTERS

The validity of the ADSs and certain other legal matters as to New York law and U.S. federal law in connection with this offering will be passed upon for us by Latham & Watkins LLP. Certain legal matters as to New York law and U.S. federal law in connection with this offering will be passed upon for the underwriters by Davis Polk & Wardwell. The validity of the ordinary shares represented by the ADSs offered in this offering and certain other legal matters as to Cayman Islands law will be passed upon for us by Maples and Calder. Certain legal matters as to PRC law will be passed upon for us by Commerce & Finance Law Offices and for the underwriters by Haiwen & Partners. Certain legal matters relating to PRC patent laws will be passed upon for us by East Associates. Latham & Watkins LLP may rely upon Maples and Calder with respect to matters governed by Cayman Islands law and Commerce & Finance Law Offices with respect to matters governed by PRC law and East Associates with respect to matters relating to PRC patent laws. Davis Polk & Wardwell may rely upon Maples and Calder with respect to matters governed by Cayman Islands law, Haiwen & Partners with respect to matters governed by PRC law and East Associates with respect to matters relating to PRC patent laws.

EXPERTS

Our consolidated financial statements as of December 31, 2003 and 2004, and for each of the three years ended December 31, 2002, 2003 and 2004, included in this prospectus and registration statement have been audited by Ernst & Young, independent registered public accounting firm, as set forth in their report appearing herein and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The offices of Ernst & Young are located at 18/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We have filed with the SEC a registration statement on Form F-1, including relevant exhibits and securities under the Securities Act with respect to underlying ordinary shares represented by the ADSs, to be sold in this offering. We have also filed with the SEC a related registration statement on F-6 to register the ADSs. This prospectus, which constitutes a part of the registration statement, does not contain all of the information contained in the registration statement. You should read the registration statement on Form F-1 and its exhibits and schedules for further information with respect to us and our ADSs.

Immediately upon completion of this offering we will become subject to periodic reporting and other informational requirements of the Exchange Act as applicable to foreign private issuers. Accordingly, we will be required to file reports, including annual reports on Form 20-F, and other information with the SEC. All information filed with the SEC can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents, upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. You may also obtain additional information over the Internet at the SEC's website at www.sec.gov.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act. However, we intend to furnish the depositary with our annual reports, which will include a review of operations and annual audited 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 depositary 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 depositary from us.

CONVENTIONS THAT APPLY TO THIS PROSPECTUS

Unless we indicate otherwise, all information in this prospectus reflects the following:

- no exercise by the underwriters of their option to purchase up to additional ADSs representing ordinary shares; and
- conversion of all our outstanding preferred shares to our Class B ordinary shares immediately prior to the closing of this offering.

Except where the context otherwise requires and for purposes of this prospectus only:

- “we,” “us,” “our company,” “our,” and “Baidu” refer to Baidu.com, Inc., its predecessor entities and subsidiaries, and, in the context of describing our operations, also include Baidu Netcom, our affiliated Chinese entity;
- “user traffic” or “traffic” refers generally to page views and the reach of a website; when used in the context of Alexa.com website traffic rankings, “user traffic” refers to the geometric mean of the “page views” and the “reach” of a website averaged over a specified period of time; page views measure 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; reach measures the number of Internet users and is typically expressed as the percentage of all Internet users who visit a given website over a specified period of time;
- “China” or “PRC” refers to the People’s Republic of China, 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; “preferred shares” refers to and includes our Series A, Series B and Series C redeemable convertible preferred shares;
- “ADSs” refers to our American depositary shares, each of which represents one Class A ordinary share, and “ADRs” refers to the American depositary receipts that evidence our ADSs; and
- all references to “RMB” or “Renminbi” are to the legal currency of China and all references to “\$,” “dollars,” “US\$” and “U.S. dollars” are to the legal currency of the United States.

BAIDU.COM, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Baidu.com, Inc.

We have audited the accompanying consolidated balance sheets of Baidu.com, Inc. (the "Company") as of December 31, 2003 and 2004, and the related consolidated statements of operations, shareholders' deficit and cash flows for the years ended December 31, 2002, 2003 and 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated 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. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Baidu.com, Inc. as of December 31, 2003 and 2004 and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young
Hong Kong
April 29, 2005

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BAIDU.COM, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except number of shares and per share data)

	Notes	December 31,		
		2003	2004	2004
		RMB	RMB	US\$
ASSETS				
Current assets:				
Cash and cash equivalents		62,825	200,196	24,188
Accounts receivable, net of allowance for doubtful accounts of RMBnil, and RMB627 (US\$76) as of December 31, 2003 and 2004, respectively	3	1,891	9,645	1,165
Prepaid expenses and other current assets	4	938	2,421	292
Total current assets		65,654	212,262	25,645
Non-Current assets:				
Fixed assets – net	5	11,049	35,932	4,342
Intangible assets – net	6	-	12,953	1,565
Others		-	1,059	128
Total non-current assets		11,049	49,944	6,035
Total assets		76,703	262,206	31,680
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS’ DEFICIT				
Current liabilities:				
Accrued expenses and other liabilities	7	3,779	21,900	2,646
Customers’ deposits		8,400	25,990	3,140
Deferred revenue	8	7,460	6,302	762
Total current liabilities		19,639	54,192	6,548
Commitments	11			
Redeemable convertible preferred shares				
Series A, Par value US\$0.00005 per share; authorized, issued and outstanding 4,800,000 shares with aggregated amount of liquidation preference totaling RMB9,932	12	9,307	9,307	1,124
Series B, Par value US\$0.00005 per share; authorized, issued and outstanding 9,600,000 shares with aggregated amount of liquidation preference totaling RMB82,770	12	82,315	82,315	9,946
Series C, Par value US\$0.00005 per share; authorized, issued and outstanding 2,248,877 shares with aggregated amount of liquidation preference totaling RMB124,155	12	-	119,730	14,466
Shareholders’ deficit				
Ordinary shares, Par value US\$0.00005 per share; 853,751,123 shares authorized, 10,560,000 and 11,306,372 shares issued and outstanding as at December 31, 2003 and 2004	13	4	4	1
Additional paid-in capital		24,046	43,261	5,227
Statutory reserve		-	523	63
Accumulated losses		(58,608)	(47,126)	(5,695)
Total shareholders’ deficit		(34,558)	(3,338)	(404)
Total liabilities, redeemable convertible preferred shares and shareholders’ deficit		76,703	262,206	31,680

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

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BAIDU.COM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except number of shares and per share data)

	Notes	For the year ended December 31,			
		2002	2003	2004	2004
		RMB	RMB	RMB	US\$
Revenues:					
Online marketing services		4,292	31,775	106,854	12,910
Enterprise search software and related services		1,724	2,803	7,958	962
Portal search services		5,004	5,993	2,639	319
Total revenues		11,020	40,571	117,451	14,191
Less: Business tax and surcharges		(496)	(1,933)	(6,542)	(790)
Total net revenues		10,524	38,638	110,909	13,401
Operating costs and expenses:					
Cost of revenues		(9,519)	(20,703)	(32,985)	(3,985)
Selling, general and administrative		(11,930)	(16,930)	(39,004)	(4,713)
Research and development		(3,885)	(5,191)	(11,406)	(1,378)
Share-based compensation (1)		(4,233)	(5,109)	(16,510)	(1,995)
Total operating costs and expenses		(29,567)	(47,933)	(99,905)	(12,071)
Operating (loss) profit		(19,043)	(9,295)	11,004	1,330
Interest income		586	325	1,135	137
Other income (expense), net		(120)	85	347	42
Net (loss) income before tax		(18,577)	(8,885)	12,486	1,509
Taxation	9	-	-	(481)	(59)
Net (loss) income		(18,577)	(8,885)	12,005	1,450
Earnings per share:					
	15				
Basic		(2.44)	(0.87)	1.09	0.13
Diluted		(2.44)	(0.87)	0.43	0.05
Weighted average number of ordinary shares outstanding:					
	15				
Basic		7,622,378	10,188,850	10,983,478	10,983,478
Diluted		7,622,378	10,188,850	28,124,327	28,124,327
Pro forma earnings per share on an as converted basis (Unaudited) (Note 2):					
Basic				0.45	0.05
Diluted				0.43	0.05
Pro forma weighted average number of ordinary shares outstanding on an as converted basis (Unaudited) (Note 2):					
Basic				26,696,323	26,696,323
Diluted				28,124,327	28,124,327
(1) Share-based compensation expenses are allocated as follows:					
Cost of revenues		(313)	(648)	(1,665)	(201)
Selling, general and administrative		(3,055)	(2,669)	(11,720)	(1,416)
Research and development		(865)	(1,792)	(3,125)	(378)
		(4,233)	(5,109)	(16,510)	(1,995)

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

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BAIDU.COM, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”))

	For the years ended December 31,			
	2002	2003	2004	2004
	RMB	RMB	RMB	US\$
Cash flows from operating activities:				
Net (loss) income	(18,577)	(8,885)	12,005	1,450
Adjustments to reconcile net (loss) income to net cash generated from (used in) operating activities:				
Depreciation of fixed assets	3,062	4,888	8,893	1,075
Amortization of intangible assets	-	-	1,050	127
Write-off of fixed assets	120	-	143	17
Share-based compensation	4,233	5,109	16,510	1,995
Allowance for doubtful accounts	-	-	627	76
Change in operating assets and liabilities:				
Accounts receivable	591	(1,518)	(8,381)	(1,012)
Prepaid expenses and other assets	(40)	250	(1,483)	(179)
Customers’ deposits	1,933	6,265	17,590	2,125
Accrued expenses and other liabilities	509	1,580	10,713	1,294
Deferred revenue	365	5,013	(1,158)	(140)
Net cash (used in) generated from operating activities	(7,804)	12,702	56,509	6,828
Cash flows from investing activities:				
Acquisition of fixed assets	(3,668)	(6,402)	(25,415)	(3,071)
Acquisition of intangible assets	-	-	(11,905)	(1,438)
Capitalization of internal use software costs	(2,072)	(1,556)	(2,155)	(260)
Net cash (used in) investing activities	(5,740)	(7,958)	(39,475)	(4,769)
Cash flows from financing activities:				
Issuance of Series C convertible preferred shares	-	-	119,730	14,466
Proceeds from exercise of stock options	42	72	607	73
Net cash generated from financing activities	42	72	120,337	14,539
Net (decrease) increase in cash and cash equivalents	(13,502)	4,816	137,371	16,598
Cash and cash equivalents at the beginning of the year	71,511	58,009	62,825	7,590
Cash and cash equivalents at the end of the year	58,009	62,825	200,196	24,188
Supplemental cash flow information:				
Issuance of ordinary shares in purchase of intangible assets	-	-	2,098	254

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

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BAIDU.COM, INC.

CONSOLIDATED STATEMENTS OF CHANGES OF SHAREHOLDERS' DEFICIT

(Amounts in thousands of Renminbi ("RMB") and U.S. Dollars ("US\$"), except number of shares and per share data)

	Ordinary shares	Amount	Additional paid-in capital	Statutory reserve	Accumulated losses	Total shareholders' deficit
		RMB	RMB	RMB	RMB	RMB
Balance at December 31, 2001	10,560,000	4	14,590	-	(31,146)	(16,552)
Net loss	-	-	-	-	(18,577)	(18,577)
Exercise of stock options	-	-	42	-	-	42
Share-based compensation	-	-	4,233	-	-	4,233
Balance at December 31, 2002	10,560,000	4	18,865	-	(49,723)	(30,854)
Net loss	-	-	-	-	(8,885)	(8,885)
Exercise of stock options	-	-	72	-	-	72
Share-based compensation	-	-	5,109	-	-	5,109
Balance at December 31, 2003	10,560,000	4	24,046	-	(58,608)	(34,558)
Net income	-	-	-	-	12,005	12,005
Exercise of stock options	706,372	-	607	-	-	607
Issuance of shares for acquisition of intangible assets (Note 6)	40,000	-*	2,098	-	-	2,098
Share-based compensation	-	-	16,510	-	-	16,510
Transfer to statutory reserve	-	-	-	523	(523)	-
Balance at December 31, 2004	11,306,372	4	43,261	523	(47,126)	(3,338)
Balance at December 31, 2004, in US\$		1	5,227	63	(5,695)	(404)

* Amount less than RMB1

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

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BAIDU.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2003, and 2004

(Amounts in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except Share Data or unless otherwise indicated)

1. ORGANIZATION AND BASIS OF PRESENTATION

Baidu.com, Inc. (“Baidu.com” or the “Company”) was incorporated under the laws of the Cayman Islands on January 18, 2000. The Company offers Internet search solutions and online marketing solutions, develops and markets scaleable web application software and provides related services. The Company’s principal geographic market is in the Peoples Republic of China (“PRC”).

The Company does not conduct any substantive operations of its own and conduct its primary business operations through its wholly owned subsidiary Baidu Online Network Technology (Beijing) Co. Ltd (“Baidu Online”) and its variable interest entity (“VIE”) Baidu Netcom Science Technology Co. Ltd (“Baidu Netcom”).

Baidu Online was incorporated under the laws of the PRC on January 18, 2000 and Baidu Netcom was incorporated under the laws of the PRC on June 5, 2001.

Chinese laws and regulations prohibit or restrict foreign ownership of Internet content and advertising business. To comply with these foreign ownership restrictions, the Company operates its websites and provides online advertising services in the PRC through Baidu Netcom, a PRC legal entity, which was established in 2001 by members of the management, the chief executive officer and co-founder of the Company. The paid-in capital of Baidu Netcom was funded by the Company through a loan extended to the two individuals. The Company has entered into certain exclusive agreements with Baidu Netcom, which obligates the Company to absorb a majority of the risk of loss from Baidu Netcom’s activities and is entitled to receive a majority of its residual returns. In addition, the Company has entered into certain agreements with the two individuals including a loan agreement for the paid in capital of Baidu Netcom described above, an option agreement to acquire the shareholding in Baidu Netcom when permitted by the PRC laws, and a share pledge agreement for the shares in Baidu Netcom held by the two individuals.

Based on these contractual arrangements, the Company believes that Baidu Netcom should be considered as a Variable Interest Entity under FASB Interpretation No. 46R (“FIN 46R”), *Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51*, because the equity investors in Baidu Netcom do not have the characteristics of a controlling financial interest and the Company is the primary beneficiary of Baidu Netcom. Accordingly, the Company believes that Baidu Netcom should be consolidated under FIN 46R. The Company has early adopted FIN 46R which has been applied since 2001.

The Company’s consolidated assets do not include any collateral for Baidu Netcom’s obligations. The carrying amount of the total assets of Baidu Netcom as of December 31, 2004 was RMB9,507 and there was no pledge or collateral of its assets. Furthermore, creditors of Baidu Netcom have no recourse to the general credit of Baidu Online which is the primary beneficiary of Baidu Netcom.

The consolidated financial statements were prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company, its subsidiaries and a variable interest entity for which the Company is the primary beneficiary. All significant inter-company transactions and balances between the Company, its subsidiaries and its VIE are eliminated upon consolidation.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Convenience Translation

Translations of amounts from RMB into United States dollars for the convenience of the reader were calculated at the noon buying rate of US\$1.00 to RMB8.2765 on March 31, 2005 in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at such rate.

Foreign Currency

The Company and its subsidiaries and VIE determine their functional currencies based on the criteria of SFAS 52 *Foreign Currency Translation* and have determined their functional currency to be their respective local currency. 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 accumulated other comprehensive income as a component of shareholders' equity. 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 the Consolidated Statements of Operations.

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. Actual results could differ from these estimates.

Stock Split

On April 7, 2004, the Company effected a two for one stock split of the Company's ordinary shares and redeemable convertible preferred shares. All information relating to shares, options and per share amounts in these financial statements have been adjusted to reflect the stock split.

Cash and Cash Equivalents

The Company includes in cash and cash equivalents all short-term, highly liquid investments that mature within three months of their acquisition date. Cash equivalents consist principally of investments in interest-bearing demand deposit accounts and liquidity funds with financial institutions and are stated at cost, which approximates fair value.

The Company maintains cash and cash equivalents with various financial institutions mainly in the Cayman Islands, the PRC and the United States. The Company performs periodic evaluation of the relative credit standing of financial institutions that are considered in the Company's investment strategy.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets, net

Fixed assets are stated at cost and are depreciated or amortized using the straight-line method over the shorter of the estimated useful lives of the assets or the term of the related lease, as follows:

Leasehold improvements	- over lease terms
Computer equipment and servers	- 3 years
Internal use software development costs	- 3 years
Vehicles and office equipment	- 5 years

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterment that extend the useful life of fixed assets are capitalized as additions to the related assets. Retirement, sale 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 the Consolidated Statement of Operations.

Intangible assets

Intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated five-year economic life of the intangible asset.

The Company reviews and adjusts the carrying value of the intangible assets if the facts and circumstances suggest the intangible assets may be impaired. If the carrying value of an intangible asset is greater than its recoverable amount, an impairment loss will be recorded for the excess of its fair value, determined on a discounted cash flow basis, over the carrying value of the intangible asset.

Accounts Receivable and Other Receivables

Accounts receivable are recognized and carried at original invoiced amount less an allowance for any 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.

Allowance for Doubtful Accounts

The Company maintains allowances for doubtful accounts for estimated losses resulting from the failure of customers to make required payments. The Company reviews the accounts receivable on a periodic basis and makes general and specific allowances when there is doubt as to the collectibility of individual balances. In evaluating the collectibility of individual receivable balances, the Company considers many factors, including the age of the balance, customer’s historical payment history, its current credit-worthiness and current economic trends. General provision is made on the following basis:

<u>Number of days outstanding</u>	<u>% of provision</u>
<90	0%
91-120	10%
121-150	40%
151-180	70%
>180	100%

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Company recognizes revenue based on the following principles:

Online marketing services

(1) Auction-based pay-for-performance services

The Company’s auction-based pay-for-performance platform enables a customer to place its website link or other information on the Company’s search listing. The customers make bids to determine how much they are willing to pay for each click-through to their listings in the search results displayed on the Company’s website. The ranking of the customer’s listing in the search results depends on the amount of the customer’s bid. Customers pay cash to the Company to obtain Baidu Currency which is the medium of exchange that the customers use to bid for pay-for-performance services from Baidu.

While the Company operates and maintains the technology infrastructure for the pay-for-performance platform, it primarily relies on distributors to engage and serve customers and collect cash payments.

The amount of revenue recognized is based on the total amount of cash consideration received and not based on the amount of Baidu Currency provided. Revenue is recognized when an Internet user clicks on the customer-sponsored listing, there is persuasive evidence of an arrangement and the fee is fixed or determinable and collection is reasonably assured as prescribed by Staff Accounting Bulletin No. 104 (“SAB 104”).

Cash payments received in advance of pay-for-performance services are recorded as customer deposits. The distributors and customers are not entitled to any cash redemption for unused Baidu Currency units in their accounts with the Company.

The Company accounts for certain cash incentives provided to its qualified distributors as a reduction of revenue in accordance with EITF 01-9, Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor’s Products).

(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 our customers, the number of users registered with our customers, or the number of minimum click-throughs, revenue is recognized when the specified performance criteria are met together with satisfaction of other applicable revenue recognition criteria as prescribed by Staff Accounting Bulletin No. 104 (“SAB 104”) when there is persuasive evidence of an arrangement, delivery or services to be provided have been performed, fee is fixed or determinable and collection is reasonably assured. Payments received in advance of services provided are recorded as customer deposits.

(3) Time-based online advertising services

For time-based online advertising services such as text links, banners, or other forms of graphical advertisement, the Company recognizes revenue, in accordance with SAB 104, on a pro-rata basis over the contractual term commencing on the date the customer’s advertisement is available for viewing. For certain time-based contractual agreements, the Company may also provide certain performance guarantee, in which cases, revenue will only be recognized at the later of completion of time commitment and performance guarantee. Payments received in advance of services provided are recorded as customer deposits.

In cases where time-based online advertising services are provided without persuasive evidence of an arrangement, accounts receivable, together with deferred revenue, are recognized for the determinable

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (cont’d)

value, if available, of service provided. Revenue recognition is deferred until persuasive evidence of an arrangement is established.

(4) Online marketing services involving Baidu Union

Baidu Union is the program through which the Company expands distribution of its customers’ sponsored links or ads by leveraging traffic of the Baidu Union members’ websites. The Company makes payments to Baidu Union members for acquisition of traffic. The Company recognizes 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.

(5) Online marketing services arrangements with multiple elements

If a sales contract is entered into covering more than one product and the products are considered separate units of accounting in accordance with EITF 00-21, “Revenue Arrangements with Multiple Deliverables”, the total fee on such arrangements is allocated to the individual deliverables based on their relative fair values.

The Company has two types of online marketing services arrangements that may include multiple deliverables: P4P services and time based-online advertising services.

For certain P4P customers engaged through direct sales, the Company may be requested by customers to provide certain enhanced services for an annual service fee, which covers service activities relating to account set-up, account management, keywords suggestions and performance reporting. Such service fees represent value to customers in addition to standard P4P services which are charged on a per click basis. Pursuant to EITF 00-21, the annual services fees and click-through revenues are considered separate units of accounting. Annual service fees are recognized as revenue on a pro-rata basis over the service period of one year.

For time-based online advertising services, the Company may at times provide multiple advertising services in one or more contracts, which may be deemed as a single arrangement pursuant to EITF 00-21. The Company has accounted for such arrangements in accordance with EITF 00-21 whereby each of the advertising services are accounted for separately because i) it has standalone value since the Company has sold such services on an individual basis to other customers; ii) the fair values of the advertising services are objectively determinable based on actual sales transactions involving such services on a separate basis and iii) there is no general right of return for such services based on undelivered services. Accordingly, the Company allocates the total fee for such arrangements to each element of the advertising services based on their relative fair values and recognized revenue on a pro-rata basis over the respective service period.

(6) Barter transactions

Periodically, the Company engages in barter transactions and adopted the provisions of APB 29 — *Accounting for Nonmonetary Transactions*. Non-monetary 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 amount of revenues recognized for barter transactions was insignificant for each of the periods presented. In addition, the Company has not recognized any revenues for any of the periods presented relating to barter transactions involving advertising within the scope of EITF 99-17 — *Accounting for Advertising Barter Transactions*. The volume of such transactions is not significant.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (cont’d)

Enterprise search software and related services

The Company recognizes revenue from software and related customer support services in accordance with Statement of Position 97-2 (“SOP 97-2”), *Software Revenue Recognition* and Statement of Position 98-9 (“SOP 98-9”), *Modification of SOP 97-2 with respect to Certain Transactions*.

Software revenue is recognized under SOP 97-2 when persuasive evidence of an arrangement exists, when all elements essential to the functionality of the software including installation and training are delivered in accordance with the terms and conditions of the customer contract, when the fee is fixed or determinable, and when collection is reasonably assured.

The Company’s enterprise search product and services are generally sold as part of a contract involving software license, maintenance and training elements. They may also be sold in separate contracts. For arrangements involving multiple elements, the Company allocates revenue to each element based on vendor specific objective evidence of relative fair values, when and if available, which are derived by allocating a value to each element that is based upon the prices charged when the element is sold separately. If the Company does not have vendor specific objective evidence to support the fair value of its multiple element arrangements, revenue recognition is deferred until all elements have been delivered or until fair value can be objectively determined for any of the remaining undelivered elements. When the fair value of a delivered element has not been established, the Company uses the residual method to record revenue if the fair value of all undelivered elements is determinable. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue. If the only undelivered element is post contract services (“PCS”) for which fair value cannot be established, the entire fee should be recognized ratably over the term of the PCS arrangement. Payments received or receivable prior to meeting the above revenue recognition criteria are recorded as deferred revenue.

Revenue is recognized net of value added tax (“VAT”) payable to, but includes the benefit of the rebate of VAT on sale of enterprise search software received or receivable from, the Chinese tax authorities as part of the People’s Republic of China (the “PRC”) government’s policy of encouraging software development in the PRC. Sales of products in the PRC are subject to a 17% VAT. Companies that fulfill certain criteria set by the relevant authorities are entitled to a refund of VAT equivalent to the excess over 3% of contracted amount paid in the month when output VAT exceeds input VAT. Such VAT rebate is recorded on an accrual basis. The VAT rebate was RMB604 for the year ended December 31, 2004 (2003 - RMB656; 2002 - RMB182).

Portal search services

Portal search services are generally recognized ratably over the service period when there is persuasive evidence of an arrangement, the fees are fixed or determinable, the services have been performed and collection is reasonably assured in accordance with SAB 104.

Cost of Revenues

Cost of revenues consists primarily of traffic acquisition costs, bandwidth costs, depreciation, payroll and related costs of operations. Traffic acquisition costs represent the amounts paid or payable to Baidu Union websites from which the Company generates revenues. These payments are primarily based on revenue

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cost of Revenues (cont’d)

sharing arrangements under which the Company pays its Baidu Union members a percentage of the fees it earns from its online marketing customers. The Company recognizes traffic acquisition costs either based on the number of click-throughs or other volume metrics or on a ratable basis over the fixed term of the contractual arrangements.

Capitalization of Software Developed for Internal Use

The Company has capitalized certain internal use software development costs in accordance with SOP 98-1 *Accounting for the Costs of Computer Software Developed or obtained for internal use*, totaling RMB2,156 in 2004 (2003 - RMB1,556; 2002 - RMB2,071). These mainly include payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal use software project. The estimated useful life of software development costs is determined to be three years. The amortization expense for capitalized costs totaled approximately RMB1,328 (2003 - RMB718; 2002 - RMB41). Capitalized internal use software costs are included in fixed assets, net.

Advertising expenditure

Advertising costs, primarily advertisements through media publications, are included in “Selling, general and administrative expense” and are expensed when incurred. Advertising expense for the years ended December 31, 2004 were RMB2,998 (US\$362) (2003 - RMB nil; 2002 - RMB nil).

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial reporting and tax bases of assets and liabilities using enacted tax rates that will be in effect for the period in which the differences are expected to reverse. The Company records a valuation allowance against the amount of deferred tax assets that it determines is not more likely than not of being realized. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

Comprehensive income (loss)

Comprehensive income (loss) is defined as the change in equity of the Company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. Comprehensive income (loss) is reported in the statements of changes of shareholders’ deficit. Accumulated other comprehensive income of the Company represents the cumulative foreign currency translation adjustment which, to date, has not been significant.

Share-based Compensation

The Company accounts for share-based compensation arrangements with employees in accordance with the provisions of Accounting Principles Board Opinion No. 25 “*Accounting for Stock Issued to Employees*” (“APB No. 25”) and related interpretations thereof. Under APB No. 25, compensation cost for fixed awards is, in general, recognized based on the excess, if any, of the fair market value of the Company’s stock on the

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based Compensation (cont’d)

date of grant over the exercise price. Compensation cost is amortized over the vesting period of the related options. In addition, the Company complies with disclosure provisions of Statement of Financial Accounting Standard No. 123, *Accounting for Share-based Compensation*, (“SFAS 123”) as amended by Statement of Financial Accounting Standard No. 148 *Accounting for Share-based Compensation — Transition and Disclosure* (“SFAS 148”). Share-based compensation arrangements with non-employees are accounted for using the fair value method. The fair values of ordinary shares on the dates of stock option grants were determined by management based on valuation prepared by an independent appraiser, American Appraisal China Limited, the issuance of preferred shares or ordinary shares to independent third parties for cash, consideration of significant milestones achieved by the Company and other market considerations.

The Company determines the value of the options granted to non-employees using the Black-Scholes option pricing model using the following assumptions: 100% volatility, no dividends, risk-free interest rate of 2.79% to 3.6%, and an expected life of 3 years. For the years ended December 31, 2002, 2003 and 2004, the Company recognized approximately RMB411, RMB485 and RMB2,908 (US\$351) of share-based compensation expenses related to the fair value of options granted to non-employees.

Pro forma disclosure under SFAS No. 123

SFAS No.123 requires that pro forma net income (loss) and pro forma earnings (loss) per share be determined as if the Company had accounted for its employee share options granted under the fair value method. The fair value of these options was estimated using the Black-Scholes option pricing model.

The Company calculated the fair value of each option grant on the date of grant using the Black-Scholes option pricing model using the following assumptions:

	2002	2003	2004
Risk free interest rate	2.79%	2.79%	3.60%
Expected life (years)	3	3	3
Volatility	0%	0%	0%
Dividend yield	0%	0%	0%

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**Pro forma disclosure under SFAS No. 123 (cont’d)**

Had compensation cost been determined based upon the fair value approach using the variables disclosed above, the Company’s pro forma net income (loss) and pro forma earnings (loss) per share would have been:

	2002	2003	2004	2004
	RMB	RMB	RMB	US\$
Net (loss) income, as reported	(18,577)	(8,885)	12,005	1,450
Add: Share-based compensation expense for employees included in reported net loss, net of related tax effects	2,234	4,386	13,602	1,644
Deduct: Total share-based compensation expense for employees determined under fair value method, net of related tax effects	(2,360)	(4,508)	(14,732)	(1,780)
Pro forma net (loss) income	(18,703)	(9,007)	10,875	1,314
Basic net (loss) income per share				
As reported	(2.44)	(0.87)	1.09	0.13
Pro forma	(2.45)	(0.88)	0.99	0.12
Diluted net (loss) income per share				
As reported	(2.44)	(0.87)	0.43	0.05
Pro forma	(2.45)	(0.88)	0.39	0.05

Leases

Leases have been classified as either capital or operating leases. Leases which transfer substantially all the benefits and risks incidental to the ownership of assets are accounted for 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.

Unaudited pro forma earnings per share

Unaudited pro forma basic and diluted earnings per share is computed by dividing net income by weighted average number of ordinary shares outstanding for the period plus the number of ordinary shares resulting from the assumed conversion upon the closing of the initial public offering of all of the outstanding redeemable convertible preferred shares as if the conversion had occurred at the beginning of the period, or when the shares were issued, if later.

Recent Accounting Pronouncements

On December 16, 2004, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 123(R) (“SFAS 123(R)”), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Share-based Compensation*. SFAS 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* (“APB 25”), and amends FASB Statement No. 95, *Statement of Cash Flows*. Generally, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative to fair value accounting.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements (cont’d)

SFAS 123(R) must be adopted no later than July 1, 2005. Early adoption will be permitted in periods in which financial statements have not yet been issued.

SFAS 123(R) permits public companies to adopt its requirements using one of two methods:

1. A “modified prospective” method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS 123 for all awards granted to employees prior to the effective date of SFAS 123(R) that remain unvested on the effective date.
2. A “modified retrospective” method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

The Company plans to adopt SFAS 123 (R) using the modified prospective method.

As permitted by SFAS 123, the company currently accounts for share-based payments to employees using APB 25’s intrinsic value method. Accordingly, the adoption of SFAS 123(R)’s fair value method will have a significant impact on our result of operations, although it will have no impact on our overall financial position. The impact of adoption of SFAS 123(R) cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 14 to our consolidated financial statements before taking into account the volatility factor as required by FAS 123(R).

In December 2004, the FASB issued SFAS No. 153, “Exchanges of Nonmonetary Assets — An Amendment of APB Opinion No. 29, Accounting for Nonmonetary Transactions” (“SFAS 153”). SFAS 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, “Accounting for Nonmonetary Transactions,” and replaces it with an exception for exchanges that do not have commercial substance. SFAS 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS 153 is effective for the fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 153 to have a material effect on its results of operations or financial condition.

Concentration of Risks

Concentration of Credit Risk

Financial instruments that potentially subject the Company to significant concentration of credit risk primarily of cash and cash equivalents and accounts receivable. As of December 31, 2004, substantially all of the Company’s cash and cash equivalents were managed by financial institutions. Accounts receivable are typically unsecured and are derived from revenue earned from customers in China. The risk with respect to accounts receivables is mitigated by credit evaluations we perform on our customers and ongoing monitoring process on outstanding balances.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Concentration of Risks (cont’d)

Current vulnerability due to certain other concentrations

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; competitive pressures due to excess capacity or price reductions; advances and new trends in new technologies and industry standards; changes in bandwidth suppliers; changes in certain strategic relationships or customer relationships; regulatory or other factors; risks associated with the ability to obtain necessary raw materials; and risks associated with the Company’s ability to attract and retain employees necessary to support its growth.

The Company’s operations may be adversely affected by significant political, economic and social uncertainties in the PRC. Although the PRC government has been pursuing economic reform policies for more than 20 years, no assurance can be given that the PRC government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership, social or political disruption or unforeseen circumstances affecting the PRC’s political, economic and social conditions. There is also no guarantee that the PRC government’s pursuit of economic reforms will be consistent or effective.

Substantially all of the Company’s businesses are transacted in RMB, which is not freely convertible into foreign currencies. On January 1, 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted daily by the People’s Bank of China. However, the unification of the exchange rates does not imply the convertibility of RMB into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People’s 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 institutions requires submitting a payment application form together with suppliers invoices, shipping documents and signed contracts.

3. ACCOUNTS RECEIVABLE

	December 31,		
	2003	2004	2004
	RMB	RMB	US\$
Accounts receivable	1,891	10,272	1,241
Less: Allowance for doubtful accounts	-	(627)	(76)
	<u>1,891</u>	<u>9,645</u>	<u>1,165</u>

	December 31,			
	2002	2003	2004	2004
	RMB	RMB	RMB	US\$
Movements in allowance for doubtful accounts are as follows:				
Balance at the beginning of the year	-	-	-	-
Charged to costs and expenses	-	-	627	76
Balance at the end of the year	<u>-</u>	<u>-</u>	<u>627</u>	<u>76</u>

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4. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31,		
	2003	2004	2004
	RMB	RMB	US\$
Deposits	387	1,251	151
Prepaid expenses	96	179	22
Advances to suppliers	21	491	59
Interest receivables	207	189	23
Other assets	227	311	37
	<u>938</u>	<u>2,421</u>	<u>292</u>

5. FIXED ASSETS - NET

Fixed assets consist of the following:

	December 31,		
	2003	2004	2004
	RMB	RMB	US\$
Leasehold improvements	117	1,774	214
Computer equipment and servers	15,983	43,924	5,307
Internal use software capitalized costs	3,627	5,783	699
Office equipment	795	2,345	283
Motor vehicles	773	773	94
	<u>21,295</u>	<u>54,599</u>	<u>6,597</u>
Less: Accumulated depreciation	<u>(10,246)</u>	<u>(18,667)</u>	<u>(2,255)</u>
	<u>11,049</u>	<u>35,932</u>	<u>4,342</u>

6. INTANGIBLE ASSETS - NET

In August 2004, Baidu Online entered into a sales and purchase agreement to acquire intangible assets comprising primarily of several internet website domain names. In accordance with the agreement, Baidu paid a total consideration comprising of 40,000 ordinary shares of Baidu.com Inc., with an estimated fair value of RMB2,098 (US\$254) based on third party transactions and RMB11,905 (US\$1,438) in cash. In addition, Baidu is obligated to pay an additional RMB1,200 (US\$145) if certain traffic statistics relating to the acquired domain names are met within a 12 month period following the acquisition date. The contingent payment consideration has not been recorded.

Intangible assets consist of the following:

	December 31,		
	2003	2004	2004
	RMB	RMB	US\$
Domain name	-	14,003	1,692
Less: Accumulated amortization	-	(1,050)	(127)
	<u>-</u>	<u>12,953</u>	<u>1,565</u>

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6. INTANGIBLE ASSETS - NET (continued)

The amortization expense for the year ended December 31, 2004 was RMB1,050 (US\$127). The estimated amortization expense for the next five years is as follows:

	RMB	US\$
For the year ending December 31,		
2005	2,801	338
2006	2,801	338
2007	2,801	338
2008	2,801	338
2009	1,749	213

7. ACCRUED EXPENSES AND OTHER LIABILITIES

The components of accrued expenses and other liabilities are as follows:

	December 31,		
	2003	2004	2004
	RMB	RMB	US\$
Accrued payroll	940	3,439	416
Accrued operating expenses	366	3,973	480
Tax payables	889	1,684	203
Distributors’ deposit	-	591	71
Other payables – purchase of fixed assets	-	6,349	767
Other payables – traffic acquisition costs	900	1,930	233
Other payables – deferred offering expenses	-	1,059	128
Other payables – others	684	2,875	348
	<u>3,779</u>	<u>21,900</u>	<u>2,646</u>

8. DEFERRED REVENUE

Deferred revenue consists of the following:

	December 31,		
	2003	2004	2004
	RMB	RMB	US\$
Deferred portal search service revenue	1,428	1,002	121
Deferred software and related service revenue	6,032	5,300	641
	<u>7,460</u>	<u>6,302</u>	<u>762</u>

9. INCOME TAXES

The Company is a tax exempted company incorporated in the Cayman Islands and conducts substantially all of its business through its PRC subsidiary, Baidu Online and its PRC variable interest entity, Baidu Netcom, which are generally subject to a 30% state enterprise income tax (“EIT”) and a 3% local income tax.

Baidu Online is governed by the Income Tax Law of the PRC concerning Foreign Investment and Foreign Enterprises (the “Income Tax Law”). Under income tax law, foreign invested enterprises satisfying certain criteria and can enjoy preferential tax treatments. Since Baidu Online, has obtained the status of a “new or

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9. INCOME TAXES (continued)

technology enterprise”, is registered and operating in the Beijing Zhongguancun Science Park; it is entitled to enjoy a reduced income tax rate of 15% upon expiry of tax holiday, as well as exemption from local income tax. In addition, Baidu Online was granted a “tax holiday” for exemption of EIT for three years starting from 2000 and was entitled to a 50% tax reduction (at 7.5%) for the succeeding three years beginning from 2003.

As a PRC domestic company, Baidu Netcom, is governed by the Enterprise Income Tax Laws of the PRC and is subject to enterprise income tax at a rate of 33%.

The Company had minimal operations in jurisdictions other than the PRC. (Loss) income before income taxes consists of:

	For the year ended December 31			
	2002	2003	2004	2004
	RMB	RMB	RMB	US\$
Cayman Islands	(3,952)	(5,269)	(18,165)	(2,195)
PRC	(13,769)	(3,078)	31,250	3,776
Others	(856)	(538)	(599)	(72)
	<u>(18,577)</u>	<u>(8,885)</u>	<u>12,486</u>	<u>1,509</u>

The benefit from (provision) for taxes on (loss) income from continuing operations was as follows for the years ended December 31, 2002, 2003 and 2004:

Current:				
Cayman Islands	-	-	-	-
PRC	-	-	(481)	(59)
Deferred:				
Cayman Islands	-	-	-	-
PRC	-	-	-	-
Total benefit	<u>-</u>	<u>-</u>	<u>(481)</u>	<u>(59)</u>

The reconciliation of tax computed by applying respective statutory income tax rate to pre-tax income is:

	For the year ended December 31			
	2002	2003	2004	2004
	RMB	RMB	RMB	US\$
Income tax computed at respective statutory tax rates	4,544	1,016	(10,313)	(1,246)
Add: Tax holiday for a PRC subsidiary	(3,278)	(898)	6,490	783
Add: Non-deductible expenses	(324)	(267)	(435)	(53)
Less: Non-taxable income	60	217	199	24
Less: Tax incentive*	-	-	2,116	256
Changes in valuation allowance against deferred tax asset	(1,002)	(68)	1,462	177
	<u>-</u>	<u>-</u>	<u>(481)</u>	<u>(59)</u>

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9. INCOME TAXES (continued)

Earnings per share effect of tax holiday for the year ended December 31, 2004 amounts to RMB0.59 (US\$0.07) (2003 - (RMB0.09); 2002 - (RMB0.43)).

* Subject to the approval of the PRC tax authorities, Baidu Online can enjoy an additional tax incentive relating to its research and development expenses. Should its research and development expenses increase by 10% or more when compared to last year and 50% of research and development expenses is higher than the current year's taxable liability, the Company can claim an additional tax deduction which amounts to 50% of the current year's research and development expenses. The amount that exceeds current year's tax liability cannot be brought forward for next year's utilization.

The principal components of deferred income tax assets are as follows:

	December 31,		
	2003	2004	2004
	RMB	RMB	US\$
Net operating loss carry forward	1,386	-	-
Fixed assets	101	323	39
Deferred revenue	560	311	38
Others	151	102	12
	2,198	736	89
Valuation allowance	(2,198)	(736)	(89)
	-	-	-

10. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full time employees of subsidiaries of the Company 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 subsidiaries of the Company 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 made. The total amounts for such employee benefits, which were expensed as incurred, were RMB3,775 (US\$456) for the year ended December 31, 2004 (2003 - RMB1,973; 2002 - RMB816).

11. COMMITMENTS***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 under all operating leases was RMB2,965 (US\$358) for the year ended December 31, 2004 (2003 - RMB1,724; 2002 - RMB1,734).

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11. COMMITMENTS (continued)

Operating lease commitments (cont’d)

Future minimum payments under non-cancelable operating leases with initial terms of one-year or more consist of the following at December 31, 2004:

	RMB	US\$
As of December 31,		
2005	16,633	2,010
2006	5,023	607
2007	3,695	446
2008	1,560	188
	26,911	3,251

12. REDEEMABLE CONVERTIBLE PREFERRED SHARES

Preferred shares as at December 31, 2002 and 2003 consisted of the following:

Series	Shares Authorized And Outstanding	Liquidation Amount		Proceeds Net of Issuance Costs	
		RMB	US\$	RMB	US\$
A	4,800,000	9,932	1,200	9,307	1,124
B	9,600,000	82,770	10,000	82,315	9,946

Preferred shares as at December 31, 2004 consisted of the following:

Series	Shares Authorized And Outstanding	Liquidation Amount		Proceeds Net of Issuance Costs	
		RMB	US\$	RMB	US\$
A	4,800,000	9,932	1,200	9,307	1,124
B	9,600,000	82,770	10,000	82,315	9,946
C	2,248,877	124,155	15,000	119,730	14,466

The holders of preferred shares have various rights and preferences as follows:

Redemption

All Series A, Series B and Series C preferred shares are redeemable upon a change in control or sale of substantially all of the assets of the Company at a redemption price equal to the liquidation preferences as described above.

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12. REDEEMABLE CONVERTIBLE PREFERRED SHARES (continued)

Dividends

Subject to the Company’s Memorandum and Articles of Association, in the event that the directors resolve to declare any dividend, the holders of preferred shares shall be entitled to receive dividends in priority to a payment of any dividend to the holders of ordinary shares (the “preferential dividend”). Funds available for the preferential dividend shall be paid out proportionately to the holders of the preferred shares at a rate of 8% per annum on their respective original investment amounts until each such holder has received the full preferential dividend to which it is entitled, then proportionately to the holders of the ordinary shares. Dividends shall be non-cumulative.

Conversion

Each share of Series A, B and C preferred shares is convertible, at the option of the holder, to ordinary share. Each preferred share shall initially be converted into one ordinary share. The conversion rate is subject to future dilution adjustments. The preferred shares shall automatically be converted into ordinary shares of the Company upon 1) the closing of an underwritten public offering of ordinary shares of the Company, at a public offering price reflecting a valuation of the Company on a fully diluted basis of not less than US\$215 million and resulting in a gross proceeds to the Company of not less than US\$20 million; or 2) the written consent of at least two-thirds of the holders of the preferred shares voting as a class.

The ordinary shares that will be issued upon conversion of all convertible preferred shares as of December 31, 2004 would be 16,648,877.

Voting

Holders of preferred shares have the rights to receive notice of, attend, speak and vote at a general meeting. Each holder is entitled to exercise the number of votes which he would have been entitled to exercise if all the preferred shares held by him had been converted into ordinary shares immediately before the holding of the general meeting at the conversion rate then in effect.

Appointment of Directors

Two directors shall be elected by the holders of a majority of the Series A preferred shares, voting separately as a class. Two directors shall be elected by the holders of a majority of the Series B preferred shares, voting separately as a class. One director shall be the chief executive officer of the Company (the “Fifth Director”). Holders of the Series C preferred shares shall not have the right to elect any Director.

Liquidation

In the event of any liquidation, dissolution or winding-up of the Company, including merger, consolidation or reorganization of the Company into or with another company in which the members of the Company own less than 50% of the voting securities of the surviving company, or any transaction or series of related transactions in which greater than 50% of the Company’s voting power is transferred or the sale, transfer or lease of all or substantially all the assets of the Company, the holders of Series A, B and C preferred shares are entitled to receive an amount equal to the original purchase price per share, plus any declared but unpaid dividends prior to and in preference to any distribution to the holders of ordinary shares. After payment to the holders of the preferred shares of the full amount to which they are entitled, the remaining assets shall be

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12. REDEEMABLE CONVERTIBLE PREFERRED SHARES (continued)

Liquidation (cont’d)

distributed pro rata to all holders of the ordinary shares on an as-converted basis assuming that all preferred shares have been converted to the ordinary shares. If the Company’s assets are insufficient to satisfy the liquidation preferences, then these assets shall be distributed ratably in proportion to the liquidation preference of the preferred shares.

No adjustment is made to accrete for the difference between the carrying amounts of the preferred shares and their liquidation amounts as management considered the redemption not probable at December 31, 2004. When it is probable that the preferred shares are redeemable, the Company will recognize the difference between the carrying amounts of the preferred shares and their liquidation amounts immediately as they occur and adjust the carrying value of the preferred shares to equal their redemption value.

Restriction

The Company shall not undertake any of following actions without the prior written consent of (a) the holders of more than 50% of the Series A preferred shares if at least 1,200,000 Series A preferred shares remain outstanding, (b) the holders of more than 50% of the Series B preferred shares if any Series B preferred shares remain outstanding, and (c) the holders of more than 50% of the Series C preferred shares remain outstanding:

- (i) Transfer control of more than 50% of the voting shares of the Company;
- (ii) Sell all or substantially all of the assets of the Company;
- (iii) Change capital of the Company, or dispose of the Company’s interest in any subsidiary or associate company;
- (iv) Liquidate, wind up or dissolve the Company, provided that consent of the holders of preferred shares shall not be unreasonably withheld if the Company is insolvent;
- (v) Authorize, create or issue shares of any class of shares with rights senior to or in parity with the preferred shares;
- (vi) Reclassify any outstanding shares into shares having preferences or priority as to dividends or assets senior to or in parity with the preferred shares;
- (vii) Repurchase ordinary shares, except on termination of employment of the employees of the Company who hold ordinary shares subject to vesting;
- (viii) Increase the number of authorized shares of the preferred shares;
- (ix) Amend or change the rights and preferences of the preferred shares;
- (x) Increase the number of directors above five directors.

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13. ORDINARY SHARES

The Company’s Memorandum and Articles of Association, as amended, authorizes the Company to issue 853,751,123 shares with a nominal or par value of US\$0.00005 each share.

In conjunction with the issuance of the Series A preferred shares, the then shareholders of the ordinary shares (the “Founders”) signed a founders’ restricted share agreement on February 23, 2000. According to the agreement, the Founders agreed to grant the Company the right to repurchase their respective ordinary shares in the Company totaling 9,240,000 ordinary shares from them at the original purchase price paid to the Company should any of the two Founders ceases to be an employee of the Company. The right is exercisable at any time during the 120-day period following the date the relevant shareholder ceases to be an employee. The repurchase right would lapse, in respect of the shares, over 42 equal monthly instalments or upon the closing of the first public offering of the ordinary shares with an aggregate offering price to the general public of not less than US\$7,500 at a per share offering price of at least US\$3.75 per share. The repurchase right lapsed in August 2003.

The Company accounted for the repurchase right as a recapitalization similar to a reverse stock split, followed by the grant of restricted stock awards under a fixed plan. Compensation is measured under APB 25 based on the difference between the fair value of the ordinary shares on February 23, 2000 and the repurchase price and is accrued over the vesting period. The compensation charge for the years ended December 31, 2002 and 2003 amounted to RMB1,588 and RMB238, respectively.

14. STATUTORY RESERVE

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, Baidu Online, being a foreign invested enterprise established in China, is required to provide for certain statutory reserves, namely general reserve, enterprise expansion fund and staff welfare and bonus fund which are appropriated from net profit as reported in their PRC Statutory Accounts. Baidu Online, being a wholly foreign owned enterprise, is required to allocate at least 10% of its after-tax profit to the general reserve until such reserve has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus fund are at the discretion of the board of directors of Baidu Online. These reserves can only be used for specific purposes and are not distributable as cash dividends. Appropriations to the staff welfare and bonus fund are charged to selling, general and administrative expenses.

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15. EARNINGS PER SHARE

Income (loss) per share is computed in accordance with SFAS No. 128 — *Earnings per Share* (“SFAS 128”). Under SFAS 128, income (loss) per share is calculated using the weighted average number of Ordinary Shares outstanding during the year.

The effect of the Company’s dilutive securities were not included in the computation of diluted loss per share for the years ended December 31, 2002 and 2003 because their inclusion would have been anti-dilutive. The Company’s dilutive securities are consisted of outstanding share options and redeemable convertible preferred shares. As of December 31, 2002 and 2003, outstanding share options amounted to 1,830,728 and 1,947,728, respectively. In addition, the Company had 14,400,000 redeemable convertible preferred shares issued as of December 31, 2002 and 2003.

	December 31			
	2002	2003	2004	2004
	RMB	RMB	RMB	US\$
Numerator:				
Net (loss)	(18,577)	(8,885)	12,005	1,450
Denominator:				
Weighted average of issued shares outstanding-basic	7,590,000	10,046,667	10,914,333	10,914,333
Options exercised but related shares not yet issued	32,378	142,183	69,145	69,145
Weighted average shares outstanding-basic	7,622,378	10,188,850	10,983,478	10,983,478
Effect of dilutive securities				
Employee share options	—	—	1,428,004	1,428,004
Redeemable convertible preferred shares	—	—	15,712,845	15,712,845
Total effect of dilutive securities	—	—	17,140,849	17,140,849
Denominator used for diluted earnings per share	7,622,378	10,188,850	28,124,327	28,124,327
Basic earnings per share	(2.44)	(0.87)	1.09	0.13
Diluted earnings per share	(2.44)	(0.87)	0.43	0.05

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15. EARNINGS PER SHARE (continued)

	Pro forma (Unaudited)	
	December 31	
	2004	2004
	RMB	US\$
Numerator:		
Net (loss)/income	12,005	1,450
Denominator:		
Weighted average of issued shares outstanding-basic	26,627,178	26,627,178
Options exercised but related shares not yet issued	69,145	69,145
Weighted average shares outstanding-basic	26,696,323	26,696,323
Effect of dilutive securities		
Employee share options	1,428,004	1,428,004
Denominator used for diluted earnings per share	28,124,327	28,124,327
Basic earnings per share	0.45	0.05
Diluted earnings per share	0.43	0.05

As of December 31, 2002, 2003 and 2004, share options that were exercised but the underlying ordinary shares of which were not yet issued amounted to 52,916, 201,494 and 220,249, respectively. Proceeds received upon exercise of these share options totaled to be RMB42, RMB72 and RMB321 for 2002, 2003 and 2004 respectively and have been recorded in the Company’s additional paid in capital. In May 2004, the Company issued ordinary shares in connection with the above mentioned share options outstanding as of December 31, 2002 and 2003. For share options that were exercised but underlying shares of which had not been issued as of December 31, 2004, the Company is in the process of registering such shares in its register of members.

For the purposes of calculating the Company’s basic and diluted earnings per share, the ordinary shares relating to the above-mentioned options that were exercised are assumed to have been outstanding from the date of exercise of such options.

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16. SHARE OPTION PLAN

In January 2000, the Company adopted the 2000 Share Option Plan (the “Plan”). The Plan provides for the granting of share options to employees and consultants of the Company. Options granted under the Plan may be either incentive share options or nonqualified share options. Incentive share options (“ISO”) may be granted only to Company employees (including officers and directors who are also employees). Nonqualified share options (“NSO”) may be granted to Company employees and consultants. The Company has reserved 5,040,000 ordinary shares for issuance under the Plan. The Plan expires in ten years.

To date, options granted generally vest over 25% after the first year of service and ratably each month over the remaining 36-month period.

The following table summarizes option activity:

	<u>Share Option</u>	<u>Exercise Price Range</u>	<u>Weighted-Average Exercise Price</u>
Balance, December 31, 2001	1,236,328	US\$0.025 – 0.20	US\$0.11
Granted	824,400	US\$0.025 – 0.20	US\$0.18
Exercised	(25,416)	US\$0.20	US\$0.20
Forfeited	(204,584)	US\$ 0.20	US\$0.20
Balance, December 31, 2002	1,830,728	US\$0.025 – 0.20	US\$0.13
Granted	464,000	US\$0.20	US\$0.20
Exercised	(148,578)	US\$0.025 – 0.20	US\$0.06
Forfeited	(198,422)	US\$0.025 – 0.20	US\$0.14
Balance, December 31, 2003	1,947,728	US\$0.025 – 0.20	US\$0.15
Granted	1,253,588	US\$ 0.20 – 5.50	US\$4.27
Exercised	(725,127)	US\$0.025 – 0.20	US\$0.10
Forfeited	(104,037)	US\$ 0.20 – 5.50	US\$1.38
Balance, December 31, 2004	2,372,152	US\$0.025 – 5.50	US\$2.29

There were share options exercised but the underlying ordinary shares were not yet issued included in the above table. Please refer to Note 15 for details.

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16. SHARE OPTION PLAN (continued)

The following table summarizes the information for share options granted during the 12 months ended December 31, 2004:

Grant date	Number of options	Exercise price (US\$)	Fair value of the common stock
01/01/2004	4,000	0.2	5.0
01/05/2004	2,000	0.2	5.0
01/14/2004	2,000	0.2	5.0
01/15/2004	40,000	2.5	5.0
01/16/2004	4,000	2.5	5.0
01/28/2004	6,000	2.5	5.0
02/01/2004	2,000	2.5	5.3
02/05/2004	2,000	2.5	5.3
04/01/2004	200,000	2.5	5.8
04/03/2004	25,000	2.5	5.8
04/07/2004	78,000	2.5	5.8
06/08/2004	11,000	4.5	6.3
07/14/2004	89,500	4.5	6.3
07/15/2004	322,488	4.5	6.3
10/19/2004	465,600	5.5	6.9

The determination of the fair value of the Company’s ordinary shares for stock based compensation purposes was a combination of retrospective third party valuations performed on the Company’s ordinary shares as of January 1, 2003 and January 18, 2005 by American Appraisal China Limited and third party cash transactions of the Company’s ordinary shares and Series C Preferred Shares during 2004.

In accordance with its 2000 stock option plan, the contractual life of non-qualified stock options shall be no more than ten years from the date of grant. In case of incentive stock options, the contractual life shall be five years from the date of grant. The term of each award is stated in the respective award agreement. Presented below is a summary of the Group’s outstanding stock options as of December 31, 2004:

Exercise Prices	<-----Vested Options----->		<-----Unvested Options----->	
	Number outstanding at December 31, 2004	Weighted-average remaining contractual life	Number unvested at December 31, 2004	Weighted average remaining contractual life
US\$0.025	80,000	0.4 years	-	-
US\$0.05	42,000	0.5 years	-	-
US\$0.20	578,127	1.9 years	473,438	3.1 years
US\$2.50	25,000	4.3 years	290,000	4.3 years
US\$4.50	11,000	4.4 years	411,987	4.5 years
US\$5.50	-	-	460,600	5.4 years
	736,127		1,636,025	

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16. SHARE OPTION PLAN (continued)

The table below summarized the weighted average fair value and exercise price of the share options granted during the year.

	<u>2002</u>	<u>2003</u>	<u>2004</u>
	US\$	US\$	US\$
Weighted average grant-date fair value of share options granted during the year:			
Where exercise price is lower than market price	0.97	3.56	2.66
Weighted average exercise price of share options granted during the year:			
Where exercise price is lower than market price	0.18	0.20	4.27

17. SEGMENT REPORTING

In accordance with SFAS131, “*Disclosures about segments of an Enterprise and Related Information*,” the Company’s chief operating decision maker reviews consolidated results of operations when making decisions about allocating resources and assessing performance of the Company; hence, the Company has only one operating segment. The Company has internal reporting that does not distinguish between markets or segments.

The Company’s long lived assets and revenue are substantially all located in and derived from the PRC.

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BAIDU.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2003, and 2004

(Amounts presented in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except Share Data or unless otherwise indicated)

18. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION**Condensed balance sheets**

	As of December 31,		
	2003	2004	2004
	RMB	RMB	US\$
ASSETS			
Current assets			
Cash and cash equivalents	45,078	103,432	12,497
Accounts receivable	128	-	
Other current assets	394	20	2
Due from subsidiaries	-	3,467	419
Total current assets	45,600	106,919	12,918
Investment in subsidiaries and variable interest entity	11,575	101,734	12,291
Other non-current assets	-	1,059	128
Total assets	57,175	209,712	25,337
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' DEFICIT			
Current liabilities			
Accrued expenses and other liabilities	111	1,698	205
Total current liabilities	111	1,698	205
Redeemable convertible preferred shares			
Series A, par value US\$0.00005 per share; authorized, issued and outstanding 4,800,000 shares	9,307	9,307	1,124
Series B, par value US\$0.00005 per share; authorized, issued and outstanding 9,600,000 shares	82,315	82,315	9,946
Series C, par value US\$0.00005 per share; authorized, issued and outstanding 2,248,877 shares	-	119,730	14,466
Shareholders' deficit			
Ordinary shares, par value US\$0.00005 per share; 853,751,123 shares authorized, 10,560,000 and 11,306,372 shares issued and outstanding as at December 31, 2003 and 2004	4	4	1
Additional paid-in capital	24,046	43,261	5,227
Accumulated losses	(58,608)	(46,603)	(5,632)
Total shareholders' deficit	(34,558)	(3,338)	(404)
Total liabilities, redeemable convertible preferred shares and shareholders' deficit	57,175	209,712	25,337

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BAIDU.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2003, and 2004

(Amounts presented in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except Share Data or unless otherwise indicated)

18. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)

Condensed statements of income

	For the years ended December 31,			
	2002	2003	2004	2004
	RMB	RMB	RMB	US\$
Net revenues	343	1,362	214	26
Cost of services	(666)	(1,861)	(1,985)	(240)
Total operating expenses	(4,241)	(4,999)	(14,923)	(1,803)
Operating loss	(4,564)	(5,498)	(16,694)	(2,017)
Equity in (loss) profit of subsidiaries and variable interest entity	(14,503)	(3,917)	28,081	3,392
Other income	490	530	618	75
Net (loss) income	(18,577)	(8,885)	12,005	1,450

Condensed cash flow statements

	For the years ended December 31,			
	2002	2003	2004	2004
	RMB	RMB	RMB	US\$
Cash flows from operating activities:				
Net (loss) income	(18,577)	(8,885)	12,005	1,450
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Equity in loss (profit) of subsidiaries and variable interest entity	14,503	3,917	(28,081)	(3,392)
Share-based compensation cost	4,233	5,109	16,510	1,995
Changes in assets and liabilities				
Accounts receivable	16	(128)	128	15
Other current assets	23	(328)	374	45
Balances with subsidiaries	-	-	(1,369)	(165)
Accrued expenses and other liabilities	(65)	103	528	64
Net cash generated from (used in) operating activities	133	(212)	95	12
Cash flows from investing activities:				
Investment in a subsidiary	-	-	(62,078)	(7,500)
Cash used in investing activities	-	-	(62,078)	(7,500)
Cash flows from financing activities:				
Issuance of Series C convertible preferred shares	-	-	119,730	14,466
Proceeds from exercise of share options	42	72	607	73
Cash generated from financing activities	42	72	120,337	14,539
Net increase (decrease) in cash and cash equivalents	175	(140)	58,354	7,051
Cash and cash equivalents at beginning of the year	45,043	45,218	45,078	5,446
Cash and cash equivalents at end of the year	45,218	45,078	103,432	12,497

BAIDU.COM, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2003, and 2004

(Amounts presented in thousands of Renminbi (“RMB”) and U.S. Dollars (“US\$”), except Share Data or unless otherwise indicated)

18. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION (continued)

Basis of Presentation

For the purposes of the presentation of the parent company only condensed financial information, the Company records its investment in subsidiaries under the equity method of accounting as prescribed in APB opinion No. 18, “*The Equity Method of Accounting for Investments in Common Stock*”. Such investment is presented on the balance sheet as “Investment in Subsidiaries” and 100% of the subsidiaries’ profit or loss as “Equity in profit or loss of subsidiary companies” on the statement of operations and comprehensive income.

Under PRC laws and regulations, there are certain restrictions on the Company’s PRC subsidiary, Baidu Online, and variable interest entity Baidu Netcom, to transfer certain of their net assets to the Company either in the form of dividends, loans, or advances. The amounts restricted include paid up capital and statutory reserve of Baidu Online and the net assets of Baidu Netcom, in which the Company has no legal ownership, totalling approximately RMB99,316 (US\$12,000) as of December 31, 2004.

19. SUBSEQUENT EVENTS (unaudited)

(i) Acquisition of Shanghai Qilang Science and Technology Co. Ltd. (“Shanghai Qilang”)

In February 2005, the Company acquired the distribution business (“Acquired Business”) from Shanghai Qilang. The results of the Acquired Business will be included in the Company’s consolidated financial statements from March 1, 2005. Shanghai Qilang was one of the largest distributors of the Company’s pay-for-performance services. The total purchase consideration consists of a fixed payment totaling RMB10,000 and a variable amount contingent upon certain performance metrics and the continued employment of a founder. However, the total purchase consideration will be subject to a maximum of RMB37,000. Of the total consideration payable, RMB7 million was paid on completion, RMB3 million will be payable by September 2005 and the balance will be payable in two instalments in 2006 and 2007.

The Company is in the process of obtaining independent third-party valuation in respect of the purchase price allocation under FAS 141, *Business Combination*.

(ii) Changes to the Company’s articles of association

The Company intends to adopt an amended and restated memorandum and articles of association immediately after the closing of its initial public offering. Currently it is considering whether to include certain provisions in its new memorandum and articles of association that could limit the ability of others to acquire control of the Company.

(iii) Initial public offering

In March 2005, the Company’s board of directors approved the filing of a registration statement with the Securities and Exchange Commission for an initial public offering of the Company’s ordinary shares.

(iv) Litigation

In March 2005, 8848.net, a Beijing-based e-commerce company, brought an unfair competition suit against the Company for alleged DDOS’ attacks on 8848.net’s server from the afternoon of January 21, 2005 to the evening of January 22, 2005, seeking monetary damages of RMB 15 million (US\$1.8 million). Management does not believe this legal claim has any merit and the final outcome of this pending litigation is not determinable at this time.

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BAIDU.COM, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

	Notes	Pro forma				
		December 31	March 31	March 31	March 31	March 31
		2004	2005	2005	2005	2005
		RMB	(Unaudited) RMB	(Unaudited) US\$	(Unaudited) RMB	(Unaudited) US\$
ASSETS						
Current assets:						
Cash and cash equivalents		200,196	194,255	23,471	194,255	23,471
Accounts receivable, net of allowance for doubtful accounts of RMB627 and RMB1,309 (US\$157) as of December 31, 2004 and March 31, 2005, respectively	4	9,645	14,962	1,809	14,962	1,809
Prepaid expenses and other current assets	5	2,421	4,699	568	4,699	568
Total current assets		212,262	213,916	25,848	213,916	25,848
Non-Current assets:						
Fixed assets – net	6	35,932	45,462	5,492	45,462	5,492
Intangible assets – net	7	12,953	13,577	1,640	13,577	1,640
Goodwill	3	-	8,352	1,009	8,352	1,009
Others		1,059	2,989	361	2,989	361
Total non-current assets		49,944	70,380	8,502	70,380	8,502
Total assets		262,206	284,296	34,350	284,296	34,350
LIABILITIES, REDEEMABLE CONVERTIBLE PREFERRED SHARES AND SHAREHOLDERS' EQUITY (DEFICIT)						
Current liabilities:						
Accrued expenses and other liabilities	8	21,900	27,258	3,293	27,258	3,293
Customers' deposits		25,990	32,781	3,961	32,781	3,961
Deferred revenue	9	6,302	7,563	914	7,563	914
Total current liabilities		54,192	67,602	8,168	67,602	8,168
Redeemable convertible preferred shares						
Series A, par value US\$0.00005 per share; authorized, issued and outstanding 4,800,000 shares		9,307	9,307	1,124	—	—
Series B, par value US\$0.00005 per share; authorized, issued and outstanding 9,600,000 shares		82,315	82,315	9,946	—	—
Series C, par value US\$0.00005 per share; authorized, issued and outstanding 2,248,877 shares		119,730	119,730	14,466	—	—
Shareholders' equity (deficit)						
Ordinary shares, par value US\$0.00005 per share; 853,751,123 shares authorized, 11,306,372 and 11,548,682 shares issued and outstanding as at December 31, 2004 and March 31, 2005		4	5	1	—	—
Class B Ordinary shares, par value US\$0.00005 per share; 31,326,801 shares authorized, 28,197,559 (unaudited) shares issued and outstanding on a pro forma basis		—	—	—	12	2
Additional paid-in capital		43,261	49,439	5,974	260,784	31,509
Statutory reserve		523	523	63	523	63
Accumulated losses		(47,126)	(44,625)	(5,392)	(44,625)	(5,392)
Total shareholders' equity (deficit)		(3,338)	5,342	646	216,694	26,182
Total liabilities, redeemable convertible preferred shares and shareholders' equity (deficit)		262,206	284,296	34,350	284,296	34,350

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

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BAIDU.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

	Notes	For the three months ended March 31,		
		2004	2005	2005
		(Unaudited) RMB	(Unaudited) RMB	(Unaudited) US\$
Revenues:				
Online marketing services		15,695	43,019	5,198
Enterprise search software and related services		1,412	2,076	251
Portal search services		867	581	70
Total gross revenues		17,974	45,676	5,519
Less: Business tax and surcharges		(824)	(3,048)	(368)
Total net revenues		17,150	42,628	5,151
Operating costs and expenses:				
Cost of revenues		(5,747)	(12,570)	(1,519)
Selling, general and administrative		(5,822)	(15,698)	(1,897)
Research and development		(2,032)	(5,479)	(662)
Share-based compensation (1)	2	(2,607)	(6,142)	(741)
Total operating expenses		(16,208)	(39,889)	(4,819)
Operating profit		942	2,739	332
Interest income		31	777	94
Other income, net		65	—	—
Net income before tax		1,038	3,516	426
Taxation	14	-	(1,015)	(123)
Net income		1,038	2,501	303
Earnings per share:				
	11			
Basic		0.10	0.22	0.03
Diluted		0.04	0.08	0.01
Weighted average number of ordinary shares outstanding:				
	11			
Basic		10,876,324	11,507,953	11,507,953
Diluted		26,929,625	29,807,745	29,807,745
Pro forma earnings per share:				
Basic			0.09	0.01
Diluted			0.08	0.01
Pro forma weighted average number of ordinary shares outstanding:				
Basic			28,156,830	28,156,830
Diluted			29,807,745	29,807,745
(1) Share-based compensation expenses are allocated as follows:				
Cost of revenues		448	228	27
Selling, general and administrative		1,429	4,825	582
Research and development		730	1,089	132
		2,607	6,142	741

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

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BAIDU.COM, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Amounts in thousands of Renminbi (“RMB”) and in thousands of U.S. Dollars (“US\$”))

	For the three months ended March 31,		
	2004	2005	2005
	(Unaudited) RMB	(Unaudited) RMB	(Unaudited) US\$
Cash flows from operating activities:			
Net income	1,038	2,501	303
Adjustments to reconcile net cash provided by operating activities:			
Depreciation of fixed assets	1,469	4,492	543
Amortization of intangible assets	-	724	87
Share-based compensation	2,607	6,142	741
Allowance for doubtful accounts	42	682	81
Change in operating assets and liabilities:			
Accounts receivable	379	(5,999)	(725)
Prepaid expenses and other assets	(1,327)	(2,278)	(275)
Customers’ deposits	2,269	6,791	821
Accrued expenses and other liabilities	(414)	495	61
Deferred revenue	(1,468)	1,261	152
Net cash generated from operating activities	4,595	14,811	1,789
Cash flows from investing activities:			
Acquisitions of Qilang	-	(7,075)	(854)
Additions to fixed assets	(3,944)	(13,350)	(1,612)
Costs incurred for capitalized internal use software	(548)	(172)	(21)
Net cash used in investing activities	(4,492)	(20,597)	(2,487)
Cash flows from financing activities:			
Costs incurred for in connection with initial public offering	-	(192)	(23)
Proceeds from exercise of stock options	78	37	4
Net cash provided by (used in) financing activities	78	(155)	(19)
Net increase (decrease) in cash and cash equivalents	181	(5,941)	(717)
Cash and cash equivalents at the beginning of the period	62,825	200,196	24,188
Cash and cash equivalents at the end of the period	63,006	194,255	23,471

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

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BAIDU.COM, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES OF SHAREHOLDERS' EQUITY (DEFICIT)

(Amounts in thousands of Renminbi ("RMB") and in thousands of U.S. Dollars ("US\$"), except number of shares and per share data)

	Ordinary shares	Amount	Additional paid-in capital	Statutory reserve	Accumulated losses	Total shareholders' deficit
		RMB	RMB	RMB	RMB	RMB
Balance at January 1, 2005	11,306,372	4	43,261	523	(47,126)	(3,338)
Net income	-	-	-	-	2,501	2,501
Exercise of stock options	242,310	1	36	-	-	37
Share-based compensation	-	-	6,142	-	-	6,142
Balance at March 31, 2005	11,548,682	5	49,439	523	(44,625)	5,342
Balance at March 31, 2005, in US\$		1	5,974	63	(5,392)	646

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

BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

1. BASIS OF PRESENTATION

Basis of consolidation

The unaudited condensed interim consolidated financial statements include the accounts of Baidu.com, Inc. (“Baidu.com” or the “Company”) and its wholly owned subsidiaries, Baidu Online Network Technology (Beijing) Co. Ltd (“Baidu Online”) and its variable interest entity (“VIE”) Baidu Netcom Science Technology Co. Ltd (“Baidu Netcom”). All significant inter-company transactions and balances between the Company and its wholly owned subsidiaries and VIE are eliminated upon consolidation. The Company has included the results of operations of an acquired business from the date of acquisition (see note 3).

Unaudited Condensed interim financial information

The accompanying unaudited condensed interim consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. In the opinion of management, the unaudited condensed interim consolidated financial statements reflect all adjustments, consisting only of normal and recurring adjustments, necessary to present fairly the Company’s consolidated financial position at March 31, 2005, the Company’s consolidated results of operations for the three months ended March 31, 2005 and 2004, consolidated cash flows for the three months ended March 31, 2005 and 2004, and consolidated changes in shareholders’ equity for the three months ended March 31, 2005. Interim period results are not necessarily indicative of results of operations or cash flows for a full-year period. The 2004 year end consolidated balance sheet and statement of changes in shareholders’ equity (deficit) data were derived from audited financial statements, but do not include all disclosures required by generally accepted accounting principles.

These financial statements and the notes thereto should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2004.

Use of estimates

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

On an ongoing basis, the Company evaluates its estimates, including those related to accounts receivable allowance, fair value of acquired intangible assets and goodwill, useful lives of intangible assets and property and equipment, the value of common stock for the purpose of determining stock-based compensation (see below), and income taxes, among others. The Company bases its 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.

Convenience translation

Translations of amounts from RMB into United States dollars for the convenience of the reader were calculated at the noon buying rate of US\$1.00 to RMB8.2765 on March 31, 2005 in The City of New York for cable transfers of RMB as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the RMB amounts could have been, or could be converted into United States dollars at such rate.

BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Identifiable Intangible assets

Identifiable intangible assets are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated economic life of the identifiable intangible assets, as follows:

Domain name	- 5 years
Customer relationships	- 2-5 years
Non-competition agreement	- 4 years

The Company reviews and adjusts the carrying value of the identifiable intangible assets if the facts and circumstances suggest the identifiable intangible assets may be impaired. If the carrying value of an identifiable intangible asset is greater than its recoverable amount, an impairment loss will be recorded for the excess of its fair value, determined on a discounted cash flow basis, over the carrying value of the identifiable intangible asset

Goodwill

Goodwill is not amortized but instead is tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that they may be impaired.

Capitalization of software developed for internal use

The Company has capitalized certain internal use software development costs in accordance with SOP 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, totaling RMB172 (US\$21) for the period ended March 31, 2005 (December 31, 2004—RMB2,155). These mainly include payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal use software projects. The estimated useful life of software development costs is determined to be three years. The amortization expense of capitalized costs totaled approximately RMB467 for the period ended March 31, 2005 (March 31, 2004—RMB282). Capitalized internal use software costs are included in fixed assets, net.

Advertising expenditure

Advertising costs, primarily advertisements through media publications, are included in “Selling, general and administrative expense” and are expensed when incurred. Advertising expense for the period ended March 31, 2005 was RMB2,444 (US\$295) (March 31, 2004—RMB242).

Impairment of long-lived assets

Pursuant to Statement of Financial Accounting Standard (“SFAS”) No.144 Accounting for the Impairment or Disposal of Long-lived Assets, the Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. When these events occur, the Company measures impairment by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from the use of the assets and their eventual disposition. If the undiscounted cash flow is less than the carrying amount of the assets, the Company would recognize an impairment loss based on the fair value of the assets.

Pro forma balance sheet

The pro forma balance sheet information as of March 31, 2005 assumes the conversion of all the Company’s 11,548,682 ordinary shares issued and outstanding as of March 31, 2005 into 11,548,682 Class B ordinary shares on May 30, 2005 and the automatic conversion of the Company’s outstanding redeemable convertible preferred shares as of March 31, 2005 into 16,648,877 Class B ordinary shares immediately prior to the closing of the Company’s initial public offering.

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BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation

Share-based compensation as shown on the accompanying consolidated income statements consists of amortization of deferred stock-based compensation related to options to purchase ordinary shares to employees based on an intrinsic value basis and the fair value of options to purchase such stock issued to non-employees.

As permitted by Statement of Financial Accounting Standards (“SFAS”) No. 123, Accounting for Stock-based Compensation (“SFAS 123”), the Company accounts for employee share-based compensation in accordance with Accounting Principles Board Opinion (“APB”) No. 25, Accounting for Stock Issued to Employees (“APB 25”), and related interpretations. Under APB 25, deferred compensation for options granted to employees is equal to its intrinsic value, determined as the difference between the exercise price and the estimated fair value for accounting purposes of the underlying stock on the date of grant.

As a private company, the Company has typically granted stock options at exercise prices equal to or less than the value of the underlying stock as determined by our board of directors on the date of option grant. For purposes of financial accounting, the Company has applied hindsight within each year or quarter to arrive at estimated fair values for the shares underlying these options. The Company has recorded share-based compensation equal to the difference between these estimated fair values and the exercise prices.

The Company determines the value of the options granted to non-employees for the period ended March 31, 2005 and March 31, 2004 by using the Black-Scholes option pricing model under the following assumptions: 100% volatility, no dividends, risk-free interest rate of 3.24% (March 31, 2004: 3.6%), and an expected life of 3 years. For the period from January 1, 2005 to March 31, 2005, the Company recognized approximately RMB875 (US\$105) (March 31, 2004: RMB516) of share-based compensation expenses related to options granted to non-employees.

Pro forma disclosure under SFAS No. 123

SFAS No.123 requires that pro forma net income and pro forma earnings per share be determined as if the Company had accounted for its employee share options granted under the fair value method. The fair value of these options was estimated using the Black-Scholes option pricing model.

The Company calculated the fair value of each option grant on the date of grant by using the Black-Scholes option pricing model with the following assumptions:

	<u>For the three months ended March 31, 2005</u>
Risk free interest rate	3.24%
Expected life (years)	3
Volatility	-%
Dividend yield	-

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BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation (cont’d)

Had compensation cost been determined based upon the fair value approach using the variables disclosed above, the Company’s pro forma net income and pro forma earnings per share would have been:

	For the three months ended March 31		
	2004	2005	2005
	(Unaudited) RMB	(Unaudited) RMB	(Unaudited) US\$
Net income, as reported	1,038	2,501	303
Add: Share-based compensation expense for employees included in reported net loss, net of related tax effects	2,091	5,267	636
Deduct: Total share-based compensation expense for employees determined under fair value method, net of related tax effects	(2,119)	(6,143)	(742)
Pro forma net income	1,010	1,625	197
Basic net earnings per share			
As reported	0.10	0.22	0.03
Pro forma	0.09	0.14	0.02
Diluted net earnings per share			
As reported	0.04	0.08	0.01
Pro forma	0.04	0.05	0.01

3. ACQUISITION OF SHANGHAI QILANG SCIENCE AND TECHNOLOGY CO. LTD (“Shanghai Qilang”)

On February 21, 2005, the Company acquired all the assets of the distribution business (“Acquired Business”) of Shanghai Qilang. The Acquired Business is in connection with the distribution of the Company’s online marketing services for the purposes of improving efficiency and effectiveness of product distribution to end customers. The acquisition has been accounted for as a business combination using the purchase method and the results of the Acquired Business were included in the Company’s consolidated financial statements commencing February 21, 2005 onwards.

The total consideration payable consists of fixed payments totaling RMB10,000 and a variable contingent amount determined based on future results of the Acquired Business, certain performance metrics and continued employment of a founder. The maximum consideration payable, including the above fixed payments, is RMB37,000. Of the total consideration, RMB7,000 (US\$845) was paid on completion of the transfer of the business, RMB3,000 (US\$363) will be payable by September 2005 and the balance will be payable in two installments in 2006 and 2007. The Company will recognize the contingent consideration payable to the seller (other than the founder) as a liability when the contingency is resolved. The contingent consideration payable to the founder will be recognized as compensation expense over the required continued employment period when it is probable that such amount is payable. No contingent consideration was recorded as of March 31, 2005 as the total consideration calculated in accordance with the terms of the agreement was less than the minimum payment of RMB10,000.

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BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

3. ACQUISITION OF SHANGHAI QILANG SCIENCE AND TECHNOLOGY CO. LTD (“Shanghai Qilang”) (continued)

The following table summarizes, as at the date of acquisition, the estimated fair values of the assets acquired and liabilities assumed which is preliminary and may be subject to change upon the finalization of a valuation on the Acquired Business.

	As at February 21, 2005	
	(Unaudited)	
	RMB	US\$
Property, plant and equipments	500	61
Intangible assets subject to amortization		
Customer relationships*	1,196	145
Non-competition agreement*	152	17
Goodwill*	8,352	1,009
Total assets acquired	10,200	1,232
Assumed liabilities	(125)	(15)
Net assets acquired	10,075	1,217
Total cash consideration paid/payable as at March 31, 2005		
Purchase consideration paid	7,000	845
Transaction costs paid	75	9
Purchase considerations payable	3,000	363
	10,075	1,217

* Goodwill, customer relationships and non-competition agreement are subject to tax deduction over a period of 15 years based on a straight-line method based on PRC tax regulations. No deferred tax liability is recognized as the tax base for these is the same as the carrying value.

Acquired Intangible Assets

As of 31 March 2005,

	Gross Carrying amount		Accumulated amortization		Net	
	(Unaudited) RMB	(Unaudited) US\$	(Unaudited) RMB	(Unaudited) US\$	(Unaudited) RMB	(Unaudited) US\$
Amortized intangible assets:						
Customer relationships	1,196	145	21	2	1,175	143
Non-competition agreement	152	17	3	1	149	16

The amortization expenses for the three months ended March 31, 2005 amounted to RMB24 (US\$3) (March 31, 2004—RMB nil).

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BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

3. ACQUISITION OF SHANGHAI QILANG SCIENCE AND TECHNOLOGY CO. LTD (“Shanghai Qilang”) (continued)

The financial information in the table below summarizes the combined results of operations of the Company and Shanghai Qilang on a pro forma basis, as though the companies had been combined as of the beginning of the periods being presented below. This pro forma financial information is not necessarily indicative of the results of operations that would have been achieved had the acquisition actually taken place as of the beginning of the period being presented below.

	For the three months ended March 31,		
	2004 (Unaudited) RMB	2005 (Unaudited) RMB	2005 (Unaudited) US\$
Pro forma total net revenues	17,285	42,953	5,190
Pro forma net income	597	2,383	288
Pro forma net earnings per share—basic	0.05	0.21	0.03
Pro forma net earnings per share—diluted	0.02	0.08	0.01

4. ACCOUNTS RECEIVABLE

	December 31	March 31	March 31
	2004	2005	2005
	RMB	(Unaudited) RMB	(Unaudited) US\$
Accounts receivable	10,272	16,271	1,966
Less: Allowance for doubtful accounts	(627)	(1,309)	(157)
	<u>9,645</u>	<u>14,962</u>	<u>1,809</u>
Movements in allowance for doubtful accounts are as follows:			
Balance at the beginning of the period	-	627	76
Charged to costs and expenses	627	682	81
Balance at the end of the period	<u>627</u>	<u>1,309</u>	<u>157</u>

5. PREPAID EXPENSES AND OTHER CURRENT ASSETS

Prepaid expenses and other current assets consist of the following:

	December 31	March 31	March 31
	2004	2005	2005
	RMB	(Unaudited) RMB	(Unaudited) US\$
Deposits	1,251	2,293	277
Prepaid expenses	179	1,200	145
Advances to suppliers	491	604	73
Interest receivables	189	—	—
Other assets	311	602	73
	<u>2,421</u>	<u>4,699</u>	<u>568</u>

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BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

6. FIXED ASSETS - NET

Fixed assets consist of the following:

	December 31	March 31	March 31
	2004	2005	2005
	RMB	(Unaudited) RMB	(Unaudited) US\$
Leasehold improvements	1,774	2,529	305
Computer equipment and servers	43,924	56,613	6,839
Capitalized internal use software development costs	5,783	5,955	720
Office equipment	2,345	2,751	332
Motor vehicles	773	773	94
	<u>54,599</u>	<u>68,621</u>	<u>8,290</u>
Less: Accumulated depreciation	(18,667)	(23,159)	(2,798)
	<u>35,932</u>	<u>45,462</u>	<u>5,492</u>

7. INTANGIBLE ASSETS - NET

Intangible assets consist of the following:

	December 31	March 31	March 31
	2004	2005	2005
	RMB	(Unaudited) RMB	(Unaudited) US\$
Domain name	14,003	14,003	1,692
Customer relationships	—	1,196	145
Non-competition agreement	—	152	17
	<u>14,003</u>	<u>15,351</u>	<u>1,854</u>
Less: Accumulated amortization	(1,050)	(1,774)	(214)
	<u>12,953</u>	<u>13,577</u>	<u>1,640</u>

The amortization expense for the three months ended March 31, 2005 was RMB724 (US\$87) (March 31, 2004—RMB nil). The estimated amortization expense for the next five years is as follows:

	(Unaudited) RMB	(Unaudited) US\$
For the year ending December 31,		
2005	2,362	285
2006	3,085	373
2007	3,073	371
2008	3,073	371
2009	1,984	240

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BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

8. ACCRUED EXPENSES AND OTHER LIABILITIES

The components of accrued expenses and other liabilities are as follows:

	December 31	March 31	March 31
	2004	2005	2005
	RMB	(Unaudited) RMB	(Unaudited) US\$
Accrued payroll	3,439	2,660	321
Accrued operating expenses	3,973	5,279	637
Tax payables	1,684	3,133	379
Distributors’ deposit	591	1,101	133
Other payables – purchase of fixed assets	6,349	3,418	413
Other payables – traffic acquisition costs	1,930	2,379	287
Other payables – deferred offering expenses	1,059	2,797	338
Other payables – acquisition of business	-	3,000	363
Other payables – others	2,875	3,491	422
	<u>21,900</u>	<u>27,258</u>	<u>3,293</u>

9. DEFERRED REVENUE

Deferred revenue consists of the following:

	December 31	March 31	March 31
	2004	2005	2005
	RMB	(Unaudited) RMB	(Unaudited) US\$
Deferred portal search services revenue	1,002	970	117
Deferred software and related services revenue	5,300	6,018	727
Deferred online marketing services revenue	-	575	70
	<u>6,302</u>	<u>7,563</u>	<u>914</u>

10. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full time employees of subsidiaries of the Company 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 subsidiaries of the Company 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 made. The total amounts for such employee benefits, which were expensed as incurred, were RMB1,849 (US\$223) for the three months ended March 31, 2005 (March 31, 2004 - RMB972).

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BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

11. EARNINGS PER SHARE

Earnings per share is computed in accordance with SFAS No. 128 - *Earnings per Share* (“SFAS 128”). Under SFAS No. 128, earnings per share is calculated using the weighted average number of ordinary shares outstanding during the year.

	For the three months ended March 31,		
	2004	2005	2005
	(Unaudited) RMB	(Unaudited) RMB	(Unaudited) US\$
Numerator:			
Net income attributable to common shareholders	1,038	2,501	303
Denominator:			
Weighted average of issued shares outstanding-basic	10,674,830	11,507,953	11,507,953
Options exercised but related shares not yet issued	201,494	-	-
Weighted average shares outstanding-basic	10,876,324	11,507,953	11,507,953
Effect of dilutive securities			
Employee stock options	1,653,301	1,650,915	1,650,915
Redeemable convertible preferred shares	14,400,000	16,648,877	16,648,877
Denominator used for diluted earnings per share	26,929,625	29,807,745	29,807,745
Basic earnings per share	0.10	0.22	0.03
Diluted earnings per share	0.04	0.08	0.01

	Pro forma	
	For the three months ended March 31,	
	2005	2005
	(Unaudited) RMB	(Unaudited) US\$
Numerator:		
Net income attributable to common shareholders	2,501	303
Denominator:		
Weighted average of issued shares outstanding-basic	28,156,830	28,156,830
Options exercised but related shares not yet issued	-	-
Weighted average shares outstanding-basic	28,156,830	28,156,830
Effect of dilutive securities		
Employee stock options	1,650,915	1,650,915
Denominator used for diluted earnings per share	29,807,745	29,807,745
Basic earnings per share	0.09	0.01
Diluted earnings per share	0.08	0.01

As at March 31, 2004 and 2005, stock options exercised but for which the underlying ordinary shares not yet issued amounted to 201,494 and nil, respectively. Proceeds received upon exercise of these share options totaled to be RMB123 and RMB nil for the three months ended March 31, 2004 and 2005, respectively, and have been recorded in the Company’s share capital and additional paid in capital. For the purposes of calculating the Company’s basic and diluted earnings per share, the ordinary shares relating to the above-mentioned options that were exercised are assumed to have been outstanding from the date of exercise of such options.

The ordinary shares that will be issued upon conversion of all our preferred shares as of March 31, 2005 would be 16,648,877.

BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

12. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (“FASB”) issued FASB Statement No. 123(R) (“SFAS 123(R)”), *Share-Based Payment*, which is a revision of FASB Statement No. 123, *Accounting for Share-based Compensation*. SFAS 123(R) addresses all forms of share-based payment awards, including shares issued under employee stock purchase plans, stock options, restricted stock and stock appreciation rights. SFAS 123(R) will require that the Company expense share-based payment awards with compensation cost for share-based payment transactions measured at fair value. SFAS 123(R) requires the Company to adopt the new accounting provisions beginning in the third quarter of 2005. On April 14, 2005, the Securities and Exchange Commission (“SEC”) announced the adoption of a new rule that amends the compliance date of SFAS 123(R) until the beginning of the next fiscal year that begins on or after June 15, 2005. Under the SEC’s rule, SFAS 123(R) is now effective for the Company beginning January 1, 2006. The Company is in the process of assessing the impact of this change in accounting standards on its consolidated results of operations and financial position.

13. LITIGATION

On January 12, 2005, the Company brought an unfair competition suit in the Haidian District People’s Court in Beijing against 8848.com, based on claims that 8848.com intentionally offered certain software to their users which, once installed, would substantially alter Baidu’s Web search page layout and search results without the knowledge of these users. The court has not decided on this case.

In March 2005, 8848.net, a Beijing-based e-commerce company, brought an unfair competition suit against the Company for alleged DDOS’ attacks on 8848.net’s server from the afternoon of January 21, 2005 to the evening of January 22, 2005, seeking monetary damages of RMB 15,000 (US\$1,800). Management believes that 8848.net’s claims are without merit and the outcome of this pending litigation is not determinable at this time.

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BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

14. TAXATION

The income tax provision (benefit) included in the consolidated statements of operation for the three months ended March 31, 2005 and March 31, 2004, is based on the estimated annual effective tax rate for the entire year. These estimated effective tax rates are subject to adjustment in subsequent quarterly periods as our estimates of pretax income or loss for the year are increased or decreased. The effective tax rate for the three months ended March 31, 2005 is less than the statutory tax rate in PRC due to additional deduction for research and development expenses and tax holiday granted to Baidu Online.

The reconciliation of tax computed by applying respective statutory income tax rate to pre-tax income is as follows:

	For the three months ended		
	March 31		
	2004	2005	2005
	RMB	RMB	US\$
Income tax computed at respective statutory tax rates	(1,327)	(3,207)	(387)
Add: Tax holiday for a PRC subsidiary	627	1,990	240
Add: Non-deductible expenses	(40)	(95)	(12)
Less: Non-taxable income	66	64	8
Less: Tax incentive relating to research & development expenses	321	769	93
Changes in valuation allowance against deferred income tax asset	353	(536)	(65)
	<u>-</u>	<u>(1,015)</u>	<u>(123)</u>
Effective income tax rate (%)	<u>-</u>	<u>28.9</u>	<u>28.9</u>

15. SUBSEQUENT EVENTS

- (i) On May 11, 2005, the Company has granted 131,000 Share Options to its employees at an exercise price of US\$8.50 pursuant to its 2000 Share Option Plan.
- (ii) The Company’s former Memorandum and Articles of Associations provided that upon an initial public offering meeting certain criteria, the Company’s redeemable convertible Series A, Series B and Series C preferred shares would automatically convert into ordinary shares, each of which has one vote per share. On May 30, 2005, the Company’s shareholders approved an Amended and Restated Memorandum and Articles of Associations, pursuant to which all of the existing ordinary shares and all of those to be issued to the existing preferred shareholders upon conversion are re-designated as Class B ordinary shares, each of which carries ten votes per share at future shareholder meetings. 822,424,322 authorized but unissued ordinary shares are re-designated as Class A ordinary shares, each of which carries only one vote per share at future shareholder meetings. In addition, Class B ordinary shares may be convertible into the same number of Class A ordinary shares at the option of the holder thereof at any time, and shall be automatically converted into the same number of Class A ordinary shares at any time the holder thereof transfers them to a person or entity which is not an affiliate of such holder.

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BAIDU.COM, INC.

NOTES TO THE UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

(Amounts in thousands of Renminbi (“RMB”), and in thousands of U.S. Dollars (“US\$”), except number of shares and per share data)

15. SUBSEQUENT EVENTS (continued)

- (iii) After the closing of this offering, the Company’s board of directors will have the authority, without approval by the shareholders, to issue up to a total of _____ shares of preferred shares in one or more series. The Company’s board of directors may establish the number of shares to be included in each such series of preferred shares. These proposed changes have yet to be approved by the Company’s shareholders.
- (iv) On June 20, 2005, Shanghai Busheng Music Culture Media Co., Ltd., or Shanghai Busheng, brought a copyright infringement suit against the Company in the Haidian District People’s Court in Beijing alleging that the Company allowed its users to download 53 popular songs without its authorization. Shanghai Busheng sought an injunction order and damages in an amount of RMB560. The court has not ruled on this case.
- (v) In early July, 2005, the Company received a copyright infringement complaint dated as of May 23, 2005 brought by Beijing New Picture Film Co., Ltd. against the Company. The plaintiff alleged that the Company provided a copyrighted movie owned by the plaintiff to users of Baidu Movie Search without the plaintiff’s authorization. The plaintiff also named the Hangzhou branch of Zhejiang Telecommunication Co., Ltd. as a co-defendant, claiming that it had the ability and obligation to prevent the Company from providing the movie to its users on its website but failed to do so. The plaintiff sought an injunction order as well as damages and expenses in an aggregate amount of RMB166. The court has not ruled on this case.

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Through and including _____, 2005 (the 25th day after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to a dealer's obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

American Depositary Shares
Representing
Class A Ordinary Shares



PROSPECTUS

, 2005

Goldman Sachs (Asia) L.L.C.
Credit Suisse First Boston
Representatives of the Underwriters

Piper Jaffray

PART II**INFORMATION NOT REQUIRED IN PROSPECTUS****ITEM 6. INDEMNIFICATION OF DIRECTORS AND OFFICERS.**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy, such as to provide indemnification against civil fraud or the consequences or committing a crime. Our Articles of Association provide for indemnification of officers and directors for losses, damages, costs and expenses incurred in their capacities as such, except through their own willful neglect or default.

Pursuant to the form of indemnification agreements filed as Exhibit 10.2 to this Registration Statement, we will agree to indemnify our directors and officers against certain liabilities and expenses incurred by such persons in connection with claims made by reason of their being such a director or officer.

The form of Underwriting Agreement to be filed as Exhibit 1.1 to this Registration Statement will also provide for indemnification of us and our officers and directors.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling us pursuant to the foregoing provisions, we have been informed that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

ITEM 7. RECENT SALES OF UNREGISTERED SECURITIES.

During the past three years, we have issued the following securities (including options to acquire our ordinary shares). We believe that each of the following issuances was exempt from registration under the Securities Act in reliance on Regulation S under the Securities Act or pursuant to Section 4(2) of the Securities Act regarding transactions not involving a public offering.

<u>Purchaser</u>	<u>Date of Sale or Issuance</u>	<u>Number of Securities</u>	<u>Consideration (US\$)</u>	<u>Underwriting Discount and Commission</u>
Google Inc.	June 2, 2004	749,625	4,999,998.75	N/A
Draper Fisher Jurvetson ePlanet Ventures L.P. and its affiliated entities	June 2, 2004	749,625	4,999,998.75	N/A
Integrity Partners V, LLC	June 2, 2004	202,399	1,350,001.33	N/A
Peninsula Capital Fund I, LLC	June 2, 2004	193,403	1,289,998.01	N/A
Swiftcurrent Offshore, Ltd.	June 2, 2004	14,993	100,003.31	N/A
Venture TDF Technology Fund III LP	June 2, 2004	149,926	1,000,006.42	N/A
CMT CV-BD Limited	June 2, 2004	164,918	1,100,003.06	N/A
China Equity International Holding Company Limited (BVI)	June 2, 2004	23,988	159,999.96	N/A

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ITEM 8. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibits

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1**	Form of Underwriting Agreement.
3.1*	Memorandum and Articles of Association of the Registrant, as currently in effect.
3.2**	Amended and Restated Memorandum and Articles of Association of the Registrant.
4.1*	Registrant's Specimen American Depositary Receipt (included in Exhibit 4.3).
4.2**	Registrant's Specimen Certificate for Ordinary Shares.
4.3*	Form of Deposit Agreement among the Registrant, the depositary and holder of the American Depositary Receipts.
4.4*	Second Amended and Restated Shareholders Agreement, dated as of June 9, 2004, among the Registrant and other parties therein.
5.1*	Form of Opinion of Maples and Calder regarding the validity of the ordinary shares being registered.
8.1*	Form of Opinion of Latham & Watkins LLP regarding certain U.S. tax matters.
10.1*	2000 Option Plan.
10.2**	2005 Share Incentive Plan.
10.3*	Form of Indemnification Agreement with the Registrant's directors.
10.4*	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant.
10.5*	Translation of Acquisition Agreement dated as of August 9, 2004 between Baidu Online and the owner of Hao123.com.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Ernst & Young, Independent Registered Public Accounting Firm.
23.2*	Consent of Maples and Calder.
23.3*	Consent of Latham & Watkins LLP.
23.4*	Consent of Commerce & Finance Law Offices.
23.5*	Consent of East Associates.

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<u>Exhibit Number</u>	<u>Description of Document</u>
23.6*	Consent of American Appraisal China Limited.
23.7*	Consent of Shanghai iResearch Co., Ltd.
23.8*	Consent of International Data Corporation.
24.1*	Powers of Attorney (included on signature page).
99.1*	Form of Opinion of Commerce & Finance Law Offices.
99.2*	Translation of Technology Consulting Service Agreement dated as of March 22, 2005 between Baidu Online and Baidu Netcom.
99.3*	Translation of Business Cooperation Agreement dated as of March 22, 2005 between Baidu Online and Baidu Netcom.
99.4*	Translation of Operating Agreement dated as of March 22, 2005 between Baidu Online and Baidu Netcom.
99.5*	Translation of Software License Agreement dated as of March 22, 2005 between Baidu Online and Baidu Netcom.
99.6*	Translation of Trademark License Agreement dated as of March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated as of January 18, 2005.
99.7*	Translation of Domain Name License Agreement dated as of March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004.
99.8*	Translation of Web Layout Copyright License Agreement dated as of March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated as of August 9, 2004.
99.9*	Translation of Proxy Agreement dated as of August 9, 2004 among Baidu Online, Baidu Netcom, Robin Yanhong Li and Eric Yong Xu.
99.10*	Translation of Equity Pledge Agreement dated as of March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu.
99.11*	Translation of Option Agreement dated as of March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu.
99.12*	Translation of Loan Agreement dated as of March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu.
99.13*	Translation of Form of Irrevocable Powers of Attorney issued by the shareholders of Baidu Netcom.
99.14*	Code of Business Conduct and Ethics.

* Filed herewith.

** To be filed by amendment.

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(b) Financial Statement Schedules

Schedules have been omitted because the information required to be set forth therein is not applicable or is shown in the Consolidated Financial Statements or the Notes thereto.

ITEM 9. UNDERTAKINGS.

The undersigned registrant hereby undertakes to provide to the underwriter at the closing specified in the underwriting agreements, certificates in such denominations and registered in such names as required by the underwriter to permit prompt delivery to each purchaser.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 6, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

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

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

SIGNATURES

Pursuant to the requirements of the Securities Act, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form F-1 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Beijing, People's Republic of China, on July 12, 2005.

BAIDU.COM, INC.

By: /s/ Robin Yanhong Li

Name: Robin Yanhong Li
Title: Chairman and Chief Executive Officer

POWER OF ATTORNEY

Each person whose signature appears below constitutes and appoints Robin Yanhong Li and Shawn Wang as attorneys-in-fact with full power of substitution, for him or her in any and all capacities, to do any and all acts and all things and to execute any and all instruments which said attorney and agent may deem necessary or desirable to enable the registrant to comply with the Securities Act, and any rules, regulations and requirements of the Securities and Exchange Commission thereunder, in connection with the registration under the Securities Act of ordinary shares of the registrant (the "Shares"), including, without limitation, the power and authority to sign the name of each of the undersigned in the capacities indicated below to the Registration Statement on Form F-1 (the "Registration Statement") to be filed with the Securities and Exchange Commission with respect to such Shares, to any and all amendments or supplements to such Registration Statement, whether such amendments or supplements are filed before or after the effective date of such Registration Statement, to any related Registration Statement filed pursuant to Rule 462(b) under the Securities Act, and to any and all instruments or documents filed as part of or in connection with such Registration Statement or any and all amendments thereto, whether such amendments are filed before or after the effective date of such Registration Statement; and each of the undersigned hereby ratifies and confirms all that such attorney and agent shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Robin Yanhong Li</u> Robin Yanhong Li	Chairman of the Board and Chief Executive Officer (principal executive officer)	July 12, 2005
<u>/s/ Shawn Wang</u> Shawn Wang	Chief Financial Officer (principal financial and accounting officer)	July 12, 2005
<u>/s/ Jixun Foo</u> Jixun Foo	Director	July 12, 2005
<u>/s/ Asad Jamal</u> Asad Jamal	Director	July 12, 2005

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<u>/s/ Greg Penner</u> Greg Penner	Director	July 12, 2005
<u>/s/ Scott Walchek</u> Scott Walchek	Director	July 12, 2005
<u>/s/ Donald J. Puglisi</u> Donald J. Puglisi Title: Managing Director Puglisi & Associates	Authorized U.S. Representative	July 12, 2005

BAIDU.COM, INC.

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
1.1**	Form of Underwriting Agreement.
3.1*	Memorandum and Articles of Association of the Registrant, as currently in effect.
3.2**	Amended and Restated Memorandum and Articles of Association of the Registrant.
4.1*	Registrant's Specimen American Depositary Receipt (included in Exhibit 4.3).
4.2**	Registrant's Specimen Certificate for Ordinary Shares.
4.3*	Form of Deposit Agreement among the Registrant, the depositary and holder of the American Depositary Receipts.
4.4*	Second Amended and Restated Shareholders Agreement, dated as of June 9, 2004, among the Registrant and other parties therein.
5.1*	Form of Opinion of Maples and Calder regarding the validity of the ordinary shares being registered.
8.1*	Form of Opinion of Latham & Watkins LLP regarding certain U.S. tax matters.
10.1*	2000 Option Plan.
10.2**	2005 Share Incentive Plan.
10.3*	Form of Indemnification Agreement with the Registrant's directors.
10.4*	Form of Employment Agreement between the Registrant and an Executive Officer of the Registrant.
10.5*	Translation of Acquisition Agreement dated as of August 9, 2004 between Baidu Online and the owner of Hao123.com.
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Ernst & Young, Independent Registered Public Accounting Firm.
23.2*	Consent of Maples and Calder.
23.3*	Consent of Latham & Watkins LLP.
23.4*	Consent of Commerce & Finance Law Offices.
23.5*	Consent of East Associates.
23.6*	Consent of American Appraisal China Limited.
23.7*	Consent of Shanghai iResearch Co., Ltd.
23.8*	Consent of International Data Corporation.
24.1*	Powers of Attorney (included on signature page).

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<u>Exhibit Number</u>	<u>Description of Document</u>
99.1*	Form of Opinion of Commerce & Finance Law Offices.
99.2*	Translation of Technology Consulting Service Agreement dated as of March 22, 2005 between Baidu Online and Baidu Netcom.
99.3*	Translation of Business Cooperation Agreement dated as of March 22, 2005 between Baidu Online and Baidu Netcom.
99.4*	Translation of Operating Agreement dated as of March 22, 2005 between Baidu Online and Baidu Netcom.
99.5*	Translation of Software License Agreement dated as of March 22, 2005 between Baidu Online and Baidu Netcom.
99.6*	Translation of Trademark License Agreement dated as of March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated as of January 18, 2005.
99.7*	Translation of Domain Name License Agreement dated as of March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated August 9, 2004.
99.8*	Translation of Web Layout Copyright License Agreement dated as of March 1, 2004 between Baidu Online and Baidu Netcom and the supplementary agreement dated as of August 9, 2004.
99.9*	Translation of Proxy Agreement dated as of August 9, 2004 among Baidu Online, Baidu Netcom, Robin Yanhong Li and Eric Yong Yu.
99.10*	Translation of Equity Pledge Agreement dated as of March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu.
99.11*	Translation of Option Agreement dated as of March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu.
99.12*	Translation of Loan Agreement dated as of March 22, 2005 among Baidu Online, Robin Yanhong Li and Eric Yong Xu.
99.13*	Translation of Form of Irrevocable Powers of Attorney issued by the shareholders of Baidu Netcom.
99.14*	Code of Business Conduct and Ethics.

* Filed herewith.

** To be filed by amendment.

THE COMPANIES LAW (2004 Revision)

Company Limited by Shares

**AMENDED AND RESTATED
MEMORANDUM OF ASSOCIATION
OF
BAIDU.COM, INC.**

(adopted by special resolution passed on May 30, 2005)

1. The name of the Company is BAIDU.COM, INC.
2. The Registered Office of the Company shall be at the offices of Maples and Calder, Ugland House, South Church Street, P.O. Box 309, George Town, Grand Cayman, Cayman Islands or at such other place as the Directors may from time to time decide.
3. The objects for which the Company is established are unrestricted and shall include, but without limitation, the following:
 - (i) (a) To carry on the business of an investment company and to act as promoters and entrepreneurs and to carry on business as financiers, capitalists, concessionaires, merchants, brokers, traders, dealers, agents, importers and exporters and to undertake and carry on and execute all kinds of investment, financial, commercial, mercantile, trading and other operations.
 - (b) To carry on whether as principals, agents or otherwise howsoever the business of realtors, developers, consultants, estate agents or managers, builders, contractors, engineers, manufacturers, dealers in or vendors of all types of property including services.
 - (ii) To exercise and enforce all rights and powers conferred by or incidental to the ownership of any shares, stock, obligations or other securities including without prejudice to the generality of the foregoing all such powers of veto or control as may be conferred by virtue of the holding by the Company of some special proportion of the issued or nominal amount thereof, to provide managerial and other executive, supervisory and consultant services for or in relation to any company in which the Company is interested upon such terms as may be thought fit.

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- (iii) To purchase or otherwise acquire, to sell, exchange, surrender, lease, mortgage, charge, convert, turn to account, dispose of and deal with real and personal property and rights of all kinds and, in particular, mortgages, debentures, produce, concessions, options, contracts, patents, annuities, licenses, stocks, shares, bonds, policies, book debts, business concerns, undertakings, claims, privileges and choses in action of all kinds.
- (iv) To subscribe for, conditionally or unconditionally, to underwrite, issue on commission or otherwise, take, hold, deal in and convert stocks, shares and securities of all kinds and to enter into partnership or into any arrangement for sharing profits, reciprocal concessions or cooperation with any person or company and to promote and aid in promoting, to constitute, form or organise any company, syndicate or partnership of any kind, for the purpose of acquiring and undertaking any property and liabilities of the Company or of advancing, directly or indirectly, the objects of the Company or for any other purpose which the Company may think expedient.
- (v) To stand surety for or to guarantee, support or secure the performance of all or any of the obligations of any person, firm or company whether or not related or affiliated to the Company in any manner and whether by personal covenant or by mortgage, charge or lien upon the whole or any part of the undertaking, property and assets of the Company, both present and future, including its uncalled capital or by any such method and whether or not the Company shall receive valuable consideration thereof.
- (vi) To engage in or carry on any other lawful trade, business or enterprise which may at any time appear to the Directors of the Company capable of being conveniently carried on in conjunction with any of the aforementioned businesses or activities or which may appear to the Directors or the Company likely to be profitable to the Company.

In the interpretation of this Memorandum of Association in general and of this Clause 3 in particular no object, business or power specified or mentioned shall be limited or restricted by reference to or inference from any other object, business or power, or the name of the Company, or by the juxtaposition of two or more objects, businesses or powers and that, in the event of any ambiguity in this clause or elsewhere in this Memorandum of Association, the same shall be resolved by such interpretation and construction as will widen and enlarge and not restrict the objects, businesses and powers of and exercisable by the Company.

- 4. Except as prohibited or limited by the Companies Law (2004 Revision), the Company shall have full power and authority to carry out any object and shall have and be capable of from time to time and at all times exercising any and all of the powers at any time or

Exhibit 3.1

from time to time exercisable by a natural person or body corporate in doing in any part of the world whether as principal, agent, contractor or otherwise whatever may be considered by it necessary for the attainment of its objects and whatever else may be considered by it as incidental or conducive thereto or consequential thereon, including, but without in any way restricting the generality of the foregoing, the power to make any alterations or amendments to this Memorandum of Association and the Articles of Association of the Company considered necessary or convenient in the manner set out in the Articles of Association of the Company, and the power to do any of the following acts or things, viz: to pay all expenses of and incidental to the promotion, formation and incorporation of the Company; to register the Company to do business in any other jurisdiction; to sell, lease or dispose of any property of the Company; to draw, make, accept, endorse, discount, execute and issue promissory notes, debentures, bills of exchange, bills of lading, warrants and other negotiable or transferable instruments; to lend money or other assets and to act as guarantors; to borrow or raise money on the security of the undertaking or on all or any of the assets of the Company including uncalled capital or without security; to invest monies of the Company in such manner as the Directors determine; to promote other companies; to sell the undertaking of the Company for cash or any other consideration; to distribute assets in specie to Members of the Company; to make charitable or benevolent donations; to pay pensions or gratuities or provide other benefits in cash or kind to Directors, officers, employees, past or present and their families; to purchase Directors and officers liability insurance and to carry on any trade or business and generally to do all acts and things which, in the opinion of the Company or the Directors, may be conveniently or profitably or usefully acquired and dealt with, carried on, executed or done by the Company in connection with the business aforesaid PROVIDED THAT the Company shall only carry on the businesses for which a license is required under the laws of the Cayman Islands when so licensed under the terms of such laws.

5. The liability of each Member is limited to the amount from time to time unpaid on such Member's shares.
6. The share capital of the Company is US\$43,520 divided into 822,424,322 Class A ordinary shares of a nominal or par value of US\$0.0005 each, 31,326,801 Class B ordinary shares of a nominal or par value of US\$0.00005 each, 4,800,000 Series A preferred shares of a nominal or par value of US\$0.00005 each, and 9,600,000 Series B preferred shares of a nominal or par value of US\$0.00005 each, and 2,248,877 Series C Preferred Shares of a nominal or par value of US\$0.00005 each, with power for the Company, insofar as is permitted by law, to redeem or purchase any of its shares and to increase or reduce the said capital subject to the provisions of the Companies Law (2004 Revision) and the Articles of Association and to issue any part of its capital, whether original, redeemed or increased with or without any preference, priority or special privilege or subject to any postponement of rights or to any conditions or restrictions and so that unless the conditions of issue shall otherwise expressly declare every issue of shares whether declared to be preference or otherwise shall be subject to the powers hereinbefore contained PROVIDED ALWAYS that, notwithstanding any provision to the contrary contained in this Memorandum of Association, the Company shall have no power to issue bearer shares, warrants, coupons or certificates.

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7. If the Company is registered as exempted, its operations will be carried on subject to the provisions of Section 193 of the Companies Law (2004 Revision) and, subject to the provisions of the Companies Law (2004 Revision) and the Articles of Association, it shall have the power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

THE COMPANIES LAW (2004 Revision)

Company Limited by Shares

**AMENDED AND RESTATED
ARTICLES OF ASSOCIATION
OF
BAIDU.COM, INC.**

(adopted by special resolution passed on May 30, 2005)

1. In these Articles, Table A in the Schedule to the Statute does not apply and, unless there be something in the subject or context inconsistent therewith, “Acquisition Transaction” means any of the following (in a single transaction or series of related transactions): (i) any merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or other similar transaction involving the Company or any Material Subsidiary (as defined below); (ii) any sale, lease, exchange, transfer or other disposition of all or a substantial part of the assets of the Company or of any Material Subsidiary; or (iii) any sale, exchange, transfer or other disposition of 40% or more of the outstanding capital of the Company or of any Material Subsidiary on a fully-diluted basis.

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“Affiliate”	means (i) in the case of a natural person, such person’s parents, parents-in-law, spouse, children or grandchildren, a trust for the benefit of any of the foregoing, a company, partnership or any natural person or entity wholly or jointly owned by any of the foregoing, (ii) in the case of an entity, a partnership, a corporation or any natural person or entity which directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such entity. The term “control” shall mean the ownership, directly or indirectly, of shares possessing more than fifty percent (50%) of the voting power of the corporation, or the partnership or other entity (other than, in the case of corporation, share having such power only by reason of the happening of a contingency), or having the power to control the management or elect a majority of members to the board of directors or equivalent decision-making body of such corporation, partnership or other entity.
“Articles”	means the Articles as originally framed or as from time to time altered by Special Resolution.
“Auditors”	means the persons for the time being performing the duties of auditors of the Company.
“Class A Ordinary Share”	means a Class A Ordinary Share in the capital of the Company.
“Class B Ordinary Share”	means a Class B Ordinary Share in the capital of the Company.
“Company”	means the above named Company.
“Conversion Price”	means each of the Series A Conversion Price, the Series B Conversion Price, and Series C Conversion Price.
“debenture”	means debenture stock, mortgages, bonds and any other such securities of the Company whether constituting a charge on the assets of the Company or not.
“Directors”	means the current directors of the Company.
“dividend”	includes bonus.
“Effective Date”	means May 30, 2005.
“Effective Price”	has the meaning set forth in Article 8(c)(vii).

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“Existing Holder”	has the meaning set forth in Article 8(c)(i).
“Material Subsidiary”	means a subsidiary of the Company (i) whose total assets account for 20% or more of the consolidated assets of the Company; (ii) whose total revenues represent 20% of the consolidated revenues of the Company; or (iii) whose total net income represents 20% or more of the consolidated net income of the Company.
“Member”	has the meaning as ascribed to it in the Statute.
“month”	means calendar month.
“new Ordinary Shares”	has the meaning set forth in Article 8(c)(v) hereof.
“Ordinary Shares”	means collectively the Class A Ordinary Shares and the Class B Ordinary Shares.
“Original Issue Date”	means the date on which a Series C Preferred Share was first issued.
“paid up”	means paid up and/or credited as paid up.
“preferential dividend”	has the meaning set forth in Article 8(a) hereof.
“Preferred Shares”	means collectively the Series A Preferred Shares, the Series B Preferred Shares, and the Series C Preferred Shares.
“Qualified IPO”	has the meaning set forth in Article 8(c)(xi)(A) hereof.
“Recapitalization Event”	means any share split, scrip dividend, recapitalization or other similar distribution or transaction.
“registered office”	means the current registered office of the Company in the Cayman Islands.
“Seal”	means the common seal of the Company and includes every duplicate seal.
“Secretary”	includes an Assistant Secretary and any person appointed to perform the duties of Secretary of the Company.
“Securities Act”	means the Securities Act of 1933 of the United States, as amended.

Exhibit 3.1

“Series A Conversion Price”	has the meaning set forth in Article 8(c)(i).
“Series A Original Purchase Price”	shall mean US\$0.25 per share.
“Series A Director”	shall bear the meaning set forth in Article 8(f) hereto.
“Series A Preferred Share”	means a Series A Preferred Share in the capital of the Company.
“Series B Conversion Price”	shall bear the meaning set forth in Article 8(c)(i).
“Series B Original Purchase Price”	shall mean US\$1.0415 per share.
“Series B Director”	shall bear the meaning set forth in Article 8(f) hereto
“Series B Preferred Share”	means a Series B Preferred Share in the capital of the Company.
“Series C Conversion Price”	shall bear the meaning set forth in Article 8(c)(i).
“Series C Original Purchase Price”	shall mean US\$6.67 per share.
“Series C Preferred Share”	means a Series C Preferred Share in the capital of the Company.
“share”	includes a fraction of a share.
“Special Resolution”	has the same meaning as in the Statute and includes a resolution approved in writing as described therein.
“Statute”	means the Companies Law of the Cayman Islands (2004 Revision) and every statutory modification or re- enactment thereof currently in force.
“written” and “in writing”	include all modes of representing or reproducing words in visible form.

Exhibit 3.1

Words importing the singular number also include the plural number and vice versa.

Words importing the masculine gender also include the feminine gender, and vice versa.

Words importing persons also include corporations.

2. The business of the Company may be commenced as soon after incorporation as the Directors shall see fit, notwithstanding that only a portion of the authorised shares may have been allotted and issued.
3. The Directors may pay, out of the capital or any other monies of the Company legally available therefor, all expenses incurred in or about the formation and establishment of the Company including the expenses of registration.

CERTIFICATES FOR SHARES

4. Certificates representing shares of the Company shall be in such form as shall be determined by the Directors. Such certificates may be under Seal. All certificates for shares shall be consecutively numbered or otherwise identified and shall specify the shares to which they relate. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered in the register of Members of the Company. All certificates surrendered to the Company for transfer shall be cancelled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled. The Directors may authorise certificates to be issued with the Seal and authorised signature(s) affixed by some method or system of mechanical process.
5. Notwithstanding Article 4 of these Articles, if a share certificate be defaced, lost or destroyed, it may be renewed on payment of a fee of one dollar (US\$1.00) or such less sum and on such terms (if any) as to evidence and indemnity and the payment of the expenses incurred by the Company in investigating evidence, as the Directors may prescribe.

ISSUE OF SHARES

6. Subject to the provisions, if any, in that behalf in the Memorandum of Association and to any direction that may be given by the Company in any general meeting and without prejudice to any special rights previously conferred on the holders of existing shares, the Directors may allot, issue or grant options over or otherwise dispose of shares of the Company (including fractions of a share) with or without preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper PROVIDED ALWAYS that, notwithstanding any provision to the contrary contained in these Articles of Association, the Company shall be precluded from issuing bearer shares, warrants, coupons or certificates.

Exhibit 3.1

7. The rights and restrictions attaching to the Ordinary Shares are as follows:

(a) Income

Holders of Ordinary Shares shall be entitled to such dividends as the Directors may in their absolute discretion lawfully declare following and only after the full payment of all declared but unpaid dividends due on shares ranking in priority to the Ordinary Shares (including for the avoidance of doubt the Series A Preferred Shares, the Series B Preferred Shares and the Series C Preferred Shares).

(b) Capital

On a return of capital on liquidation, dissolution or winding-up of the Company (other than on a conversion, redemption or purchase of shares, or an equity financing or series of financings that do not constitute the sale of all or substantially all of the shares of the Company), following the payment of all amounts due, under the terms of these Articles, on shares ranking in priority to the Ordinary Shares upon the occurrence of such events (including for the avoidance of doubt the Series A Preferred Shares, the Series B Preferred Shares and the Series C Preferred Shares), the Company's remaining assets available for distribution among the Members shall be distributed amongst the holders of the Ordinary Shares pro rata.

(c) Attendance at General Meetings and Voting

Holders of Ordinary Shares have the right to receive notice of, attend, speak and vote at general meetings of the Company. Each Class A Ordinary Share shall be entitled to one vote on all matters subject to the vote at general meetings of the Company, and each Class B Ordinary Share shall be entitled to ten (10) votes on all matters subject to the vote at general meetings of the Company.

(d) Conversion

(i) Each Class B Ordinary Share is convertible into one (1) Class A Ordinary Share at any time by the holder thereof. Class A Ordinary Shares are not convertible into Class B Ordinary Shares or Preferred Shares under any circumstances. The conversion of Class B Ordinary Shares to Class A Ordinary Shares shall be effected by way of compulsory repurchase by the Company of the relevant Class B Ordinary Shares for a redemption price equal to the original issue price for each Class B Ordinary Share and the issue of Class A Ordinary Shares for a subscription price equal to the redemption price for the equal number of Class B Ordinary Shares.

(ii) If at any time Yanhong (Robin) Li and his Affiliates collectively own less than 5% of the total number of the issued and outstanding Class B Ordinary Shares of the Company (taking into account all of the issued and outstanding Preferred Shares on an as-converted basis), each issued and

outstanding Class B Ordinary Share shall be automatically and immediately converted into one share of Class A Ordinary Share, and no Class B Ordinary Shares shall be issued by the Company thereafter. Class A Ordinary Shares are not convertible into Class B Ordinary Shares or Preferred Shares under any circumstances. The conversion of Class B Ordinary Share into Class A Ordinary Shares shall be effected by way of compulsory repurchase by the Company of the relevant Class B Ordinary Shares for a redemption price equal to the original issue price for each Class B Ordinary Share and the issue of Class A Ordinary Shares for a subscription price equal to the redemption price for the equal number of Class B Ordinary Shares.

- (iii) Subject to the Statute and notwithstanding any other provisions of these Articles, 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 shall be automatically and immediately converted into the equal number of Class A Ordinary Shares. The conversion of Class B Ordinary Shares into Class A Ordinary Shares shall be effected by way of compulsory repurchase by the Company of the relevant Class B Ordinary Shares for a redemption price equal to the original issue price for each Class B Ordinary Share and the issue of Class A Ordinary Shares for a subscription price equal to the redemption price for the equal number of Class B Ordinary Shares.

(e) Drag-Along Rights

If, prior to the closing of an underwritten public offering of the Company's Ordinary Shares, the holders of 70% of the aggregate number of the outstanding Ordinary Shares on an as-converted basis (which shall mean the aggregate of (x) the outstanding Ordinary Shares and (y) such number of Ordinary Shares that are issuable upon conversion of the outstanding Preferred Shares) (the "Approving Shareholders") vote in favor of, otherwise consent in writing to, and/or otherwise agree in writing to sell or transfer all of their shares in any Acquisition Transaction, then the Company shall promptly notify each of the remaining shareholders (the "Remaining Shareholders") in writing of such vote, consent and/or agreement and the material terms and conditions of such Acquisition Transaction, whereupon each Remaining Shareholder shall, in accordance with instructions received from the Company, vote all of its voting securities of the Company in favor of, otherwise consent in writing to, and/or sell or transfer all of its shares in such Acquisition Transaction (including without limitation tendering original share certificates for transfer, signing and delivering share transfer certificates, share sale or exchange agreements, and certificates of indemnity relating to any shares in the event that such Remaining Shareholder has lost or misplaced the relevant share certificate) on the same terms and conditions as were agreed to by the Approving Shareholders; provided, however, that such terms and conditions, including with respect to price paid or received per share,

Exhibit 3.1

may differ as between the Ordinary Shares and the Preferred Shares as well as among different series of Preferred Shares (including without limitation, in order to reflect the liquidation preferences and participation rights of the Preferred Shares as set forth in these Articles).

8. The rights and restrictions attaching to the Preferred Shares are as follows:

(a) Income

In the event that the Directors resolve to declare any dividend to Members out of funds legally available for distribution, holders of Preferred Shares shall be entitled to receive payment of such dividend in priority to a payment of such dividend to the holders of Ordinary Shares (the “preferential dividend”). Funds available for the preferential dividend shall be paid out proportionately to the holders of the Series A Preferred Shares, Series B Preferred Shares, and Series C Preferred Shares at a rate of 8% of the Series A Original Purchase Price, Series B Original Purchase Price and Series C Original Purchase Price, respectively (subject to adjustment for any Recapitalization Event), per annum until each such holder has received the full preferential dividend to which it is entitled, then proportionately to the holders of the Ordinary Shares. Dividends shall be non-cumulative.

(b) Capital

On a return of capital on the liquidation, dissolution or winding-up of the Company or otherwise (other than on conversion, redemption or a purchase of shares, or an equity financing or series of financings that do not constitute the sale of all or substantially all of the shares of the Company,) the Company’s assets available for distribution among the Members shall be applied in repaying to the holder of each Preferred Share the following amounts with equal priority pro rata, as adjusted for any Recapitalization Event, in priority to a repayment to the holders of any other class of share:

- (i) the amount of all declared but unpaid preferential dividends relating to such Preferred Share;
- (ii) an amount equal to the Series A Original Purchase Price on each Series A Preferred Share;
- (iii) an amount equal to the Series B Original Purchase Price on each Series B Preferred Share; and
- (iv) an amount equal to the Series C Original Purchase Price on each Series C Preferred Share.

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If the Company's assets are insufficient to pay the holders of the Preferred Shares the full amount to which they are entitled above, then these assets shall be distributed ratably in proportion to the liquidation preferences of the Preferred Shares. After payment to the holders of the Preferred Shares of the full amount to which they are entitled, the remaining assets available for distribution to the shareholders shall be distributed pro rata to all holders of the Ordinary Shares on an as-converted basis assuming that all Preferred Shares have been converted to the Ordinary Shares pursuant to Article 8 (c) below.

For the purpose of these Articles, the merger, consolidation or reorganization of the Company into or with another company in which the members of the Company shall own less than 50% of the voting securities of the surviving company (other than a transaction or series of transactions solely to re-incorporate or change the domicile of the corporation), or any transaction or series of related transactions in which greater than 50% of the Company's voting power is transferred or the sale, transfer or lease (excluding a transfer by pledge or mortgage to a bona fide lender) of all or substantially all the assets of the Company shall be deemed to be a liquidation, dissolution or winding-up of the Company as those terms are used herein.

In any of such events, if the consideration received by the Company is other than cash, the value of such non-cash consideration will be deemed its fair market value. Any securities shall be valued as follows:

- (i) Securities not subject to investment letter or other similar restrictions on free marketability covered by (ii) below:
 - (A) If traded on a securities exchange or through the Nasdaq National Market, the value shall be deemed to be the average of the closing prices of the securities on such exchange or system over the thirty (30) day period ending three (3) days prior to the closing;
 - (B) If actively traded over-the-counter, the value shall be deemed to be the average of the closing bid or sale prices (whichever is applicable) over the thirty (30) day period ending three (3) days prior to the closing; and
 - (C) If there is no active public market, the value shall be the fair market value thereof, as mutually determined by the Company and the holders of at least two-thirds (2/3) of the Preferred Shares, voting as a class and on an as-converted-to-Ordinary-Shares basis.
- (ii) The method of valuation of securities subject to investment letter or other restrictions on free marketability (other than restrictions arising solely by virtue of a shareholder's status as an affiliate or former affiliate) shall be to make an appropriate discount from the market value as determined above in this paragraph to reflect the approximate fair market value thereof, as determined by the Board of Directors.

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(c) Conversion

- (i) Each holder of Preferred Shares as of the Effective Date (such holder being an “Existing Holder”) may in the manner specified in this Article 8(c) convert the whole or part of his holding of the Preferred Shares into Class A Ordinary Shares or Class B Ordinary Shares or any combination thereof at any time at the option of the holder. The conversion ratio upon which each Preferred Share is converted into Class A Ordinary Shares or Class B Ordinary Shares shall be the same. Each holder of Preferred Shares which is not an Existing Holder or an Affiliate of an Existing Holder may only convert the whole or part of his holding of the Preferred Shares into Class A Ordinary Shares in the manner specified in this Article 8(c).

Each holder of Series A Preferred Shares may in the manner specified in this Article 8(c) convert the whole or part of his holding of the Series A Preferred Shares on the basis that the number of Ordinary Shares received per Series A Preferred Share shall be determined by dividing the Series A Original Purchase Price by the conversion price of each such Series A Preferred Share, in effect at the time of conversion (the “Series A Conversion Price”). The initial Series A Conversion Price is the Series A Original Purchase Price, so that each Series A Preferred Share shall initially be converted into one (1) Ordinary Share (the Series A Conversion Price being subject to adjustment in accordance with Articles 8(c)(vii), (viii) and (ix)). Each holder of Series B Preferred Shares may in the manner specified in this Article 8(c) convert the whole or part of his holding of the Series B Preferred Shares on the basis that the number of Ordinary Shares received per Series B Preferred Share shall be determined by dividing the Series B Original Purchase Price by the conversion price of each such Series B Preferred Share, in effect at the time of conversion (the “Series B Conversion Price”). The initial Series B Conversion Price is the Series B Original Purchase Price, so that each Series B Preferred Share shall initially be converted into one (1) Ordinary Share (the Series B Conversion Price being subject to adjustment in accordance with Articles 8(c)(vii), (viii) and (ix)). Each holder of Series C Preferred Shares may in the manner specified in this Article 8(c) convert the whole or part of his holding of the Series C Preferred Shares on the basis that the number of Ordinary Shares received per Series C Preferred Share shall be determined by dividing the Series C Original Purchase Price by the conversion price of each such Series C Preferred Share, in effect at the time of conversion (the “Series C Conversion Price”). The initial Series C Conversion Price is the Series C Original Purchase Price,

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so that each Series C Preferred Share shall initially be converted into one (1) Ordinary Share (the Series C Conversion Price being subject to adjustment in accordance with Articles 8(c)(vii), (viii) and (ix).

- (ii) Subject to Article 8(c)(i), the holder of Preferred Shares may, by delivery to the Company or its authorised agent of a conversion notice in such form as the Directors may from time to time determine (together with any share certificate(s) relating to such Preferred Shares and any reasonable evidence the Directors may require to prove the title of the person exercising the right to convert; provided such requirements shall have been communicated in writing to such holder prior to the delivery to the Company of the conversion notice), require the Company to convert some or all of his Preferred Shares on any Business Day into Class A Ordinary Shares or Class B Ordinary Shares, in accordance with these Articles and such conversion of Preferred Shares shall be deemed to have been made as of such Business Day, which shall be by way of the redemption by the Company of the Preferred Shares and the issue of Ordinary Shares of the class requested by the holder of Preferred Shares.
- (iii) A conversion notice once given may not be withdrawn without the Company's written consent.
- (iv) On the date of conversion of any Preferred Share to an Ordinary Share(s), the holder of the Preferred Share to be converted shall cease to be entitled to any rights in respect of that share (including the right to receive a dividend which has been declared in respect thereof prior to such conversion being effected) and accordingly his name shall be removed from the Register of Members as the holder of such Preferred Share, added to the Register of Members as the holder of such Ordinary Share and treated as a record holder of such Ordinary Share, and such conversion shall be accomplished by the redemption of Preferred Shares and immediate issue of new Ordinary Shares, each credited as fully paid, at the agreed ratio. Each Preferred Share when redeemed as a result of conversion shall be cancelled and may not be reissued.
- (v) The Class A or Class B Ordinary Shares to which a holder is entitled in exercising his right to convert ("new Ordinary Shares"):
 - (A) shall be credited as fully paid;
 - (B) shall rank pari passu in all respects and form one class with the Class A Ordinary Shares or the Class B Ordinary Shares then in issue, as applicable; and

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- (C) entitle the holder to be paid an appropriate proportion of all dividends and other distributions declared, made or paid on Ordinary Shares in respect of the calendar year in which the relevant conversion date falls, but not in respect of an earlier financial year.
- (vi) The issue and allotment of new Ordinary Shares shall be made promptly after the relevant conversion date, but in any event within two weeks thereof. A certificate for new Ordinary Shares shall be sent within four weeks of the relevant conversion date to each holder without charge, with a new certificate for any balance of unconverted Preferred Shares comprised in the surrendered certificate and, if appropriate, a cheque in respect of a fractional entitlement.
- (vii) To prevent dilution, in the event that the Company at any time or from time to time on or after the Original Issue Date issues Ordinary Shares or any Options (as defined below) or Convertible Securities (as defined below) (collectively, the “Additional Ordinary Shares”) or enters into any agreements, for the purchase or acquisition from the Company of any Additional Ordinary Shares without consideration or at a purchase price less than the Conversion Price of the Series A, Series B Preferred Shares, or Series C Preferred Shares in effect on the date of issuance of such Additional Ordinary Shares, the applicable Conversion Price shall be reduced to the Effective Price at which such Additional Ordinary Shares are so issued or sold or deemed issued or sold, except that no adjustment will be made:
 - (A) if the Company issues or reserves for issue up to 5,040,000 Ordinary Shares (or such greater amount as approved by the holders of more than two-thirds (2/3) of the Preferred Shares voting as a class and on an as-converted-to-Ordinary-Shares basis) in the form of Ordinary Shares and/or options therefor (net of repurchases or expired options) to employees, officers, directors, consultants, contractors or advisors of the Company pursuant to any share purchase or share option plans or agreements or other incentive share arrangements which have been approved by the Board of Directors of the Company (the “Board”);
 - (B) if the Company issues any Additional Ordinary Shares as a dividend or distribution on the Preferred Shares or on the Ordinary Shares;
 - (C) if the Company issues any Additional Ordinary Shares in connection with corporate partnerships, joint development agreements, distribution agreements or issuances to customers or

vendors, or in connection with leases or bank financings, in amounts approved by the Board and not with a primary purpose of raising capital;

- (D) if the Company issues any Additional Ordinary Shares pursuant to the acquisition by the Company or a Material Subsidiary of all or part of the share capital of another corporation or other entity, or a merger of the Company or a Material Subsidiary with or into another corporation or other entity, purchase by the Company or a Material Subsidiary of all or part of the assets of another corporation or other entity or reorganization as a result of which the Company or its shareholders own not less than fifty-one percent (51%) of the voting power of the surviving entity;
- (E) if the Company issues or sells any Additional Ordinary Shares in connection with the Company's Qualified IPO;
- (F) if the Company repurchases shares from employees, officers, directors, consultants, contractors or advisors of the Company upon termination of employment or as otherwise approved by the Board, including the approval of a majority of the Series A and Series B Directors, at repurchase prices not exceeding the respective original purchase prices paid by such persons;
- (G) if the Company issues Additional Ordinary Shares to the holders of Preferred Shares upon exercise of conversion rights in respect of such Preferred Shares; or
- (H) if the Company issues or sells Additional Ordinary Shares and such issue is approved by the holders of more than two-thirds (2/3) of the Preferred Shares, voting as a class and on an as-converted-to-Ordinary-Shares basis, and by the Board of Directors, including the approval of a majority of the Series A and the Series B Directors.

For the purposes of these Articles, the "Effective Price" of each series of Preferred Share means the applicable Conversion Price multiplied by a fraction:

- (1) The numerator of which shall be the sum of (A) the number of Ordinary Share Equivalents Outstanding (as hereinafter defined) immediately prior to such issue or sale of Additional Ordinary Shares plus (B) the quotient obtained by dividing the Aggregate Consideration Received (as hereinafter defined) by the Company for the total number of Additional Ordinary Shares so issued or sold by the applicable Conversion Price in effect immediately prior to such issue or sale; and

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- (2) The denominator of which shall be the sum of (A) the number of Ordinary Share Equivalents Outstanding immediately prior to such issue or sale plus (B) the number of Additional Ordinary Shares so issued or sold.

For the purposes of this definition of “Effective Price”:

- (1) The “Aggregate Consideration Received” by the Company for any issue or sale of Additional Ordinary Shares shall (A) to the extent it consists of cash, be computed at the gross amount of cash received by the Company before deduction of any underwriting or similar commissions, compensation or concessions paid or allowed by the Company in connection with such issue or sale and without deduction of any expenses payable by the Company; (B) to the extent it consists of property other than cash, be computed at the fair value of that property as determined in good faith by the Board of Directors of the Company and (C) if Additional Ordinary Shares are issued or sold together with other shares or securities or other assets of the Company for a consideration which covers both, be computed as the portion of the consideration so received that may be reasonably determined in good faith by the Board of Directors of the Company to be allocable to such Additional Ordinary Shares.
- (2) “Ordinary Share Equivalents Outstanding” shall mean the number of Ordinary Shares that is equal to the sum of (A) all Ordinary Shares that are outstanding on the date of issuance of Additional Ordinary Shares, plus (B) all Ordinary Shares issuable upon conversion of all Preferred Shares or other Convertible Securities that are outstanding on the date of issuance of Additional Ordinary Shares, plus (C) all Ordinary Shares that are issuable upon the exercise of Rights or Options that are outstanding on the date of issuance of Additional Ordinary Shares assuming the full conversion or exchange into Ordinary Shares of all such Rights or Options that are Rights or Options to purchase or acquire Convertible Securities convertible into or exchangeable for Ordinary Shares.
- (3) “Convertible Securities” shall mean shares or other securities convertible into or exchangeable for Ordinary Shares.
- (4) “Rights or Options” shall mean warrants, options or other rights to purchase or acquire Ordinary Shares or Convertible Securities.

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- (vii) In the event the Company at any time or from time to time on or after the Original Issue Date shall issue any Rights or Options to subscribe for, purchase or otherwise acquire either Ordinary Shares or Convertible Securities (as defined above), or any evidences of indebtedness, shares (other than Ordinary Shares or Preferred Shares) or Convertible Securities, or shall fix a record date for the determination of holders of any class or series of securities entitled to receive any such Rights or Options, evidences of indebtedness, shares or Convertible Securities, then the maximum number of Ordinary Shares (as set forth in the instrument relating thereto without regard to any provisions contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options therefor, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Ordinary Shares issued as of the time of such issuance of Options or Convertible Securities, provided that Additional Ordinary Shares shall not be deemed to have been issued unless the consideration per share of such Additional Ordinary Shares would be less than the applicable Conversion Price in effect on the date of and immediately prior to such issue, or such record date, as the case may be, and provided further that in any case in which Additional Ordinary Shares are deemed to be issued:
- (A) no further adjustment in the Conversion Price shall be made upon the subsequent issue of Convertible Securities or Ordinary Shares upon the exercise of such Options or conversion or exchange of such Convertible Securities;
 - (B) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase or decrease in the consideration payable to the Company, or increase or decrease in the number of shares of Ordinary Shares issuable, upon the exercise, conversion or exchange thereof, the Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities; and
 - (C) no readjustment pursuant to clause (B) above shall have the effect of increasing the Conversion Price to an amount that exceeds the lower of (i) the Conversion Price on the original adjustment date (immediately prior to the adjustment), or (ii) the Conversion Price that would have resulted from any issuance of Additional Ordinary Shares between the original adjustment date and such readjustment date.

- (D) the consideration per share received by the Company for Additional Ordinary Shares deemed to have been issued, relating to Options and Convertible Securities, shall be determined by dividing:
 - (x) the total amount, if any, received or receivable by the Company as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, by
 - (y) the maximum number of Ordinary Shares (as set forth in the instrument relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.
- (viii) In the event the Company at any time or from time to time on or after the Original Issue Date shall pay a share dividend or other distribution payable in Ordinary Shares on the Ordinary Shares, or the issued Ordinary Shares shall be subdivided, combined or consolidated, by reclassification or otherwise, into a greater or lesser number of Ordinary Shares, the Conversion Price in effect immediately prior to such subdivision or combination shall, concurrently with the effectiveness of such subdivision, combination or consolidation, be proportionately adjusted. In the case of a share dividend or other distribution payable in Ordinary Shares such adjustment shall occur as follows: the Conversion Price that is then in effect shall be decreased as of the time of such issuance, or in the event a record date is fixed, as of the close of business on such record date, by multiplying the Conversion Price then in effect by a fraction (1) the numerator of which is the total number of issued Ordinary Shares immediately prior to the time of such issuance or the close of business on such record date, and (2) the denominator of which is the total number of issued Ordinary Shares immediately prior to the time of such issuance or the close of business on such record date plus the number of Ordinary

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Shares issuable in payment of such dividend or distribution; provided, however, that if such record date is fixed and such dividend is not fully paid or if such distribution is not fully made on the date fixed therefor, the Conversion Price shall be recomputed accordingly as of the close of business on such record date and thereafter the Conversion Price shall be adjusted to reflect the actual payment of such dividend or distribution.

- (ix) Upon the occurrence of each adjustment or readjustment of the Conversion Price pursuant to this Article 8, the Company, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and furnish to each holder of Preferred Shares for which a Conversion Price adjustment is being made a certificate setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Company shall, upon the written request at any time of any holder of Preferred Shares, furnish or cause to be furnished to such holder a like certificate setting forth (i) all such adjustments and readjustments, (ii) the Conversion Price at the time in effect for such holder's series of Preferred Shares, and (iii) the number of Ordinary Shares and the amount, if any, of other property which at the time would be received upon the conversion of the Preferred Shares.
- (x) The Preferred Shares held by the Existing Holders and their Affiliates shall automatically be converted into Class B Ordinary Shares at the applicable Conversion Price as adjusted pursuant to Articles 8(c)(vii) and (viii), and the Preferred Shares held by holders which are not the Existing Holders nor their Affiliates shall automatically be converted into Class A Ordinary Shares at the applicable Conversion Price as adjusted pursuant to Articles 8(c)(vii) and (viii):
 - (A) immediately prior to the closing of an underwritten public offering of Ordinary Shares of the Company, at a public offering price reflecting a valuation of the Company on a fully diluted basis of not less than US\$215,000,000 and resulting in gross proceeds to the Company of not less than US\$20,000,000 (before payment of underwriters' discounts and commissions) (the "Qualified IPO"); or
 - (B) upon the written consent of holders of at least two-thirds (2/3) of the Preferred Shares (including the Series A Preferred Shares, the Series B Preferred Shares and the Series C Preferred Shares), voting as a class and on an as-converted-to-Ordinary-Shares basis.

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(d) Attendance at General Meetings and Voting

Holders of Preferred Shares have the right to receive notice of, attend, speak and vote at a general meeting. Each Existing Holder or its Affiliate which holds Preferred Shares present in person or by proxy or (being a corporation) by a representative, is entitled to exercise the number of votes which he would have been entitled to exercise if all the Preferred Shares held by him had been converted into Class B Ordinary Shares times 10 immediately before the holding of the general meeting at the Conversion Price then in effect. Each holder of Preferred Shares which is not an Existing Holder or its Affiliate which holds Preferred Shares present in person or by proxy or (being a corporation) by a representative, is entitled to exercise the number of votes which he would have been entitled to exercise if all the Preferred Shares held by him had been converted into Class A Ordinary Shares immediately before the holding of the general meeting at the Conversion Price then in effect.

(e) Restrictions

The Company shall not undertake any of the following actions (whether by amendment, merger, consolidation or otherwise) without the vote or prior written consent of (a) the holders of more than 50% of the Series A Preferred Shares if at least 1,200,000 Series A Preferred Shares remain outstanding, (b) the holders of more than 50% of the Series B Preferred Shares if any Series B Preferred Shares remain outstanding, and (C) the holders of more than 50% of the Series C Preferred Shares if any Series C Preferred Shares remain outstanding:

- (i) acquire or merge with another entity, undertake a reorganization or enter into any joint venture or take any other action which would result in the transfer of more than 50% of the voting shares of the Company;
- (ii) sell all or substantially all of the assets of the Company;
- (iii) increase, reduce, redeem, cancel or purchase the authorized or issued share capital of the Company, or dispose of the Company's interest in any subsidiary or associate or affiliate company; provided, however, this Article 8(e)(iii) shall not be applicable to (A) the issuance or sale of Ordinary Shares pursuant to the conversion or exercise of convertible or exercisable securities, including without limitation the issuance of Ordinary Shares to officers, directors, employees or consultants of the Company pursuant to the exercise of their options; and (B) the issuance of Ordinary Shares or securities convertible into Ordinary Shares in connection with a bona fide business acquisition by the Company or a Material Subsidiary duly approved by the Board of Directors, where the aggregate number of such Ordinary Shares does not exceed 6% of the total issued and outstanding share capital of the Company on a fully diluted basis;

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- (iv) convene a general meeting of the holders of shares at which a resolution will or may be proposed to liquidate, wind up or dissolve the Company, provided, however, that consent of the holders of Preferred Shares shall not be unreasonably withheld if the Company is insolvent;
- (v) take any action to authorise, create or issue shares of any class of shares with rights senior to or in parity with the Preferred Shares;
- (vi) take any action to reclassify any outstanding shares into shares having preferences or priority as to dividends or assets senior to or in parity with the preferences or priority of the Preferred Shares;
- (vii) repurchase Ordinary Shares, except on termination of employment of the employees of the Company who hold Ordinary Shares subject to vesting;
- (viii) increase the number of authorised shares of Preferred Shares or any series thereof; or
- (ix) amend or change the rights, preferences, privileges or powers of, or the restrictions that provide for the benefit of, the Preferred Shares; or
- (x) increase the number of Directors above five (5) Directors.

In connection with any acquisition or merger considered by the shareholders pursuant to item (i) above, any holder of Preferred Shares may prior to the meeting request advice from the Board of Directors of the Company as to whether the consummation of any such transaction is beneficial to the interests of the Company.

(f) Appointment of Directors

Two Directors (the “Series A Directors”) shall be elected by the holder(s) of a majority of the Series A Preferred Shares, voting separately as a class. Two Directors (the “Series B Directors”) shall be elected by the holder(s) of a majority of the Series B Preferred Shares, voting separately as a class; provided that the Series B Directors shall be representatives of Draper Fisher Jurvetson ePlanet Ventures L.P. (“DFJ”) so long as DFJ holds at least a majority of the Series B Preferred Shares. One Director shall be Yanhong (Robin) Li, the Chief Executive Officer of the Company (the “Fifth Director”). Holders of the Series C Preferred Shares shall not have the right to elect any Director.

A Series A Director appointed pursuant to this Article shall cease to be a Director from the date on which the holder(s) that appointed such Director cease to hold a majority of the Series A Preferred Shares or such Director resigns or is removed by the holder(s) of Series A Preferred Shares that appointed him or her.

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A Series B Director appointed pursuant to this Article shall cease to be a Director from the date on which the holder(s) that appointed such Director cease to hold a majority of the Series B Preferred Shares or such Director resigns or is removed by the holder(s) of Series B Preferred Shares that appointed him or her.

Any Directors or holder(s) entitled to appoint a Director pursuant to this Article may also designate an alternate Director who shall be entitled to attend meetings of the Board of Directors as an observer and may be designated as such Director's alternate for purposes of Article 77, provided that such observer executes the Company's standard form of confidentiality agreement.

Any appointment or removal of a Series A Director or a Series B Director shall be made by notice in writing served on the Company and signed by the holder(s) of Preferred Shares that appointed such Director. In the case of a corporation, the notice may be signed on its behalf by a director or the Secretary of the corporation or by its duly appointed attorney or duly authorised representative.

(g) Fully-Paid Shares

The Preferred Shares may only be issued fully paid or credited as fully paid.

9. The Company shall maintain a register of its Members and every person whose name is entered as a Member in the register of Members shall be entitled, without payment, to receive within two months after allotment or lodgment of transfer (or within such other period as the conditions of issue shall provide) one certificate for all his shares or several certificates each for one or more of his shares upon payment of fifty cents (US\$0.50) for every certificate after the first or such less sum as the Directors shall from time to time determine, provided that, in respect of a share or shares held jointly by several persons, the Company shall not be bound to issue more than one certificate and delivery of a certificate for a share to one of the several joint holders shall be sufficient delivery to all such holders.

TRANSFER OF SHARES

10. The instrument of transfer of any share shall be in writing and shall be executed by or on behalf of the transferor and the transferor shall be deemed to remain the holder of a share until the name of the transferee is entered in the register in respect thereof.
11. The Directors may, in their absolute discretion, decline to register any transfer of shares without assigning any reason therefor. If the Directors refuse 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 in agreements with the Company, the Directors shall register such transfer.

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12. The registration of transfers may be suspended at such time and for such periods as the Directors may from time to time determine, provided always that such registration shall not be suspended for more than forty-five days in any year.

REDEEMABLE SHARES

13. (a) Subject to the provisions of the Statute and the Memorandum of Association, shares may be issued on the terms that they are, or at the option of the Company or the holder are, to be redeemed on such terms and in such manner as the Company, before the issue of the shares, may by Special Resolution determine.
- (b) Subject to the provisions of the Statute and the Memorandum of Association, the Company may purchase its own shares (including fractions of a share), including any redeemable shares, provided that the manner of purchase has first been authorised by the Board of Directors, and the Company, in a general meeting, and may make payment therefor in any manner authorised by the Statute, including out of capital.

VARIATION OF RIGHTS OF SHARES

14. If at any time the share capital of the Company is divided into different classes of shares, the rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class and as set forth in the Articles) may, whether or not the Company is being wound up, liquidated or dissolved, be varied with the consent in writing of the holders of at least two-thirds (2/3) 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.

The provisions of these Articles relating to general meetings shall apply to every such general meeting of the holders of one class of shares except that the necessary quorum shall be one person holding or representing by proxy at least fifty percent (50%) of the issued shares of the class and that any holder of shares of the class present in person or by proxy may demand a poll.

15. The rights conferred upon the holders of the Preferred Shares shall be deemed varied or abrogated by, inter alia:
- (a) any amendment or change of the rights, preferences, privileges or powers of, or the restrictions provided for the benefit of the holders of, the Preferred Shares;
- (b) any action that authorises, creates or issues shares of any class ranking as regards participation in the Company's profits or assets or dividends in priority to the Preferred Shares;
- (c) any action that reclassifies any issued shares of any class ranking as regards participation in the Company's profits or assets or dividends in priority to the Preferred Shares; and

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- (d) any amendment to these Articles of Association that materially and adversely affects the rights of the holders of the Preferred Shares.

COMMISSION ON SALE OF SHARES

16. The Company may, in so far as the Statute from time to time permits, pay a commission to any person in consideration of his subscribing or agreeing to subscribe, whether absolutely or conditionally, for any shares of the Company. Such commissions may be satisfied by the payment of cash or the lodgment of fully or partly paid-up shares or partly in one way and partly in the other. The Company may also on any issue of shares pay such brokerage as may be lawful.

NON-RECOGNITION OF TRUSTS

17. No person shall be recognised by the Company as holding any share upon any trust and the Company shall not be bound by or be compelled in any way to recognise (even when having notice thereof) any equitable, contingent, future, or partial interest in any share, or any interest in any fractional part of a share, or (except only as is otherwise provided by these Articles or the Statute) any other rights in respect of any share except an absolute right to the entirety thereof in the registered holder.

LIEN ON SHARES

18. The Company shall have a first and paramount lien and charge on all shares (whether fully paid-up or not) registered in the name of a Member (whether solely or jointly with others) for all debts, liabilities or engagements to or with the Company (whether presently payable or not) by such Member or his estate, either alone or jointly with any other person, whether a Member or not, but the Directors may at any time declare any share to be wholly or in part exempt from the provisions of this Article. The registration of a transfer of any such share shall operate as a waiver of the Company's lien (if any) thereon. The Company's lien (if any) on a share shall extend to all dividends or other monies payable in respect thereof.
19. The Company may sell, in such manner as the Directors think fit, any shares on which the Company has a lien, but no sale shall be made unless a sum in respect of which the lien exists is presently payable, nor until the expiration of fourteen days after a notice in writing stating and demanding payment of such part of the amount in respect of which the lien exists as is presently payable, has been given to the registered holder or holders for the time being of the share, or the person, of which the Company has notice, entitled thereto by reason of his death or bankruptcy.
20. To give effect to any such sale, the Directors may authorise some person to transfer the shares sold to the purchaser thereof. The purchaser shall be registered as the holder of the shares comprised in any such transfer, and he shall not be bound to see to the application of the purchase money, nor shall his title to the shares be affected by any irregularity or invalidity in the proceedings in reference to the sale.

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21. The proceeds of such sale shall be received by the Company and applied in payment of such part of the amount in respect of which the lien exists as is presently payable and the residue, if any, shall (subject to a like lien for sums not presently payable as existed upon the shares before the sale) be paid to the person entitled to the shares at the date of the sale.

CALL ON SHARES

22. (a) The Directors may from time to time make calls upon the Members in respect of any monies unpaid on their shares (whether on account of the nominal value of the shares or by way of premium or otherwise) and not by the conditions of allotment thereof made payable at fixed terms, provided that no call shall be payable at less than one month from the date fixed for the payment of the last preceding call, and each Member shall (subject to receiving at least fourteen days notice specifying the time or times of payment) pay to the Company, at the time or times so specified, the amount called on the shares. A call may be revoked or postponed as the Directors may determine. A call may be made payable by installments.
- (b) A call shall be deemed to have been made at the time when the resolution of the Directors authorizing such call was passed.
- (c) The joint holders of a share shall be jointly and severally liable to pay all calls in respect thereof.
23. If a sum called in respect of a share is not paid before or on a day appointed for payment thereof, the persons from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate not exceeding, ten percent (10%) per annum as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest either wholly or in part.
24. Any sum which by the terms of issue of a share becomes payable on allotment or at any fixed date, whether on account of the nominal value of the share or by way of premium or otherwise, shall, for the purposes of these Articles, be deemed to be a call duly made, notified and payable on the date on which by the terms of issue the same becomes payable, and in the case of non-payment all the relevant provisions of these Articles as to payment of interest, forfeiture or otherwise shall apply as if such sum had become payable by virtue of a call duly made and notified.
25. The Directors may, on the issue of shares, differentiate between the holders as to the amount of calls or interest to be paid and the times of payment.
26. (a) The Directors may, if they think fit, receive from any Member willing to advance the same, all or any part of the monies uncalled and unpaid upon any shares held

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by him, and upon all or any of the monies so advanced may (until the same would but for such advances, become payable) pay interest at such rate not exceeding (unless the Company in general meeting shall otherwise direct) seven percent (7%) per annum, as may be agreed upon between the Directors and the Member paying such sum in advance.

- (b) No such sum paid in advance of calls shall entitle the Member paying such sum to any portion of a dividend declared in respect of any period prior to the date upon which such sum would, but for such payment, become presently payable.

FORFEITURE OF SHARES

- 27. (a) If a Member fails to pay any call or instalment of a call or to make any payment required by the terms of issue on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call, instalment or payment remains unpaid, give notice requiring payment of so much of the call, instalment or payment as is unpaid, together with any interest which may have accrued and all expenses that have been incurred by the Company by reason of such non-payment. Such notice shall name a day (not earlier than the expiration of fourteen days from the date of giving of the notice) on or before which the payment required by the notice is to be made, and shall state that, in the event of non-payment at or before the time appointed, the shares in respect of which such notice was given will be liable to be forfeited.
 - (b) If the requirements of any such notice as aforesaid are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends declared in respect of the forfeited share and not actually paid before the forfeiture.
 - (c) A forfeited share may be sold or otherwise disposed of on such terms and in such manner as the Directors think fit and at any time before a sale or disposition the forfeiture may be cancelled on such terms as the Directors think fit.
- 28. A person whose shares have been forfeited shall cease to be a Member in respect of the forfeited shares, but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture were payable by him to the Company in respect of the shares together with interest thereon, but his liability shall cease if and when the Company shall have received payment in full of all monies whenever payable in respect of the shares.
 - 29. A certificate in writing under the hand of one Director or the Secretary of the Company that a share in the Company has been duly forfeited on a date stated in the declaration shall be conclusive evidence of the fact therein stated as against all persons claiming to be entitled to the share. The Company may receive the consideration given for the share

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on any sale or disposition thereof and may execute a transfer of the share in favour of the person to whom the share is sold or disposed of and he shall thereupon be registered as the holder of the share and shall not be bound to see to the application of the purchase money, if any, nor shall his title to the share be affected by any irregularity or invalidity in the proceedings in reference to the forfeiture, sale or disposal of the share.

30. The provisions of these Articles as to forfeiture shall apply in the case of non-payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium as if the same had been payable by virtue of a call duly made and notified.

REGISTRATION OF EMPOWERING INSTRUMENTS

31. The Company shall be entitled to charge a fee not exceeding one dollar (US\$1.00) on the registration of every probate, letters of administration certificate of death or marriage, power of attorney, notice in lieu of distringas, or other instrument.

TRANSMISSION OF SHARES

32. In case of the death of a Member, the survivor or survivors where the deceased was a joint holder, and the legal personal representatives of the deceased where he was a sole holder, shall be the only persons recognised by the Company as having any title to his interest in the shares, but nothing herein contained shall release the estate of any such deceased holder from any liability in respect of any shares which had been held by him solely or jointly with other persons.
33. (a) Any person becoming entitled to a share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may from time to time be required by the Directors and subject as hereinafter provided, elect either to be registered himself as holder of the share or to make such transfer of the share to such other person nominated by him as the deceased or bankrupt person could have made and to have such person registered as the transferee thereof, but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the share by that Member before his death or bankruptcy as the case may be.
- (b) If the person so becoming entitled shall elect to be registered himself as holder, he shall deliver or send to the Company a notice in writing signed by him stating that he so elects.
34. A person becoming entitled to a share by reason of the death or bankruptcy or liquidation or dissolution of the holder (or in any other case than by transfer) shall be entitled to the same dividends and other advantages to which he would be entitled if he were the registered holder of the share, except that he shall not, before being registered as a Member in respect of the share, be entitled in respect of it to exercise any right conferred

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by membership in relation to meetings of the Company PROVIDED HOWEVER that the Directors may at any time give notice requiring any such person to elect either to be registered himself or to transfer the share and, if the notice is not complied with within ninety days, the Directors may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the share until the requirements of the notice have been complied with.

**AMENDMENT OF MEMORANDUM OF
ASSOCIATION, CHANGE OF
LOCATION OF REGISTERED OFFICE &
ALTERATION OF CAPITAL**

35. (a) Subject to and in so far as permitted by the provisions of the Statute, the Company may, subject to the consent in writing of the holders of at least two-thirds (2/3) of the Preferred Shares voting as a separate class and on an as-converted-to-Ordinary-Shares basis, from time to time by ordinary resolution alter or amend its Memorandum of Association otherwise than with respect to its name and objects and may, without restricting the generality of the foregoing:
- (i) Intentionally omitted.
 - (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
 - (iii) by subdivision of its existing shares or any of them divide the whole or any part of its share capital into shares of smaller amount than is fixed by the Memorandum of Association or into shares without nominal or par value;
 - (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person.
- (b) All new shares created hereunder shall be subject to the same provisions with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the shares in the original share capital.
- (c) Subject to the provisions of the Statute, the Company may by Special Resolution change its name or alter its objects.
- (d) Without prejudice to Article 3 hereof and subject to the provisions of the Statute, the Company may, with the consent of the holders of a majority of each series of Preferred Shares voting as a separate class, by Special Resolution reduce its share capital and any capital redemption reserve fund.
- (e) Subject to the provisions of the Statute, the Company may by resolution of the Directors change the location of its registered office.

CLOSING REGISTER OF MEMBERS OR FIXING RECORD DATE

36. For the purpose of determining Members entitled to notice of or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any dividend, or in order to make a determination of Members for any other proper purpose, the Directors of the Company may provide that the register of Members shall be closed for transfers for a stated period but not to exceed in any case forty days. If the register of Members shall be so closed for the purpose of determining Members entitled to notice of or to vote at a meeting of Members such register shall be so closed for at least ten days immediately preceding such meeting and the record date for such determination shall be the date of the closure of the register of Members.
37. In lieu of or apart from closing the register of Members, the Directors may fix in advance a date as the record date for any such determination of Members entitled to notice of or to vote at a meeting of the Members and for the purpose of determining the Members entitled to receive payment of any dividend the Directors may, at or within 90 days prior to the date of declaration of such dividend, fix a subsequent date as the record date for such determination.
38. If the register of Members is not so closed and no record date is fixed for the determination of Members entitled to notice of or to vote at a meeting of Members or Members entitled to receive payment of a dividend, the date on which notice of the meeting is mailed or the date on which the resolution of the Directors declaring such dividend is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this section, such determination shall apply to any adjournment thereof.

GENERAL MEETING

39. (a) Subject to paragraph (c) hereof, the Company shall within one year of its incorporation and in each year of its existence thereafter hold a general meeting as its annual general meeting and shall specify the meeting as such in the notices calling it. The annual general meeting shall be held at such time and place as the Directors shall appoint and if no other time and place is prescribed by them, it shall be held at the registered office on the second Wednesday in December of each year at ten o'clock in the morning.
 - (b) At these meetings the report of the Directors (if any) shall be presented.
 - (c) If the Company is exempted, as defined in the Statute, it may but shall not be obliged to hold an annual general meeting.
40. (a) The Directors may whenever they think fit, and they shall on the requisition of Members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, proceed to convene a general meeting of the Company.

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- (b) The requisition must state the items to be voted upon at the meeting and must be signed by the requisitionists and deposited at the registered office of the Company and may consist of several documents in like form each signed by one or more requisitionists.
- (c) If the Directors do not within twenty-one days from the date of the deposit of the requisition duly proceed to convene a general meeting, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of three months after the expiration of the said twenty-one days.
- (d) A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

NOTICE OF GENERAL MEETINGS

- 41. At least five calendar days' notice shall be given of an annual general meeting or any other general meeting. Every notice shall be exclusive of the day on which it is given or deemed to be given and of the day for which it is given and shall specify the place, the day and the hour of the meeting and the general nature of the business and shall be given in manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company PROVIDED that a general meeting of the Company shall, whether or not the notice specified in this regulation has been given and whether or not the provisions of Article 41 have been complied with, be deemed to have been duly convened if it is so agreed:
 - (a) in the case of a general meeting called as an annual general meeting by all the Members entitled to attend and vote thereat or their proxies; and
 - (b) in the case of any other general meeting by a majority of the number of Members having a right to attend and vote at the meeting, being a majority together holding not less than seventy-five percent (75%) in nominal value or, in the case of shares without nominal or par value, seventy-five percent (75%) of the shares in issue, or their proxies.
- 42. The accidental omission to give notice of a general meeting to, or the non-receipt of notice of a meeting by any person entitled to receive notice shall not invalidate the proceedings of that meeting.

PROCEEDINGS AT GENERAL MEETINGS

43. No business shall be transacted at any general meeting unless a quorum of Members is present at the time when the meeting proceeds to business. Save as otherwise provided by these Articles, one or more Members holding at least a majority of the paid up voting share capital of the Company present in person, by proxy, via telephone conference or other communications equipment by means of which all the persons participating in the meeting can communicate with each other, shall be a quorum. Participation by a Member in a general meeting in this manner is treated as presence in person at that meeting.
44. A resolution (including a Special Resolution) in writing (in one or more counterparts) signed by all Members for the time being entitled to receive notice of and to attend and vote at general meetings (or being corporations by their duly authorised representatives) shall be as valid and effective as if the same had been passed at a general meeting of the Company duly convened and held.
45. If within half an hour from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of Members, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and place or to such other time or such other place as the Directors may determine and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting the Members present shall be a quorum.
46. The Chairman, if any, of the Board of Directors shall preside as Chairman at every general meeting of the Company, or if there is no such Chairman, or if he shall not be present within fifteen minutes after the time appointed for the holding of the meeting, or is unwilling to act, the Directors present shall elect one of their number to be Chairman of the meeting.
47. If at any general meeting no Director is willing to act as Chairman or if no Director is present within fifteen minutes after the time appointed for holding the meeting, the Members present shall choose one of their number to be Chairman of the meeting.
48. The Chairman may, with the consent of any general meeting duly constituted hereunder, and shall if so directed by the meeting, adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place. When a general meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting; save as aforesaid it shall not be necessary to give any notice of an adjournment or of the business to be transacted at an adjourned general meeting.
49. At any general meeting, a resolution put to the vote of the meeting shall be decided on a poll conducted by the Chairman. A vote by show of hands in lieu of a poll shall not be permitted.

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50. A person may participate at a general meeting by telephone conference or other communications equipment by means of which all the persons participating in the meeting can communicate with each other. Participating by a person in a general meeting in this manner is treated as presence in person at that meeting.
51. Intentionally omitted.
52. Intentionally omitted.
53. Intentionally omitted.
54. A poll demanded on the election of a Chairman or on a question of adjournment shall be taken forthwith. A poll demanded on any other question shall be taken at such time as the Chairman of the general meeting directs and any business other than that upon which a poll has been demanded or is contingent thereon may be proceeded with pending the taking of the poll.

VOTES OF MEMBERS

55. Intentionally omitted.
56. In the case of joint holders of record, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of Members.
57. A Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote, on a poll, by his committee, receiver, curator bonis, or other person in the nature of a committee, receiver or curator bonis appointed by that court, and any such committee, receiver, curator bonis or other persons may vote by proxy.
58. No Member shall be entitled to vote at any general meeting unless he is registered as a shareholder of the Company on the record date for such meeting nor unless all calls or other sums presently payable by him in respect of shares in the Company have been paid.
59. No objection shall be raised to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at such general meeting shall be valid for all purposes. Any such objection made in due time shall be referred to the Chairman of the general meeting whose decision shall be final and conclusive.
60. On a poll votes may be given either personally or by proxy.

PROXIES

61. The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation under the hand of an officer or attorney duly authorised in that behalf. A proxy need not be a Member of the Company.
62. The instrument appointing a proxy shall be deposited at the registered office of the Company or at such other place as is specified for that purpose in the notice convening the meeting no later than the time for holding the meeting, or adjourned meeting provided that the Chairman of the Meeting may at his discretion direct that an instrument of proxy shall be deemed to have been duly deposited upon receipt of telex, cable or telecopy confirmation from the appointor that the instrument of proxy duly signed is in the course of transmission to the Company.
63. The instrument appointing a proxy may be in any usual or common form and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join or concur in demanding a poll.
64. A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given provided that no intimation in writing of such death, insanity, revocation or transfer as aforesaid shall have been received by the Company at the registered office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.
65. Any corporation which is a Member of record of the Company may in accordance with its Articles or in the absence of such provision by resolution of its Directors or other governing body authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members of the Company, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Member of record of the Company.
66. Shares of its own capital belonging to the Company or held by it in a fiduciary capacity shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of outstanding shares at any given time.

DIRECTORS

67. There shall be a Board of Directors consisting of five (5) persons (exclusive of alternate Directors) PROVIDED HOWEVER that subject to the rights of the holders of the Preferred Shares provided herein, the Company may, subject to Article 8(f), from time to time by ordinary resolution increase or reduce the limits in the number of Directors.

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68. The remuneration to be paid to the Directors shall be such remuneration as the Directors shall determine. Such remuneration shall be deemed to accrue from day to day. The Directors shall also be entitled to be paid their reasonable travelling, hotel and other expenses properly incurred by them in going to, attending and returning from meetings of the Directors, or any committee of the Directors, or general meetings of the Company, or otherwise in connection with the business of the Company, or to receive a fixed allowance in respect thereof as may be determined by the Directors from time to time, or a combination partly of one such method and partly the other.
69. The Directors may by resolution award special remuneration to any Director of the Company undertaking any special work or services for, or undertaking any special mission on behalf of, the Company other than his ordinary routine work as a Director. Any fees paid to a Director who is also counsel or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his remuneration as a Director.
70. A Director or alternate Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.
71. A Director or alternate Director may act by himself or his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or alternate Director.
72. A shareholding qualification for Directors may be fixed by the Company in general meeting, but unless and until so fixed no qualification shall be required.
73. A Director or alternate Director of the Company may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as shareholder or otherwise and no such Director or alternate Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company.
74. No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by any such contract or transaction by reason of such Director holding office or of the fiduciary relation thereby established. A Director (or his alternate Director in his absence) shall be at liberty to vote in respect of any contract or transaction in which he is so interested as aforesaid PROVIDED HOWEVER that the nature of the interest of any Director or alternate Director in any such contract or transaction shall be disclosed by him or the alternate Director appointed by him at or prior to its consideration and any vote thereon.

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75. A general notice that a Director or alternate Director is a shareholder of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure under Article 75 and after such general notice it shall not be necessary to give special notice relating to any particular transaction.

ALTERNATE DIRECTORS AND VISITATION RIGHTS

76. Subject to the exception contained in Article 85, a Director who expects to be unable to attend Directors' Meetings because of absence, illness or otherwise may appoint any person to be an alternate Director to act in his stead and such appointee whilst he holds office as an alternate Director shall, in the event of absence therefrom of his appointor, be entitled to attend meetings of the Directors and to vote thereat and to do, in the place and stead of his appointor, any other act or thing which his appointor is permitted or required to do by virtue of his being a Director as if the alternate Director were the appointor, other than appointment of an alternate to himself, and he shall ipso facto vacate office if and when his appointor ceases to be a Director or removes the appointee from office- Any appointment or removal under this Article shall be effected by notice in writing under the hand of the Director making the same. Yong (Eric) Xu shall have the right to receive notice of, attend and speak at Directors' Meetings. Draper Fisher Jurvetson ePlanet Ventures L.P. shall have the right to invite one observer to attend Directors' Meetings, provided that such observer is a representative of its other partners.

POWERS AND DUTIES OF DIRECTORS

77. The business of the Company shall be managed by the Directors (or a sole Director if only one is appointed) who may pay all expenses incurred in promoting, registering and setting up the Company, and may exercise all such powers of the Company as are not, from time to time by the Statute, or by these Articles, or such regulations, being not inconsistent with the aforesaid, as may be prescribed by the Company in general meeting required to be exercised by the Company in general meeting PROVIDED HOWEVER that no regulations made by the Company in general meeting shall invalidate any prior act of the Directors which would have been valid if that regulation had not been made.
78. The following matters shall require the approval of each Series A Director and Series B Director at a meeting of the Board of Directors duly constituted pursuant to these Articles:
- (a) the acquisition by the Company of any shares, security or assets of any person or company. For this purpose, a series of related transactions shall be aggregated over a twelve month period;
 - (b) issuances of share capital of the Company or securities convertible into share capital of the Company or option or warrants thereon except for (i) Ordinary

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Shares issued upon conversion of outstanding Preferred Shares, (ii) equity securities issuable upon exercise of outstanding warrants and options, and (iii) options granted in accordance with the Company's employee share option plan and equity securities issuable upon the exercise of such options, but subject to the requirements of subsection (g) below;

- (c) declaration or payment of a dividend on the Ordinary Shares or Preferred Shares or any other distribution of profits of the Company other than payments or distributions made pro-rata to all holders of share capital of the Company;
- (d) changing the dividend policy of the Company;
- (e) the sale, transfer, mortgage, hypothecation, pledge, charge or any other disposition, whether directly or indirectly, of substantially all of the assets of the Company, either in a single transaction or a series of related or contemporaneous transactions;
- (f) filing a registration statement, prospectus or similar document with securities authority in connection with an initial public offering of shares in the Company;
- (g) allocating share capital to the employee share option plan in excess of twenty percent (20%) of the total share capital of the Company, or issuing any options pursuant to such plan for a price less than the Series A Conversion Price; or
- (h) delegating authority in respect of any of the foregoing matters to any committee of the Board.

79. Subject to Article 78, the Directors may from time to time and at any time by powers of attorney appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or attorneys of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under these Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney may contain such provisions for the protection and convenience of persons dealing with any such attorneys as the Directors may think fit and may also authorise any such attorney to delegate all or any of the powers, authorities and discretions vested in him.
80. All cheques, promissory notes, drafts, bills of exchange and other negotiable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall from time to time by resolution determine.
81. The Directors shall cause minutes to be made in books provided for the purpose:
- (a) of all appointments of officers made by the Directors;

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- (b) of the names of the Directors (including those represented thereat by an alternate or by proxy) present at each meeting of the Directors and of any committee of the Directors;
 - (c) of all resolutions and proceedings at all meetings of the Company and of the Directors and of committees of Directors.
82. The Directors on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his widow or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.
83. Subject to Article 78, the Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof and to issue debentures, debenture stock and other securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

MANAGEMENT

84. (a) The Directors may from time to time provide for the management of the affairs of the Company in such manner as they shall think fit and the provisions contained in the three next following paragraphs shall be without prejudice to the general powers conferred by this paragraph.
- (b) Subject to Article 78, the Directors from time to time and at any time may establish any committees, local boards or agencies for managing any of the affairs of the Company and may appoint any persons to be members of such committees or local boards or any managers or agents and may fix their remuneration.
- (c) Subject to Article 78, the Directors from time to time and at any time may delegate to any such committee, local board, manager or agent any of their powers, authorities and discretions for the time being vested in the Directors and may authorise the members for the time being of any such local board, or any of them to fill up any vacancies therein and to act notwithstanding vacancies and any such appointment or delegation may be made on such terms and subject to such conditions as the Directors may think fit and the Directors may at any time remove any person so appointed and may annul or vary any such delegation, but no person dealing in good faith and without notice of any such annulment or variation shall be affected thereby.
- (d) Subject to Article 78, any such delegates as aforesaid may be authorised by the Directors to subdelegate all or any of the powers, authorities, and discretions for the time being vested in them.

MANAGING DIRECTORS

85. The Directors may, from time to time, appoint one or more of their body (but not an alternate Director) to the office of Managing Director for such term and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way and partly in another) as they may think fit but his appointment shall be subject to determination ipso facto if he ceases from any cause to be a Director and no alternate Director appointed by him can act in his stead as a Director or Managing Director.
86. The Directors may, subject to Article 78, entrust to and confer upon a Managing Director any of the powers exercisable by them upon such terms and conditions and with such restrictions as they may think fit and either collaterally with or to the exclusion of their own powers and may from time to time revoke, withdraw, alter or vary all or any of such powers.

PROCEEDINGS OF DIRECTORS

87. Except as otherwise provided by these Articles, the Directors shall meet together for the despatch of business, convening, adjourning and otherwise regulating their meetings as they think fit. Subject to Article 78, questions arising at any meeting shall be decided by a majority of votes of the Directors and alternate Directors present at a meeting at which there is a quorum, the vote of an alternate Director not being counted if his appointor be present at such meeting. In case of an equality of votes, the Chairman shall have a second or casting vote.
88. A Director or alternate Director may, and the Secretary on the requisition of a Director or alternate Director shall, at any time summon a meeting of the Directors by at least three days' notice in writing to every Director and alternate Director which notice shall set forth the general nature of the business to be considered unless notice is waived by all the Directors (or their alternates) either at, before or after the meeting is held and PROVIDED FURTHER if notice is given in person, by cable, telex or telecopy the same shall be deemed to have been given on the day it is delivered to the Directors or transmitting organization as the case may be. The provisions of Article 42 shall apply mutatis mutandis with respect to notices of meetings of Directors.
89. The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed shall be three: one Series A Director, one Series B Director and Yanhong (Robin) Li, PROVIDED ALWAYS that if there shall at any time be only a sole Director the quorum shall be one. For the purposes of this Article an alternate Director or proxy appointed by a Director shall be counted in a quorum at a meeting at which the Director appointing him is not present.
90. The continuing Directors may act notwithstanding any vacancy in their body, but if and so long as their number is reduced below the number fixed by or pursuant to these Articles as the necessary quorum of Directors the continuing Directors or Director may act for the purpose of increasing the number of Directors to that number, or of summoning a general meeting of the Company, but for no other purpose.

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91. The Directors may elect a Chairman of their Board and determine the period for which he is to hold office; but if no such Chairman is elected, or if at any meeting the Chairman is not present within five minutes after the time appointed for holding the same, the Directors present may choose one of their number to be Chairman of the meeting.
92. Subject to Article 78, the Directors may delegate any of their powers to committees consisting of such member or members of the Board of Directors (including Alternate Directors in the absence of their appointors) as they think fit; any committee so formed shall in the exercise of the powers so delegated conform to any regulations that may be imposed on it by the Directors.
93. A committee may meet and adjourn as it thinks proper. Questions arising at any meeting shall be determined by a majority of votes of the members present, and in the case of an equality of votes the Chairman shall have a second or casting vote.
94. All acts done by any meeting of the Directors or of a committee of Directors (including any person acting as an alternate Director) shall, notwithstanding that it be afterwards discovered that there was some defect in the appointment of any Director or alternate Director, or that they or any of them were disqualified, be as valid as if every such person had been duly appointed and qualified to be a Director or alternate Director as the case may be.
95. Members of the Board of Directors or of any committee thereof may participate in a meeting of the Board or of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. A resolution in writing (in one or more counterparts), signed by all the Directors for the time being or all the members of a committee of Directors (an alternate Director being entitled to sign such resolution on behalf of his appointor) shall be as valid and effectual as if it had been passed at a meeting of the Directors or committee as the case may be duly convened and held.
96. (a) A Director may be represented at any meetings of the Board of Directors by a proxy appointed by him in which event the presence or vote of the proxy shall for all purposes be deemed to be that of the Director.
(b) The provisions of Articles 61-65 shall mutatis mutandis apply to the appointment of proxies by Directors.

VACATION OF OFFICE OF DIRECTOR

97. The office of a Director shall be vacated:
 - (a) if he gives notice in writing to the Company that he resigns the office of Director;

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- (b) if he dies, becomes bankrupt or makes any arrangement or composition with his creditors generally;
- (c) if he is found a lunatic or becomes of unsound mind.

APPOINTMENT AND REMOVAL OF DIRECTORS

- 98. The Company may by ordinary resolution appoint any person to be a Director (other than a Series A Director or a Series B Director) and may in like manner remove any Director (other than a Series A Director or a Series B Director) and may in like manner appoint another person in his stead.
- 99. The Directors shall have power at any time and from time to time to appoint any person to be a Director (other than a Series A Director or a Series B Director), either to fill a casual vacancy or as an addition to the existing Directors but so that the total amount of Directors (exclusive of alternate Directors) shall not at any time exceed the number fixed in accordance with these Articles.

PRESUMPTION OF ASSENT

- 100. A Director of the Company who is present at a meeting of the Board of Directors at which action on any Company matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the Minutes of the meeting or unless he shall file his written dissent from such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to such person immediately after the adjournment of the meeting. Such right to dissent shall not apply to a Director who voted in favour of such action.

SEAL

- 101. (a) The Company may, if the Directors so determine, have a Seal which shall, subject to paragraph (c) hereof, only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors in that behalf and every instrument to which the Seal has been affixed shall be signed by one person who shall be either a Director or the Secretary or Secretary- Treasurer or some person appointed by the Directors for the purpose.
- (b) The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the Common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.
- (c) A Director, Secretary or other officer or representative or attorney may without further authority of the Directors affix the Seal of the Company over his signature alone to any document of the Company required to be authenticated by him under Seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

OFFICERS

102. The Company may have a President, a Secretary or Secretary-Treasurer appointed by the Directors who may also from time to time appoint such other officers as they consider necessary, all for such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors from time to time prescribe.

DIVIDENDS, DISTRIBUTIONS AND RESERVE

103. Subject to the Statute, Article 8(a) and Article 78, the Directors may from time to time declare dividends (including interim dividends) and distributions on shares of the Company outstanding and authorise payment of the same out of the funds of the Company lawfully available therefore.
104. The Directors may, before declaring any dividends or distributions, set aside such sums as they think proper as a reserve or reserves which shall at the discretion of the Directors, be applicable for any purpose of the Company and pending such application may, at the like discretion, be employed in the business of the Company.
105. No dividend or distribution shall be payable except out of the profits of the Company, realised or unrealised, or out of the share premium account or as otherwise permitted by the Statute.
106. Subject to the rights of persons, if any, entitled to shares with special rights as to dividends or distributions, if dividends or distributions are to be declared on a class of shares they shall be declared and paid according to the amounts paid or credited as paid on the shares of such class outstanding on the record date for such dividend or distribution as determined in accordance with these Articles but no amount paid or credited as paid on a share in advance of calls shall be treated for the purpose of this Article as paid on the share.
107. The Directors may deduct from any dividend or distribution payable to any Member all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.
108. The Directors may declare that any dividend or distribution be paid wholly or partly by the distribution of specific assets and in particular of paid up shares, debentures, or debenture stock of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional certificates and fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the footing of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees as may seem expedient to the Directors.

Exhibit 3.1

109. Any dividend, distribution, interest or other monies payable in cash in respect of shares may be Paid by cheque or warrant sent through the post directed to the registered address of the holder or, in the case of joint holders, to the holder who is first named on the register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any dividends, bonuses, or other monies payable in respect of the share held by them as joint holders.
110. No dividend or distribution shall bear interest against the Company.

CAPITALIZATION

111. The Company may upon the recommendation of the Directors, including recommendation of the Series A Directors and the Series B Directors, by ordinary resolution authorise the Directors to capitalise any sum standing to the credit of any of the Company's reserve accounts (including share premium account and capital redemption reserve fund) or any sum standing to the credit of profit and loss account or otherwise available for distribution and to appropriate such sum to Members in the proportions in, which such sum would have been divisible amongst them had the same been a distribution of profits by way of dividend and to apply such sum on their behalf in paying up in full unissued shares for allotment and distribution credited as fully paid up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalization, with full power to the Directors to make such provisions as they think fit for the case of shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalization and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.

BOOKS OF ACCOUNT

112. The Directors shall cause proper books of account to be kept with respect to:
- (a) all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place;
 - (b) all sales and purchases of goods by the Company;
 - (c) the assets and liabilities of the Company.

Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

Exhibit 3.1

113. The Directors shall from time to time determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorised by the Directors or by the Company in general meeting.
114. The Directors may from time to time cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

AUDIT

115. The Company may at any annual general meeting appoint an Auditor or Auditors of the Company who shall hold office until the next annual general meeting and may fix his or their remuneration.
116. The Directors may before the first annual general meeting appoint an Auditor or Auditors of the Company who shall hold office until the first annual general meeting unless previously removed by an ordinary resolution of the Members in general meeting in which case the Members at that meeting may appoint Auditors. The Directors may fill any casual vacancy in the office of Auditor but while any such vacancy continues the surviving or continuing Auditor or Auditors, if any, may act. The remuneration of any Auditor appointed by the Directors under this Article may be fixed by the Directors.
117. Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and Officers of the Company such information and explanation as may be necessary for the performance of the duties of the auditors.
118. Auditors shall at the next annual general meeting following their appointment and at any other time during their term of office, upon request of the Directors or any general meeting of the Members, make a report on the accounts of the Company in general meeting during their tenure of office.

NOTICES

119. Notices shall be in writing and may be given by the Company to any Member either personally or by sending it by post, cable, telex, telecopy or e-mail to him or to his address as shown in the register of Members or e-mail address last known to the Company, such notice, if mailed, to be forwarded airmail if the address be outside the Cayman Islands.
120. (a) Where a notice is sent by post, service of the notice shall be deemed to be effected by properly addressing, pre-paying and posting a letter containing the notice, and to have been effected at the expiration of sixty hours after the letter containing the same is posted as aforesaid.

Exhibit 3.1

- (b) Where a notice is sent by cable, telex, telecopy or e-mail, service of the notice shall be deemed to be effected by properly addressing, and sending such notice through a transmitting organization and to have been effected on the day the same is sent as aforesaid.
121. A notice may be given by the Company to the joint holders of record of a share by giving the notice to the joint holder first named on the register of Members in respect of the share.
122. A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a share or shares in consequence of the death or bankruptcy of a Member by sending it through the post as aforesaid in a pre-paid letter addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.
123. Notice of every general meeting shall be given in any manner hereinbefore authorised to:
- (a) every person shown as a Member in the register of Members as of the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the register of Members.
 - (b) every person upon whom the ownership of a share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a Member of record where the Member of record but for his death or bankruptcy would be entitled to receive notice of the meeting; and
- No other person shall be entitled to receive notices of general meetings.

WINDING UP

124. If the Company shall be wound up the liquidator may, with the sanction of a Special Resolution of the Company and any other sanction required by the Statute, divide amongst the Members in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may for such purpose set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the Members or different classes of Members. The liquidator may with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any shares or other securities whereon there is any liability.
125. If the Company shall be wound up, and the assets available for distribution amongst the Members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the

Exhibit 3.1

Members in proportion 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 them respectively. And if in a winding up the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the Members in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. This Article is to be without prejudice to the rights of the holders of shares issued upon special terms and conditions.

INDEMNITY

126. The Directors and officers for the time being of the Company and any trustee for the time being acting in relation to any of the affairs of the Company and their heirs, executors, administrators and personal representatives respectively shall be indemnified out of the assets of the Company from and against all actions, proceedings, costs, charges, losses, damages and expenses which they or any of them shall or may incur or sustain by reason of any act done or omitted in or about the execution of their duty in their respective offices or trusts, except such (if any) as they shall incur or sustain by or through their own wilful neglect or default respectively and no such Director, officer or trustee shall be answerable for the acts, receipts, neglects or defaults of any other Director, officer or trustee or for joining in any receipt for the sake of conformity or for the solvency or honesty of any banker or other persons with whom any monies or effects belonging to the Company may be lodged or deposited for safe custody or for any insufficiency of any security upon which any monies of the Company may be invested or for any other loss or damage due to any such cause as aforesaid or which may happen in or about the execution of his office or trust unless the same shall happen through the wilful neglect or default of such Director, Officer or trustee.

FINANCIAL YEAR

127. Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31st December in each year and, following the year of incorporation, shall begin on 1st January in each year.

AMENDMENTS OF ARTICLES

128. Subject to the Statute, the Company may at any time and from time to time by Special Resolution alter or amend these Articles in whole or in part.

TRANSFER BY WAY OF CONTINUATION

129. If the Company is exempted as defined in the Statute, it shall, subject to the provisions of the Statute and with the approval of a Special Resolution, have the power to register by way of continuation as a body corporate under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

BAIDU.COM, INC.

AND

THE BANK OF NEW YORK

as Depositary

AND

OWNERS AND BENEFICIAL OWNERS OF AMERICAN DEPOSITARY RECEIPTS

Deposit Agreement

Dated as of _____, 2005

DEPOSIT AGREEMENT

DEPOSIT AGREEMENT dated as of _____, 2005 among BAIDU.COM, INC., incorporated under the laws of the Cayman Islands (herein called the Company), THE BANK OF NEW YORK, a New York banking corporation (herein called the Depositary), and all Owners and Beneficial Owners from time to time of American Depositary Receipts issued hereunder.

WITNESSETH:

WHEREAS, the Company desires to provide, as hereinafter set forth in this Deposit Agreement, for the deposit of Shares (as hereinafter defined) of the Company from time to time with the Depositary or with the Custodian (as hereinafter defined) as agent of the Depositary for the purposes set forth in this Deposit Agreement, for the creation of American Depositary Shares representing the Shares so deposited and for the execution and delivery of American Depositary Receipts evidencing the American Depositary Shares; and

WHEREAS, the American Depositary Receipts are to be substantially in the form of Exhibit A annexed hereto, with appropriate insertions, modifications and omissions, as hereinafter provided in this Deposit Agreement;

NOW, THEREFORE, in consideration of the premises, it is agreed by and between the parties hereto as follows:

ARTICLE 1. DEFINITIONS.

The following definitions shall for all purposes, unless otherwise clearly indicated, apply to the respective terms used in this Deposit Agreement:

SECTION 1.1 American Depositary Shares.

The term "American Depositary Shares" shall mean the securities representing the interests in the Deposited Securities and evidenced by the Receipts issued hereunder. Each American Depositary Share shall represent the number of Shares specified in Exhibit A annexed hereto, until there shall occur a distribution upon Deposited Securities covered by Section 4.3 or a change in Deposited Securities covered by Section 4.8 with respect to which additional Receipts are not executed and delivered, and thereafter American Depositary Shares shall evidence the amount of Shares or Deposited Securities specified in such Sections.

SECTION 1.2 Article; Section.

Wherever references are made in this Deposit Agreement to an “Article” or “Articles” or to a “Section” or “Sections”, such references shall mean an article or articles or a section or sections of this Deposit Agreement, unless otherwise required by the context.

SECTION 1.3 Beneficial Owner.

The term “Beneficial Owner” shall mean each person owning from time to time any beneficial interest in the American Depositary Shares evidenced by any Receipt.

SECTION 1.4 Commission.

The term “Commission” shall mean the Securities and Exchange Commission of the United States or any successor governmental agency in the United States.

SECTION 1.5 Company.

The term “Company” shall mean Baidu.com, Inc., incorporated under the laws of the Cayman Islands, and its successors.

SECTION 1.6 Custodian.

The term “Custodian” shall mean the principal Hong Kong office of The Hongkong and Shanghai Banking Corporation Limited, as agent of the Depository for the purposes of this Deposit Agreement, and any other firm or corporation which may hereafter be appointed by the Depository pursuant to the terms of Section 5.5, as substitute or additional custodian or custodians hereunder, as the context shall require and shall also mean all of them collectively.

SECTION 1.7 deposit, deliver, execute, issue, register, surrender, transfer, withdraw or cancel.

The terms “deposit”, “deliver”, “execute”, “issue”, “register”, “surrender”, “transfer”, “withdraw” or “cancel”, when used with respect to Shares, shall refer, where the context requires, to an entry or entries or an electronic transfer or transfers in an account or accounts maintained by institutions authorized under the laws of the Cayman Islands to effect transfers of securities and not to the physical transfer of certificates representing the Shares.

SECTION 1.8 Deposit Agreement.

The term “Deposit Agreement” shall mean this Agreement, as the same may be amended from time to time in accordance with the provisions hereof.

SECTION 1.9 Depository; Corporate Trust Office.

The term “Depository” shall mean The Bank of New York, a New York banking corporation and any successor as depository hereunder. The term “Corporate Trust Office”, when used with respect to the Depository, shall mean the office of the Depository which at the date of this Agreement is 101 Barclay Street, New York, New York, 10286.

SECTION 1.10 Deposited Securities.

The term “Deposited Securities” as of any time shall mean Shares at such time deposited or deemed to be deposited under this Deposit Agreement and any and all other securities, property and cash received by the Depository or the Custodian in respect thereof and at such time held hereunder, subject as to cash to the provisions of Section 4.5.

SECTION 1.11 Dollars.

The term “Dollars” shall mean United States dollars.

SECTION 1.12 Foreign Registrar.

The term “Foreign Registrar” shall mean the entity that presently carries out the duties of registrar for the Shares or any successor as registrar for the Shares and any other appointed agent of the Company for the transfer and registration of Shares.

SECTION 1.13 Owner.

The term “Owner” shall mean the person in whose name a Receipt is registered on the books of the Depository maintained for such purpose.

SECTION 1.14 Receipts.

The term “Receipts” shall mean the American Depositary Receipts issued hereunder evidencing American Depositary Shares.

SECTION 1.15 Registrar.

The term “Registrar” shall mean any bank or trust company having an office in the Borough of Manhattan, The City of New York, which shall be appointed by the Depository to register Receipts and transfers of Receipts as herein provided.

SECTION 1.16 Restricted Securities.

The term “Restricted Securities” shall mean collectively or individually, as the context may require, Shares, or Receipts representing such Shares, which are acquired directly or indirectly from the Company or its affiliates (as defined in Rule 144 under the Securities Act) in a transaction or chain of transactions not involving any public offering or which are subject to resale limitations under Regulation D under that Act or both, or which are held directly or indirectly by an officer, director (or persons performing similar functions) or other affiliate of the Company, or which would require registration under the Securities Act in connection with the public offer and sale thereof in the United States, or which are subject to other restrictions on sale or deposit under the laws of the United States, the People’s Republic of China, the Cayman Islands or Hong Kong, or under a shareholder agreement or the Memorandum and Articles of Association of the Company unless the sale of such Shares in the United States would be covered by an effective registration statement under the Securities Act.

SECTION 1.17 Securities Act

The term "Securities Act" shall mean the United States Securities Act of 1933, as from time to time amended.

SECTION 1.18 Shares

The term "Shares" shall mean Class A Ordinary Shares in registered form of the Company, heretofore validly issued and outstanding and fully paid, nonassessable and that were not issued in violation of any pre-emptive rights of the holders of outstanding Shares or hereafter validly issued and outstanding and fully paid, nonassessable and that were not issued in violation of any pre-emptive rights of the holders of outstanding Shares or interim certificates representing such Shares.

ARTICLE 2. FORM OF RECEIPTS, DEPOSIT OF SHARES, EXECUTION AND DELIVERY, TRANSFER AND SURRENDER OF RECEIPTS.

SECTION 2.1 Form and Transferability of Receipts

Definitive Receipts shall be substantially in the form set forth in Exhibit A annexed to this Deposit Agreement, with appropriate insertions, modifications and omissions, as hereinafter provided. No Receipt shall be entitled to any benefits under this Deposit Agreement or be valid or obligatory for any purpose, unless such Receipt shall have been executed by the Depositary by the manual signature of a duly authorized signatory of the Depositary; provided, however, that such signature may be a facsimile if a Registrar for the Receipts shall have been appointed and such Receipts are countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar. The Depositary shall maintain books on which each Receipt so executed and delivered as hereinafter provided and the transfer of each such Receipt shall be registered. Receipts bearing the manual or facsimile signature of a duly authorized signatory of the Depositary who was at any time a proper signatory of the Depositary shall bind the Depositary, notwithstanding that such signatory has ceased to hold such office prior to the execution and delivery of such Receipts by the Registrar or did not hold such office on the date of issuance of such Receipts.

The Receipts may be endorsed with or have incorporated in the text thereof such legends or recitals or modifications not inconsistent with the provisions of this Deposit Agreement as may be required by the Depositary or required to comply with any applicable law or regulations thereunder or with the rules and regulations of any securities exchange (which, for all purposes hereof, shall include the Nasdaq Stock Market Inc.) upon which American Depositary Shares may be listed or to conform with any usage with respect thereto, or to indicate any special limitations or restrictions to which any particular Receipts are subject by reason of the date of issuance of the underlying Deposited Securities or otherwise.

Title to a Receipt (and to the American Depositary Shares evidenced thereby), when properly endorsed or accompanied by proper instruments of transfer, shall be transferable by delivery with the same effect as in the case of a negotiable instrument under the laws of New York; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the Owner thereof as the absolute owner thereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in this Deposit Agreement and for all other purposes.

SECTION 2.2 Deposit of Shares.

Subject to the terms and conditions of this Deposit Agreement, Shares or evidence of rights to receive Shares may be deposited by delivery thereof to any Custodian hereunder, accompanied by any appropriate instrument or instruments of transfer, or endorsement, in form satisfactory to the Custodian, together with all such certifications as may reasonably be required by the Depositary or the Custodian in accordance with the provisions of this Deposit Agreement, and, if the Depositary requires, together with a written order directing the Depositary to execute and deliver to, or upon the written order of, the person or persons stated in such order, a Receipt or Receipts for the number of American Depositary Shares representing such deposit. No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depositary that any necessary approval has been granted by any governmental body in the Cayman Islands or the People's Republic of China which is then performing the function of the regulation of currency exchange. If required by the Depositary, Shares presented for deposit at any time, whether or not the transfer books of the Company or the Foreign Registrar, if applicable, are closed, shall also be accompanied by an agreement or assignment, or other instrument satisfactory to the Depositary, which will provide for the prompt transfer to the Custodian of any dividend, or right to subscribe for additional Shares or to receive other property which any person in whose name the Shares are or have been recorded may thereafter receive upon or in respect of such deposited Shares, or in lieu thereof, such agreement of indemnity or other agreement as shall be satisfactory to the Depositary.

At the request and risk and expense of any person proposing to deposit Shares, and for the account of such person, the Depositary may receive certificates for Shares to be deposited, together with the other instruments herein specified, for the purpose of forwarding such Share certificates to the Custodian for deposit hereunder.

Upon each delivery to a Custodian of a certificate or certificates for Shares to be deposited hereunder, together with the other documents above specified, such Custodian shall, as soon as transfer and recordation can be accomplished, present such certificate or certificates to the Company or the Foreign Registrar, if applicable, for transfer and recordation of the Shares being deposited in the name of the Depositary or its nominee or such Custodian or its nominee.

Deposited Securities shall be held by the Depositary or by a Custodian for the account and to the order of the Depositary or at such other place or places as the Depositary shall determine.

SECTION 2.3 Execution and Delivery of Receipts.

Upon receipt by any Custodian of any deposit pursuant to Section 2.2 hereunder (and in addition, if the transfer books of the Company or the Foreign Registrar, if applicable, are open, the Depositary may in its sole discretion require a proper acknowledgment or other evidence from the Company that any Deposited Securities have been recorded upon the books of the Company or the Foreign Registrar, if applicable, in the name of the Depositary or its nominee or such Custodian or its nominee), together with the other documents required as above specified, such Custodian shall notify the Depositary of such deposit and the person or persons to whom or upon whose written order a Receipt or Receipts are deliverable in respect thereof and the number of American Depositary Shares to be evidenced thereby. Such notification shall be made by letter or, at the request, risk and expense of the person making the deposit, by cable, telex or facsimile transmission. Upon receiving such notice from such Custodian, or upon the receipt of Shares by the Depositary, the Depositary, subject to the terms and conditions of this Deposit Agreement, shall execute and deliver at its Corporate Trust Office, to or upon the order of the person or persons entitled thereto, a Receipt or Receipts, registered in the name or names and evidencing any authorized number of American Depositary Shares requested by such person or persons, but only upon payment to the Depositary of the fees and expenses of the Depositary for the execution and delivery of such Receipt or Receipts as provided in Section 5.9, and of all taxes and governmental charges and fees payable in connection with such deposit and the transfer of the Deposited Securities.

SECTION 2.4 Transfer of Receipts; Combination and Split-up of Receipts.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall register transfers of Receipts on its transfer books from time to time, upon any surrender of a Receipt, by the Owner in person or by a duly authorized attorney, properly endorsed or accompanied by proper instruments of transfer, and duly stamped as may be required by the laws of the State of New York and of the United States of America. Thereupon the Depositary shall execute a new Receipt or Receipts and deliver the same to or upon the order of the person entitled thereto.

The Depositary, subject to the terms and conditions of this Deposit Agreement, shall upon surrender of a Receipt or Receipts for the purpose of effecting a split-up or combination of such Receipt or Receipts, execute and deliver a new Receipt or Receipts for any authorized number of American Depositary Shares requested, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered.

The Depositary may, with notice given as promptly as practicable to the Company, appoint one or more co-transfer agents for the purpose of effecting transfers, combinations and split-ups of Receipts at designated transfer offices on behalf of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by Owners or persons entitled to Receipts and will be entitled to protection and indemnity to the same extent as the Depositary. The Depositary shall require each co-transfer agent that it appoints under this Section 2.4 to give notice in writing to the Depositary accepting such appointment and agreeing to abide by the applicable terms of this Deposit Agreement.

SECTION 2.5 Surrender of Receipts and Withdrawal of Shares.

Upon surrender at the Corporate Trust Office of the Depository of a Receipt for the purpose of withdrawal of the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, and upon payment of the fee of the Depository for the surrender of Receipts as provided in Section 5.9 and payment of all taxes and governmental charges payable in connection with such surrender and withdrawal of the Deposited Securities, and subject to the terms and conditions of this Deposit Agreement, the Owner of such Receipt shall be entitled to delivery, to him or upon his order, of the amount of Deposited Securities at the time represented by the American Depositary Shares evidenced by such Receipt. Delivery of such Deposited Securities may be made by the delivery of (a) certificates for Shares in the name of such Owner or as ordered by him or by certificates properly endorsed or accompanied by proper instruments of transfer to such Owner or as ordered by him and (b) any other securities, property and cash to which such Owner is then entitled in respect of such Receipts to such Owner or as ordered by him. Such delivery shall be made, as hereinafter provided, without unreasonable delay.

A Receipt surrendered for such purposes may be required by the Depository to be properly endorsed in blank or accompanied by proper instruments of transfer in blank, and if the Depository so requires, the Owner thereof shall execute and deliver to the Depository a written order directing the Depository to cause the Deposited Securities being withdrawn to be delivered to or upon the written order of a person or persons designated in such order. Thereupon the Depository shall direct the Custodian to deliver at the office of such Custodian, subject to Sections 2.6, 3.1 and 3.2 and to the other terms and conditions of this Deposit Agreement, to or upon the written order of the person or persons designated in the order delivered to the Depository as above provided, the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, except that the Depository may make delivery to such person or persons at the Corporate Trust Office of the Depository of any dividends or distributions with respect to the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, or of any proceeds of sale of any dividends, distributions or rights, which may at the time be held by the Depository.

At the request, risk and expense of any Owner so surrendering a Receipt, and for the account of such Owner, the Depository shall direct the Custodian to forward any cash or other property (other than rights) comprising, and forward a certificate or certificates, if applicable, and other proper documents of title for, the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt to the Depository for delivery at the Corporate Trust Office of the Depository. Such direction shall be given by letter or, at the request, risk and expense of such Owner, by cable, telex or facsimile transmission.

The Depositary shall not deliver the Deposited Securities except (i) upon surrender of Receipts under this Section 2.5, (ii) in a surrender of the Deposited Securities to the Company or its agent in a transaction to which Section 4.8 applies or (iii) in connection with a sale of the Deposited Securities permitted under Section 3.2, 4.3, 4.4, 4.11 or 6.2.

SECTION 2.6 Limitations on Execution and Delivery, Transfer and Surrender of Receipts.

As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any Receipt or withdrawal of any Deposited Securities, the Depositary, Custodian or Registrar may require payment from the depositor of Shares or the presenter of the Receipt of a sum sufficient to reimburse it for any tax, stamp duty or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as herein provided, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of this Deposit Agreement, including, without limitation, this Section 2.6.

The delivery of Receipts against deposits of Shares generally or against deposits of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the transfer books of the Depositary are closed as provided in Section 5.1, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of this Deposit Agreement, or for any other reason, subject to the provisions of Section 7.7. Notwithstanding any other provision of this Deposit Agreement or the Receipts, the surrender of outstanding Receipts and withdrawal of Deposited Securities may not be suspended subject only to (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under this Deposit Agreement any Shares required to be registered under the provisions of the Securities Act for public sale in the United States, unless a registration statement is in effect as to such Shares.

SECTION 2.7 Lost Receipts, etc.

In case any Receipt shall be mutilated, destroyed, lost or stolen, the Depository shall execute and deliver a new Receipt of like tenor in exchange and substitution for such mutilated Receipt upon cancellation thereof, or in lieu of and in substitution for such destroyed, lost or stolen Receipt. Before the Depository shall execute and deliver a new Receipt in substitution for a destroyed, lost or stolen Receipt, the Owner thereof shall have (a) filed with the Depository (i) a request for such execution and delivery before the Depository has notice that the Receipt has been acquired by a bona fide purchaser and (ii) a sufficient indemnity bond and (b) satisfied any other reasonable requirements imposed by the Depository.

SECTION 2.8 Cancellation and Destruction of Surrendered Receipts.

All Receipts surrendered to the Depository shall be cancelled by the Depository. The Depository is authorized to destroy Receipts so cancelled.

SECTION 2.9 Pre-Release of Receipts.

The Depository may, notwithstanding Section 2.3, execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.2 ("Pre-Release"). The Depository may, pursuant to Section 2.5, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depository knows that such Receipt has been Pre-Released. The Depository may receive Receipts in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom Receipts are to be delivered (the "Pre-Releasee") that the Pre-Releasee, or its customer, (i) owns the shares or Receipts to be remitted, as the case may be, (ii) assigns all beneficial rights, title and interest in such Shares or Receipts, as the case may be, to the Depository in its capacity as such and for the benefit of the Owners, and (iii) will not take any action with respect to such Shares or Receipts, as the case may be, that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depository, disposing of such Shares or Receipts, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash, U.S. government securities or such other collateral as the Depository determines, in good faith, will provide substantially similar liquidity and security, (c) terminable by the Depository on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depository deems appropriate. The number of Shares not deposited but represented by American Depositary Shares outstanding at any time as a result of Pre-Releases will not normally exceed thirty percent (30%) of the Shares deposited hereunder; provided, however, that the Depository reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may, with the prior written consent of the Company, change such limit for purposes of general application. The Depository will also set Dollar limits with respect to Pre-Release transactions to be entered into hereunder with any particular Pre-Releasee on a case-by-case basis as the Depository deems appropriate. For purposes of enabling the Depository to fulfill its obligations to the Owners under the Deposit Agreement, the collateral referred to in clause (b) above shall be held by the Depository as security for the performance of the Pre-Releasee's obligations to the Depository in connection with a Pre-Release transaction, including the Pre-Releasee's obligation to deliver Shares or Receipts upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Securities hereunder).

The Depository may retain for its own account any compensation received by it in connection with the foregoing.

ARTICLE 3. CERTAIN OBLIGATIONS OF OWNERS AND BENEFICIAL OWNERS OF RECEIPTS.

SECTION 3.1 Filing Proofs, Certificates and Other Information.

Any person presenting Shares for deposit or any Owner or Beneficial Owner of a Receipt may be required from time to time to file with the Depository or the Custodian such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Depository may deem necessary or proper. The Depository may withhold the delivery or registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. If requested in writing, the Depository shall, as promptly as practicable, provide the Company, at the expense of the Company, with copies of any such proofs, certificates or other information it receives pursuant to this section, unless prohibited by applicable law.

SECTION 3.2 Liability of Owner for Taxes.

If any tax or other governmental charge shall become payable by the Custodian or the Depository with respect to any Receipt or any Deposited Securities represented by any Receipt, such tax or other governmental charge shall be payable by the Owner of such Receipt to the Depository. The Depository may refuse to effect any transfer of such Receipt or any withdrawal of Deposited Securities represented by American Depositary Shares evidenced by such Receipt until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner thereof any part or all of the Deposited Securities represented by the American Depositary Shares evidenced by such Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner of such Receipt shall remain liable for any deficiency.

SECTION 3.3 Warranties on Deposit of Shares.

Every person depositing Shares under this Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefor, if applicable, are validly issued, fully paid, nonassessable and were not issued in violation of any pre-emptive rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that the Shares are eligible for deposit in accordance with this Deposit Agreement and the General Instructions to Form F-6 under the Securities Act, and Receipts evidencing American Depositary Shares representing the Shares would not be, Restricted Securities. All representations and warranties deemed made under this Section 3.3 shall survive the deposit of Shares and delivery or surrender of Receipts.

ARTICLE 4. THE DEPOSITED SECURITIES.

SECTION 4.1 Cash Distributions.

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities, the Depositary shall, subject to the provisions of Section 4.5, convert such dividend or distribution into Dollars and shall distribute the amount thus received (net of the fees and expenses of the Depositary as provided in Section 5.9 hereof, if applicable) to the Owners entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively; provided, however, that in the event that the Company or the Depositary shall be required to withhold and does withhold from such cash dividend or such other cash distribution an amount on account of taxes, the amount distributed to the Owner of the Receipts evidencing American Depositary Shares representing such Deposited Securities shall be reduced accordingly. The Depositary shall distribute only such amount, however, as can be distributed without attributing to any Owner a fraction of one cent. Any such fractional amounts shall be rounded to the nearest whole cent and so distributed to Owners entitled thereto. The Company or its agent will remit to the appropriate governmental agency in the Cayman Islands or the People's Republic of China all amounts withheld and owing to such agency. The Depositary will forward to the Company or its agent such information from its records as the Company may reasonably request to enable the Company or its agent to file necessary reports with governmental agencies, and the Depositary or the Company or its agent may file any such reports necessary to obtain benefits under the applicable tax treaties for the Owners of Receipts.

SECTION 4.2 Distributions Other Than Cash, Shares or Rights.

Subject to the provisions of Section 4.11 and Section 5.9, whenever the Depositary shall receive any distribution other than a distribution described in Sections 4.1, 4.3 or 4.4, the Depositary shall, subject to all applicable laws, cause the securities or property received by it to be distributed to the Owners entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any taxes or other governmental charges, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners entitled thereto, or if for any other reason (including, but not limited to, any requirement that the Company or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act in order to be distributed to Owners or Beneficial Owners) the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees and expenses of the Depositary as provided in Section 5.9) shall be distributed by the Depositary to the Owners entitled thereto as in the case of a distribution received in cash. The Depositary may refuse to effect any distribution of securities under this Section 4.2 unless it has received an opinion of United States counsel for the Company that is satisfactory to the Depositary that the distribution does not require registration under the Securities Act.

SECTION 4.3 Distributions in Shares.

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may, and shall if the Company shall so request in writing, distribute to the Owners of outstanding Receipts entitled thereto, in proportion to the number of American Depositary Shares representing such Deposited Securities held by them respectively, additional Receipts evidencing an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of American Depositary Shares evidenced by Receipts, including the withholding of any tax or other governmental charge as provided in Section 4.11 and the payment of fees and expenses of the Depositary as provided in Section 5.9. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary shall use reasonable efforts to sell the amount of Shares represented by the aggregate of such fractions and distribute any net proceeds to the Owners entitled to them, all in the manner and subject to the conditions described in Section 4.1. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

SECTION 4.4 Rights.

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary shall have discretion as to the procedure to be followed in making such rights available to any Owners entitled to them or in disposing of such rights on behalf of any Owners otherwise entitled to them and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its reasonable discretion that it is lawful and feasible to make such rights available to all Owners or to certain Owners but not to other Owners, the Depositary may distribute to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner of Receipts requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner hereunder, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.2 of this Deposit Agreement, and shall, pursuant to Section 2.3 of this Deposit Agreement, execute and deliver Receipts to such Owner. In the case of a distribution pursuant to the second paragraph of this section, such Receipts shall be legended in accordance with applicable U.S. laws, and shall be subject to the appropriate restrictions on sale, deposit, cancellation, and transfer under such laws.

If the Depositary determines in its reasonable discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as provided in Section 5.9 and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of this Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any Receipt or otherwise.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act with respect to a distribution to Owners or are registered under the provisions of such Act; provided, however, that nothing in this Deposit Agreement shall create any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. If an Owner of Receipts requests distribution of warrants or other instruments, notwithstanding that there has been no such registration under the Securities Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration; provided, however, that the Company will have no obligation to cause its counsel to issue such opinion at the request of such Owner.

The Depositary shall not be responsible for any reasonable failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

SECTION 4.5 Conversion of Foreign Currency.

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall convert or cause to be converted, by sale or in any other manner that it may determine, such foreign currency into Dollars, and such Dollars shall be distributed to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants and/or instruments upon surrender thereof for cancellation. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any Receipt or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided in Section 5.9.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable without excessively burdensome or otherwise unreasonable efforts, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, or if there are foreign exchange controls in place that prohibit such conversion, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

SECTION 4.6 Fixing of Record Date.

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities or whenever the Depositary shall find it necessary or convenient, the Depositary shall fix a record date, which date shall be the same date, to the extent practicable, as the record date for the Deposited Securities or if different, as close thereto as practicable (a) for the determination of the Owners who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof or (ii) entitled to give instructions for the exercise of voting rights at any such, (b) on or after which each American Depositary Share will represent the changed number of Shares or (c) for any other matter. Subject to the provisions of Sections 4.1 through 4.5 and to the other terms and conditions of this Deposit Agreement, the Owners on such record date shall be entitled, as the case may be, to receive the amount distributable by the Depositary with respect to such dividend or other distribution or such rights or the net proceeds of sale thereof in proportion to the number of American Depositary Shares held by them respectively and to give voting instructions and to act in respect of any other such matter.

SECTION 4.7 Voting of Deposited Securities.

Upon receipt of notice of any meeting of holders of Shares or other Deposited Securities, if requested in writing by the Company the Depositary shall, as soon as practicable thereafter, mail to the Owners a notice, the form of which notice shall be in the discretion of the Depositary and shall contain (a) such information as is contained in such notice of meeting, and (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of the People's Republic of China and Cayman Islands law and of the Memorandum and Articles of Association of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a statement as to the manner in which such instructions may be given, including an express indication that such instructions may be given or deemed given in accordance with the last sentence of this paragraph if no instruction is received, to the Depositary to give a discretionary proxy to a person designated by the Company. Upon the written request of an Owner of a Receipt on such record date, received on or before the date established by the Depositary for such purpose (the "Instruction Date"), the Depositary shall endeavor, in so far as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by the American Depositary Shares evidenced by such Receipt in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to such Shares or other Deposited Securities other than in accordance with such instructions or deemed instructions. If no instructions are received by the Depositary from any Owner with respect to any of the Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before the date established by the Depositary for such purpose, the Depositary shall deem such Owner to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Securities and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Securities, provided, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information as promptly as practicable in writing) that (x) the Company does not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Shares.

In order to give Owners a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to Deposited Securities, if the Company requests the Depositary to act under the preceding paragraph, the Company shall give the Depositary notice of any such meeting not less than 30 days prior to the meeting date.

There can be no assurance that Owners generally or any Owner in particular will receive the notice described in the first paragraph of this Section 4.7 sufficiently prior to the Instruction Date to ensure that the Depositary will vote the Shares or Deposited Securities in accordance with the provisions of that paragraph.

SECTION 4.8 Changes Affecting Deposited Securities.

In circumstances where the provisions of Section 4.3 do not apply, upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities, shall be treated as new Deposited Securities under this Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, if any, the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may execute and deliver additional Receipts as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

SECTION 4.9 Reports.

The Depositary shall make available for inspection by Owners at its Corporate Trust Office, as promptly as practicable after receipt, any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary shall also send to the Owners copies of such reports furnished by the Company pursuant to Section 5.6. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English.

SECTION 4.10 Lists of Owners.

Promptly upon request by the Company, the Depositary shall, at the expense of the Company, furnish to it a list, as of a recent date, of the names, addresses and holdings of American Depositary Shares by all persons in whose names Receipts are registered on the books of the Depositary.

SECTION 4.11 Withholding.

The Company or its agent will remit to the appropriate governmental agencies in the Cayman Islands and the People's Republic of China all amounts withheld and owing to such agencies. The Depositary will forward to the Company or its agent such information from its records as the Company may reasonably request to enable the Company or its agent to file necessary reports with governmental agencies, and the Depositary or the Company or its agent may file any such reports necessary to obtain benefits under the applicable tax treaties for the Owners of Receipts.

In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners entitled thereto in proportion to the number of American Depositary Shares held by them respectively.

ARTICLE 5. THE DEPOSITARY, THE CUSTODIANS AND THE COMPANY.

SECTION 5.1 Maintenance of Office and Transfer Books by the Depositary.

Until termination of this Deposit Agreement in accordance with its terms, the Depositary shall maintain in the Borough of Manhattan, The City of New York, facilities for the execution and delivery, registration, registration of transfers and surrender of Receipts in accordance with the provisions of this Deposit Agreement.

The Depositary shall keep books at its Corporate Trust Office for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners and the Company, provided that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Company or a matter related to this Deposit Agreement or the Receipts.

The Depositary may close the transfer books, at any time or from time to time, when deemed expedient by it in connection with the performance of its duties hereunder or at the reasonable written request of the Company.

If any Receipts or the American Depositary Shares evidenced thereby are listed on one or more stock exchanges in the United States, the Depositary shall act as Registrar or, with notice given as promptly as practicable to the Company, appoint a Registrar or one or more co-registrars for registry of American Depositary Shares in accordance with any requirements of that exchange or exchanges. The Depositary shall require each Registrar and co-registrar that it appoints under this Section 5.1 to give notice in writing to the Depositary accepting such appointment and agreeing to abide by the applicable terms of this Deposit Agreement.

SECTION 5.2 Prevention or Delay in Performance by the Depositary or Company.

Neither the Depositary nor the Company nor any of their respective directors, officers, employees, agents or affiliates shall incur any liability to any Owner or Beneficial Owner of any Receipt, if by reason of any provision of any present or future law or regulation of the United States, the People's Republic of China or any other country, or of any governmental or regulatory authority or stock exchange, or by reason of any provision, present or future, of the Memorandum and Articles of Association of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any offering or distribution thereof, or by reason of any act of God or war or terrorism or other circumstances beyond its control, the Depositary or the Company shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of this Deposit Agreement or the Deposited Securities it is provided shall be done or performed; nor shall the Depositary or the Company or any of their respective directors, officers, employees, agents or affiliates incur any liability to any Owner or Beneficial Owner of any Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of this Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in this Deposit Agreement. Where, by the terms of a distribution pursuant to Sections 4.1, 4.2, or 4.3 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.4 of the Deposit Agreement, or for any other reason, such distribution or offering may not be made available to Owners, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse, in each such case without liability to the Company or the Depositary.

SECTION 5.3 Obligations of the Depository, the Custodian and the Company.

Neither the Company, nor its directors, officers, employees and agents assume any obligation nor shall it or any of them be subject to any liability under this Deposit Agreement to Owners or Beneficial Owners, except that the Company agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

Neither the Depository nor its directors, officers, employees and agents assume any obligation nor shall it or any of them be subject to any liability under this Deposit Agreement to any Owner or Beneficial Owner of any Receipt (including, without limitation, liability with respect to the validity or worth of the Deposited Securities), except that the Depository agrees to perform its obligations specifically set forth in this Deposit Agreement without negligence or bad faith.

Neither the Depository nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the Receipts that in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expenses and liability shall be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depository.

Neither the Depository nor the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or any other person believed by it in good faith to be competent to give such advice or information.

The Depository shall not be liable for any acts or omissions made by a successor depository whether in connection with a previous act or omission of the Depository or in connection with any matter arising wholly after the removal or resignation of the Depository, provided that in connection with the issue out of which such potential liability arises the Depository performed its obligations without negligence or bad faith while it acted as Depository.

The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith.

No disclaimer of liability under the Securities Act is intended by any provision of this Deposit Agreement.

SECTION 5.4 Resignation and Removal of the Depositary.

The Depositary may at any time resign as Depositary hereunder by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

The Depositary may at any time be removed by the Company by 120 days prior written notice of such removal, which shall become effective upon the later to occur of (i) the 120th day after delivery of the notice to the Depositary or (ii) the appointment of a successor depositary and its acceptance of such appointment as hereinafter provided.

In case at any time the Depositary acting hereunder shall resign or be removed, the Company shall use reasonable efforts to appoint a successor depositary, which shall be a bank or trust company having an office in the Borough of Manhattan, The City of New York. Every successor depositary shall execute and deliver to its predecessor and to the Company an instrument in writing accepting its appointment hereunder, and thereupon such successor depositary, without any further act or deed, shall become fully vested with all the rights, powers, duties and obligations of its predecessor; but such predecessor, nevertheless, upon payment of all sums due it and on the written request of the Company shall execute and deliver an instrument transferring to such successor all rights and powers of such predecessor hereunder, shall duly assign, transfer and deliver all right, title and interest in the Deposited Securities to such successor, and shall deliver to such successor a list of the Owners of all outstanding Receipts. Any such successor depositary shall promptly mail notice of its appointment to the Owners.

Any corporation into or with which the Depositary may be merged or consolidated shall be the successor of the Depositary without the execution or filing of any document or any further act.

SECTION 5.5 The Custodians.

The Custodian shall be subject at all times and in all respects to the directions of the Depositary and shall be responsible solely to it. Any Custodian may resign and be discharged from its duties hereunder by notice of such resignation delivered to the Depositary at least 30 days prior to the date on which such resignation is to become effective. If upon the effectiveness of such resignation there would be no Custodian acting hereunder, the Depositary shall, promptly after receiving such notice, appoint a substitute custodian or custodians, each of which shall thereafter be a Custodian hereunder. Whenever the Depositary in its discretion determines that it is in the best interest of the Owners to do so, it may appoint a substitute or additional custodian or custodians, each of which shall thereafter be one of the Custodians hereunder. Upon demand of the Depositary any Custodian shall deliver such of the Deposited Securities held by it as are requested of it to any other Custodian or such substitute or additional custodian or custodians. Each such substitute or additional custodian shall deliver to the Depositary, forthwith upon its appointment, an acceptance of such appointment satisfactory in form and substance to the Depositary.

Upon the appointment of any successor depositary hereunder, each Custodian then acting hereunder shall forthwith become, without any further act or writing, the agent hereunder of such successor depositary and the appointment of such successor depositary shall in no way impair the authority of each Custodian hereunder; but the successor depositary so appointed shall, nevertheless, on the written request of any Custodian, execute and deliver to such Custodian all such instruments as may be proper to give to such Custodian full and complete power and authority as agent hereunder of such successor depositary.

SECTION 5.6 Notices and Reports.

On or before the first date on which the Company gives notice, by publication or otherwise, of any meeting of holders of Shares or other Deposited Securities, or of any adjourned meeting of such holders, or of the taking of any action in respect of any cash or other distributions or the offering of any rights, the Company agrees to transmit to the Depositary and the Custodian a copy of the notice thereof in the form given or to be given to holders of Shares or other Deposited Securities.

The Company will arrange for the translation into English, if not already in English, to the extent required pursuant to any regulation of the Commission, and the prompt transmittal by the Company to the Depositary and the Custodian of such notices and any other reports and communications which are made generally available by the Company to holders of its Shares. If requested in writing by the Company, the Depositary will arrange for the mailing, at the Company's expense, of copies of such notices, reports and communications to all Owners. The Company will timely provide the Depositary with the quantity of such notices, reports, and communications, as requested by the Depositary from time to time, in order for the Depositary to effect such mailings.

SECTION 5.7 Distribution of Additional Shares, Rights, etc.

If the Company or any affiliate of the Company determines to make any issuance or distribution of (1) additional Shares, (2) rights to subscribe for Shares, (3) securities convertible into Shares, or (4) rights to subscribe for such securities (each a "Distribution"), the Company shall notify the Depositary in writing in English as promptly as practicable and in any event before the Distribution starts and, if requested in writing by the Depositary, the Company shall promptly furnish to the Depositary a written opinion from U.S. counsel for the Company that is reasonably satisfactory to the Depositary, stating whether or not the Distribution requires, or, if made in the United States, would require, registration under the Securities Act of 1933. If, in the opinion of that counsel, the Distribution requires, or, if made in the United States, would require, registration under the Securities Act of 1933, that counsel shall furnish to the Depositary a written opinion as to whether or not there is a registration statement under the Securities Act of 1933 in effect that will cover that Distribution.

The Company agrees with the Depositary that neither the Company nor any entity or person controlled by, controlling or under common control with the Company will at any time deposit any Shares, either originally issued or previously issued and reacquired by the Company or any such affiliate, unless a Registration Statement is in effect as to such Shares under the Securities Act or the Company furnishes to the Depositary a written opinion from U.S. counsel for the Company, which counsel shall be reasonably satisfactory to the Depositary, stating that the Shares to be deposited could be offered and sold publicly by the holder in the United States without further registration of those Shares under the Securities Act.

SECTION 5.8 Indemnification.

The Company agrees to indemnify the Depositary, its directors, employees, agents and affiliates and any Custodian against, and hold each of them harmless from, any liability or expense (including, but not limited to, the fees and expenses of counsel) which may arise out of (a) any registration with the Commission of Receipts, American Depositary Shares or Deposited Securities or the offer or sale thereof in the United States or (b) acts performed or omitted, pursuant to the provisions of this Deposit Agreement and of the Receipts, as the same may be amended, modified or supplemented from time to time, (i) by either the Depositary or a Custodian or their respective directors, employees, agents and affiliates, except for any liability or expense arising out of the negligence or bad faith of either of them, or (ii) by the Company or any of its directors, employees, agents and affiliates.

The Depositary agrees to indemnify the Company, its directors, employees, agents and affiliates and hold them harmless from any liability or expense (including, but not limited to, the reasonable fees and expense of counsel), which may arise out of acts performed or omitted by the Depositary or its Custodian or their respective directors, employees, agents and affiliates due to their negligence or bad faith.

If an action, proceeding (including, but not limited to, any governmental investigation), claim or dispute (collectively, a "Proceeding") in respect of which indemnity may be sought by either party is brought or asserted against the other party, the party seeking indemnification (the "Indemnitee") shall promptly (and in no event more than ten (10) days after receipt of notice of such Proceeding) notify the party obligated to provide such indemnification (the "Indemnitor") of such Proceeding. The failure of the Indemnitee to so notify the Indemnitor shall not impair the Indemnitee's ability to seek indemnification from the Indemnitor (but only for costs, expenses and liabilities incurred after such notice) unless such failure adversely affects the Indemnitor's ability to adequately oppose or defend such Proceeding. Upon receipt of such notice from the Indemnitee, the Indemnitor shall be entitled to participate in such Proceeding and, to the extent that it shall so desire and provided no conflict of interest exists as specified in subparagraph (b) below or there are no other defenses available to Indemnitee as specified in subparagraph (d) below, to assume the defense thereof with counsel reasonably satisfactory to the Indemnitee (in which case all attorney's fees and expenses shall be borne by the Indemnitor and the Indemnitor shall in good faith defend the Indemnitee). The Indemnitee shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be borne by the Indemnitee unless (a) the Indemnitor agrees in writing to pay such fees and expenses, (b) the Indemnitee shall have reasonably and in good faith concluded that there is a conflict of interest between the Indemnitor and the Indemnitee in the conduct of the defense of such action, (c) the Indemnitor fails, within ten (10) days prior to the date the first response or appearance is required to be made in such Proceeding, to assume the defense of such Proceeding with counsel reasonably satisfactory to the Indemnitee or (d) there are legal defenses available to Indemnitee that are different from or are in addition to those available to the Indemnitor. No compromise or settlement of such Proceeding may be effected by either party without the other party's consent unless (i) there is no finding or admission of any violation of law and no effect on any other claims that may be made against such other party and (ii) the sole relief provided is monetary damages that are paid in full by the party seeking the settlement. Neither party shall have any liability with respect to any compromise or settlement effected without its consent, which shall not be unreasonably withheld. The Indemnitor shall have no obligation to indemnify and hold harmless the Indemnitee from any loss, expense or liability incurred by the Indemnitee as a result of a default judgment entered against the Indemnitee unless such judgment was entered after the Indemnitor agreed, in writing, to assume the defense of such Proceeding.

SECTION 5.9 Charges of Depositary.

The Company agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depositary and those of any Registrar only in accordance with agreements in writing entered into between the Depositary and the Company from time to time. The Depositary shall present its statement for such charges and expenses to the Company once every three months. The charges and expenses of the Custodian are for the sole account of the Depositary.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.3), or by Owners, as applicable: (1) taxes, stamp duty and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or Foreign Registrar and applicable to transfers of Shares to or from the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals hereunder, (3) such cable, telex and facsimile transmission expenses as are expressly provided in this Deposit Agreement, (4) such expenses as are incurred by the Depositary in the conversion of foreign currency pursuant to Section 4.5, (5) a fee of \$5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.3, 4.3 or 4.4 and the surrender of Receipts pursuant to Section 2.5 or 6.2, (6) a fee of \$.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including, but not limited to Sections 4.1 through 4.4 hereof, (7) a fee for the distribution of securities pursuant to Section 4.2, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares) but which securities are instead distributed by the Depositary to Owners, (8) a fee of \$.02 or less per American Depositary Share (or portion thereof) for depositary services, which will accrue on the last day of each calendar year and which will be payable as provided in clause (9) below; provided, however, that no fee will be assessed under this clause (8) to the extent a fee of \$.02 was charged pursuant to clause (6) above during that calendar year and (9) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of Shares or other Deposited Securities (which charge shall be assessed against Owners as of the date or dates set by the Depositary in accordance with Section 4.6 and shall be payable at the sole discretion of the Depositary by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

The Depositary, subject to Section 2.9 hereof, may own and deal in any class of securities of the Company and its affiliates and in Receipts.

SECTION 5.10 Retention of Depositary Documents.

The Depositary is authorized to destroy those documents, records, bills and other data compiled during the term of this Deposit Agreement at the times permitted by the laws or regulations governing the Depositary unless the Company reasonably requests that such papers be retained for a longer period or be delivered to the Company or to a successor depositary.

SECTION 5.11 Exclusivity.

Subject to Sections 5.4 and 6.2, the Company agrees not to appoint any other depositary for issuance of American or global depositary receipts so long as The Bank of New York is acting as Depositary hereunder.

SECTION 5.12 List of Restricted Securities Owners.

From time to time, the Company shall provide to the Depository a list setting forth, to the actual knowledge of the Company, those persons or entities who beneficially own Restricted Securities. The Company agrees to advise in writing each of the persons or entities so listed that such Restricted Securities are ineligible for deposit hereunder. The Depository may rely on such a list or update but shall not be liable for any action or omission made in reliance thereon.

ARTICLE 6. AMENDMENT AND TERMINATION.

SECTION 6.1 Amendment.

The form of the Receipts and any provisions of this Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depository without the consent of Owners and Beneficial Owners in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners, shall, however, not become effective as to outstanding Receipts until the expiration of thirty days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law.

SECTION 6.2 Termination.

The Depository shall at any time at the direction of the Company terminate this Deposit Agreement by mailing notice of such termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depository may likewise terminate this Deposit Agreement by mailing notice of such termination to the Company and the Owners of all Receipts then outstanding if at any time 60 days shall have expired after the Depository shall have delivered to the Company a written notice of its election to resign and a successor depository shall not have been appointed and accepted its appointment as provided in Section 5.4. On and after the date of termination, the Owner of a Receipt will, upon (a) surrender of such Receipt at the Corporate Trust Office of the Depository, (b) payment of the fee of the Depository for the surrender of Receipts referred to in Section 2.5, and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the American Depository Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depository thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under this Deposit Agreement, except that the Depository shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in this Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depository (after deducting, in each case, the fee of the Depository for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of this Deposit Agreement, and any applicable taxes or governmental charges). At any time after the expiration of six months from the date of termination, the Depository may sell the Deposited Securities then held hereunder and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it hereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depository with respect to such net proceeds. After making such sale, the Depository shall be discharged from all obligations under this Deposit Agreement, except for its obligations to the Company under Section 5.8 and to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depository for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of this Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of this Deposit Agreement, the Company shall be discharged from all obligations under this Deposit Agreement except for its obligations to the Depository under Sections 5.8 and 5.9 hereof.

ARTICLE 7. MISCELLANEOUS.

SECTION 7.1 Counterparts.

This Deposit Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of such counterparts shall constitute one and the same instrument. Copies of this Deposit Agreement shall be filed with the Depositary and the Custodians and shall be open to inspection by any Owner or Beneficial Owner of a Receipt during business hours.

SECTION 7.2 No Third Party Beneficiaries.

This Deposit Agreement is for the exclusive benefit of the parties hereto (which shall include the Owners and Beneficial Owners) and shall not be deemed to give any legal or equitable right, remedy or claim whatsoever to any other person, except as otherwise specifically provided in this Agreement with respect to co-transfer agents and the Custodian.

SECTION 7.3 Severability.

In case any one or more of the provisions contained in this Deposit Agreement or in the Receipts should be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein or therein shall in no way be affected, prejudiced or disturbed thereby.

SECTION 7.4 Owners and Beneficial Owners as Parties; Binding Effect.

The Owners and Beneficial Owners of Receipts from time to time shall be parties to this Deposit Agreement and shall be bound by all of the terms and conditions hereof and of the Receipts by acceptance thereof.

SECTION 7.5 Notices.

Any and all notices to be given to the Company shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to Baidu.com, Inc., 12/F Ideal International Plaza, No. 58 West-North 4th Ring Beijing 100080, China: Attention: CEO, or any other place to which the Company may have transferred its principal office with notice to the Depositary.

Any and all notices to be given to the Depositary shall be deemed to have been duly given if in English and personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to The Bank of New York, 101 Barclay Street, New York, New York 10286, Attention: American Depositary Receipt Administration, or any other place to which the Depositary may have transferred its Corporate Trust Office with notice to the Company.

Any and all notices to be given to any Owner shall be deemed to have been duly given if personally delivered or sent by mail or cable, telex or facsimile transmission confirmed by letter, addressed to such Owner at the address of such Owner as it appears on the transfer books for Receipts of the Depositary, or, if such Owner shall have filed with the Depositary a written request that notices intended for such Owner be mailed to some other address, at the address designated in such request.

Delivery of a notice sent by mail or cable, telex or facsimile transmission shall be deemed to be effected at the time when a duly addressed letter containing the same (or a confirmation thereof in the case of a cable, telex or facsimile transmission) is deposited, postage prepaid, in a post-office letter box. The Depositary or the Company may, however, act upon any cable, telex or facsimile transmission received by it, notwithstanding that such cable, telex or facsimile transmission shall not subsequently be confirmed by letter as aforesaid.

SECTION 7.6 Governing Law.

This Deposit Agreement and the Receipts shall be interpreted and all rights hereunder and thereunder and provisions hereof and thereof shall be governed by the laws of the State of New York without regard to conflicts of laws, rules or principles thereof.

SECTION 7.7 Compliance with U.S. Securities Laws.

Notwithstanding anything in this Deposit Agreement to the contrary, the Company and the Depository each agrees that it will not exercise any rights it has under this Deposit Agreement to permit the withdrawal or delivery of Deposited Securities in a manner which would violate the U.S. securities laws, including, but not limited to, Section I.A.(1) of the General Instructions to the Form F-6 Registration Statement, as amended from time to time, under the Securities Act.

SECTION 7.8 Submission to Jurisdiction; Appointment of Agent for Service of Process.

The Company hereby (i) irrevocably designates and appoints CT Corporation System, 111 Eighth Avenue, New York, New York, as the Company's authorized agent upon which process may be served in any suit or proceeding arising out of or relating to the Shares or Deposited Securities, the American Depositary Shares, the Receipts or this Agreement, (ii) consents and submits to the jurisdiction of any state or federal court in the State of New York in which any such suit or proceeding may be instituted, and (iii) agrees that service of process upon said authorized agent shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. The Company agrees to deliver, upon the execution and delivery of this Deposit Agreement, a written acceptance by such agent of its appointment as such agent. The Company further agrees to take any and all action, including the filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment in full force and effect for so long as any American Depositary Shares or Receipts remain outstanding or this Agreement remains in force. In the event the Company fails to continue such designation and appointment in full force and effect, the Company hereby waives personal service of process upon it and consents that any such service of process may be made by certified or registered mail, return receipt requested, directed to the Company at its address last specified for notices hereunder, and service so made shall be deemed completed five (5) days after the same shall have been so mailed.

SECTION 7.9 Arbitration.

In the event the Depository is advised that a judgment of a court in the United States may not be recognized, the following provisions shall apply:

(i) Any controversy, claim or cause of action brought by any party or parties hereto against any other party or parties hereto arising out of or relating to the Deposit Agreement shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

(ii) The place of the arbitration shall be the City of New York, State of New York, United States of America, and the language of the arbitration shall be English.

(iii) The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto, and shall be an attorney experienced in international securities transactions. Each party shall appoint one arbitrator and the two arbitrators shall select a third arbitrator who shall serve as chairperson of the tribunal. If a dispute, controversy or cause of action shall involve more than two parties, the parties shall attempt to align themselves in two sides (i.e., claimant and respondent), each of which shall appoint one arbitrator as if there were only two parties to such dispute, controversy or cause of action. If either or both parties fail to select an arbitrator, or if such alignment (in the event there is more than two parties) shall not have occurred, within sixty (60) calendar days after the initiating party serves the arbitration demand or the two arbitrators fail to select a third arbitrator within sixty (60) calendar days of the selection of the second arbitrator, the American Arbitration Association shall appoint the arbitrator or arbitrators in accordance with its rules. The parties and the American Arbitration Association may appoint the arbitrators from among the nationals of any country, whether or not a party is a national of that country.

(iv) The arbitrators shall have no authority to award damages not measured by the prevailing party's actual damages and shall have no authority to award any consequential, special or punitive damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of this Deposit Agreement.

(v) In the event any third-party action or proceeding is instituted against the Depository relating to or arising from any act or failure to act by the Company, the Company hereby submits to the personal jurisdiction of the court or administrative agency in which such action or proceeding is brought.

IN WITNESS WHEREOF, BAIDU.COM, INC. and THE BANK OF NEW YORK have duly executed this agreement as of the day and year first set forth above and all Owners and Beneficial Owners shall become parties hereto upon acceptance by them of Receipts issued in accordance with the terms hereof.

BAIDU.COM, INC.

By: _____
Name:
Title:

THE BANK OF NEW YORK,
as Depositary

By: _____
Name:
Title:

No.

AMERICAN DEPOSITARY SHARES
(Each American Depositary Share represents _____ deposited Shares)

**THE BANK OF NEW YORK
AMERICAN DEPOSITARY RECEIPT
FOR CLASS A ORDINARY SHARES,
PAR VALUE \$0.00005 PER SHARE, OF
BAIDU.COM, INC.
(INCORPORATED UNDER THE LAWS OF THE CAYMAN ISLANDS)**

The Bank of New York as depositary (hereinafter called the Depositary), hereby certifies that _____, or registered assigns IS THE OWNER OF

AMERICAN DEPOSITARY SHARES

representing deposited Class A Ordinary Shares (herein called Shares) of Baidu.com, Inc., incorporated under the laws of the Cayman Islands (herein called the Company). At the date hereof, each American Depositary Share represents _____ Shares which are either deposited or subject to deposit under the Deposit Agreement referred to below at the principal Hong Kong office of The Hongkong and Shanghai Banking Corporation Limited (herein called the Custodian). The Depositary's Corporate Trust Office is located at a different address than its principal executive office. Its Corporate Trust Office is located at 101 Barclay Street, New York, N.Y. 10286, and its principal executive office is located at One Wall Street, New York, N.Y. 10286.

**THE DEPOSITARY'S CORPORATE TRUST OFFICE ADDRESS IS
101 BARCLAY STREET, NEW YORK, N.Y. 10286**

1. **THE DEPOSIT AGREEMENT.**

This American Depositary Receipt is one of an issue (herein called Receipts), all issued and to be issued upon the terms and conditions set forth in the deposit agreement, dated as of _____, 2005 (the "Deposit Agreement"), by and among the Company, the Depositary, and all Owners and Beneficial Owners from time to time of Receipts issued thereunder, each of whom by accepting a Receipt agrees to become a party thereto and become bound by all the terms and conditions thereof. The Deposit Agreement sets forth the rights of Owners and Beneficial Owners of the Receipts and the rights and duties of the Depositary in respect of the Shares deposited thereunder and any and all other securities, property and cash from time to time received in respect of such Shares and held thereunder (such Shares, securities, property, and cash are herein called Deposited Securities). Copies of the Deposit Agreement are on file at the Depositary's Corporate Trust Office in New York City and at the office of the Custodian.

The statements made on the face and reverse of this Receipt are summaries of certain provisions of the Deposit Agreement and are qualified by and subject to the detailed provisions of the Deposit Agreement, to which reference is hereby made. Capitalized terms not defined herein shall have the meanings set forth in the Deposit Agreement.

2. **SURRENDER OF RECEIPTS AND WITHDRAWAL OF SHARES.**

Upon surrender at the Corporate Trust Office of the Depositary of this Receipt, and upon payment of the fee of the Depositary provided in this Receipt, and subject to the terms and conditions of the Deposit Agreement, the Owner hereof is entitled to delivery, to him or upon his order, of the amount of Deposited Securities at the time represented by the American Depositary Shares for which this Receipt is issued. Delivery of such Deposited Securities may be made by the delivery of (a) certificates for Shares in the name of the Owner hereof or as ordered by him or by certificates properly endorsed or accompanied by proper instruments of transfer to such Owner or as ordered by him and (b) any other securities, property and cash to which such Owner is then entitled in respect of this Receipt to such Owner or as ordered by him. Such delivery will be made at the option of the Owner hereof, either at the office of the Custodian or at the Corporate Trust Office of the Depositary, provided that the forwarding of certificates for Shares or other Deposited Securities for such delivery at the Corporate Trust Office of the Depositary shall be at the risk and expense of the Owner hereof. Notwithstanding any other provision of the Deposit Agreement or this Receipt, the surrender of outstanding Receipts and withdrawal of Deposited Securities may be suspended only for (i) temporary delays caused by closing the transfer books of the Depositary or the Company or the deposit of Shares in connection with voting at a shareholders' meeting, or the payment of dividends, (ii) the payment of fees, taxes and similar charges, and (iii) compliance with any U.S. or foreign laws or governmental regulations relating to the Receipts or to the withdrawal of the Deposited Securities.

3. **TRANSFERS, SPLIT-UPS, AND COMBINATIONS OF RECEIPTS.**

The transfer of this Receipt is registrable on the books of the Depositary at its Corporate Trust Office by the Owner hereof in person or by a duly authorized attorney, upon surrender of this Receipt properly endorsed for transfer or accompanied by proper instruments of transfer and funds sufficient to pay any applicable transfer taxes and the expenses of the Depositary and upon compliance with such regulations, if any, as the Depositary may establish for such purpose. This Receipt may be split into other such Receipts, or may be combined with other such Receipts into one Receipt, evidencing the same aggregate number of American Depositary Shares as the Receipt or Receipts surrendered. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination, or surrender of any Receipt or withdrawal of any Deposited Securities, the Depositary, the Custodian, or Registrar may require payment from the depositor of Shares or the presenter of the Receipt of a sum sufficient to reimburse it for any tax, stamp duty or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees as provided in this Receipt, may require the production of proof satisfactory to it as to the identity and genuineness of any signature and may also require compliance with any regulations the Depositary may establish consistent with the provisions of the Deposit Agreement or this Receipt.

The delivery of Receipts against deposits of Shares generally or against deposits of particular Shares may be suspended, or the transfer of Receipts in particular instances may be refused, or the registration of transfer of outstanding Receipts generally may be suspended, during any period when the transfer books of the Depositary are closed as provided in Section 5.1 of the Deposit Agreement, or if any such action is deemed necessary or advisable by the Depositary or the Company at any time or from time to time because of any requirement of law or of any government or governmental body or commission, or under any provision of the Deposit Agreement or this Receipt, or for any other reason. Without limitation of the foregoing, the Depositary shall not knowingly accept for deposit under the Deposit Agreement any Shares required to be registered under the provisions of the Securities Act for public sale in the United States, unless a registration statement is in effect as to such Shares.

4. **LIABILITY OF OWNER FOR TAXES.**

If any tax or other governmental charge shall become payable with respect to any Receipt or any Deposited Securities represented hereby, such tax or other governmental charge shall be payable by the Owner hereof to the Depositary. The Depositary may refuse to effect any transfer of this Receipt or any withdrawal of Deposited Securities represented by American Depositary Shares evidenced by such Receipt until such payment is made, and may withhold any dividends or other distributions, or may sell for the account of the Owner hereof any part or all of the Deposited Securities represented by the American Depositary Shares evidenced by this Receipt, and may apply such dividends or other distributions or the proceeds of any such sale in payment of such tax or other governmental charge and the Owner hereof shall remain liable for any deficiency.

5. **WARRANTIES OF DEPOSITORS.**

Every person depositing Shares under the Deposit Agreement shall be deemed thereby to represent and warrant that such Shares and each certificate therefor, if applicable, are validly issued, fully paid, nonassessable and were not issued in violation of any pre-emptive rights of the holders of outstanding Shares and that the person making such deposit is duly authorized so to do. Every such person shall also be deemed to represent that the Shares are eligible for deposit in accordance with the Deposit Agreement and the General Instructions to Form F-6 under the Securities Act, and Receipts evidencing American Depositary Shares representing the Shares would not be, Restricted Securities. All representations and warranties deemed made under Section 3.3 of the Deposit Agreement shall survive the deposit of Shares and delivery or surrender of Receipts.

6. **FILING PROOFS, CERTIFICATES, AND OTHER INFORMATION.**

Any person presenting Shares for deposit or any Owner or Beneficial Owner of a Receipt may be required from time to time to file with the Depository or the Custodian such proof of citizenship or residence, exchange control approval, or such information relating to the registration on the books of the Company or the Foreign Registrar, if applicable, to execute such certificates and to make such representations and warranties, as the Depository may deem necessary or proper. The Depository may withhold the delivery or registration of transfer of any Receipt or the distribution of any dividend or sale or distribution of rights or of the proceeds thereof or the delivery of any Deposited Securities until such proof or other information is filed or such certificates are executed or such representations and warranties made. If requested in writing, the Depository shall, as promptly as practicable, provide the Company, at the expense of the Company, with copies of any such proofs, certificates or other information it receives pursuant to this Article, unless prohibited by applicable law. No Share shall be accepted for deposit unless accompanied by evidence satisfactory to the Depository that any necessary approval has been granted by any governmental body the Cayman Islands or in the People's Republic of China which is then performing the function of the regulation of currency exchange.

7. **CHARGES OF DEPOSITARY.**

The Company agrees to pay the fees, reasonable expenses and out-of-pocket charges of the Depository and those of any Registrar only in accordance with agreements in writing entered into between the Depository and the Company from time to time. The Depository shall present its statement for such charges and expenses to the Company once every three months. The charges and expenses of the Custodian are for the sole account of the Depository.

The following charges shall be incurred by any party depositing or withdrawing Shares or by any party surrendering Receipts or to whom Receipts are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Company or an exchange of stock regarding the Receipts or Deposited Securities or a distribution of Receipts pursuant to Section 4.3 of the Deposit Agreement), or by Owners, as applicable: (1) taxes, stamp duty and other governmental charges, (2) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the Share register of the Company or Foreign Registrar and applicable to transfers of Shares to or from the name of the Depository or its nominee or the Custodian or its nominee on the making of deposits or withdrawals under the Deposit Agreement, (3) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement, (4) such expenses as are incurred by the Depository in the conversion of foreign currency pursuant to Section 4.5 of the Deposit Agreement, (5) a fee of \$5.00 or less per 100 American Depositary Shares (or portion thereof) for the execution and delivery of Receipts pursuant to Section 2.3, 4.3 or 4.4 of the Deposit Agreement and the surrender of Receipts pursuant to Section 2.5 or 6.2 of the Deposit Agreement, (6) a fee of \$.02 or less per American Depositary Share (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including, but not limited to Sections 4.1 through 4.4 of the Deposit Agreement, (7) a fee for the distribution of securities pursuant to Section 4.2 of the Deposit Agreement, such fee being in an amount equal to the fee for the execution and delivery of American Depositary Shares referred to above which would have been charged as a result of the deposit of such securities (for purposes of this clause 7 treating all such securities as if they were Shares) but which securities are instead distributed by the Depository to Owners, (8) a fee of \$.02 or less per American Depositary Share (or portion thereof) for depository services, which will accrue on the last day of each calendar year and which will be payable as provided in clause (9) below; provided, however, that no fee will be assessed under this clause (8) to the extent a fee of \$.02 was charged pursuant to clause (6) above during that calendar year and (9) any other charge payable by the Depository, any of the Depository's agents, including the Custodian, or the agents of the Depository's agents in connection with the servicing of Shares or other Deposited Securities (which charge shall be assessed against Owners as of the date or dates set by the Depository in accordance with Section 4.6 of the Deposit Agreement and shall be payable at the sole discretion of the Depository by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

The Depository, subject to Section 2.9 of the Deposit Agreement, may own and deal in any class of securities of the Company and its affiliates and in Receipts.

8. **PRE-RELEASE OF RECEIPTS.**

The Depositary may, notwithstanding Section 2.3 of the Deposit Agreement, execute and deliver Receipts prior to the receipt of Shares pursuant to Section 2.2 of the Deposit Agreement (“Pre-Release”). The Depositary may, pursuant to Section 2.5 of the Deposit Agreement, deliver Shares upon the receipt and cancellation of Receipts which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such Receipt has been Pre-Released. The Depositary may receive Receipts in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation and agreement from the person to whom Receipts are to be delivered (the “Pre-Releasee”) that the Pre-Releasee, or its customer, (i) owns the shares or Receipts to be remitted, as the case may be, (ii) assigns all beneficial rights, title and interest in such Shares or Receipts, as the case may be, to the Depositary in its capacity as such and for the benefit of the Owners, and (iii) will not take any action with respect to such Shares or Receipts, as the case may be, that is inconsistent with the transfer of beneficial ownership (including, without the consent of the Depositary, disposing of such Shares or Receipts, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralized with cash, U.S. government securities or such other collateral as the Depositary determines, in good faith, will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of Shares not deposited but represented by American Depositary Shares outstanding at any time as a result of Pre-Releases will not normally exceed thirty percent (30%) of the Shares deposited hereunder; provided, however, that the Depositary reserves the right to disregard such limit from time to time as it deems reasonably appropriate, and may, with the prior written consent of the Company, change such limit for purposes of general application. The Depositary will also set Dollar limits with respect to Pre-Release transactions to be entered into hereunder with any particular Pre-Releasee on a case-by-case basis as the Depositary deems appropriate. For purposes of enabling the Depositary to fulfill its obligations to the Owners under the Deposit Agreement, the collateral referred to in clause (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee’s obligations to the Depositary in connection with a Pre-Release transaction, including the Pre-Releasee’s obligation to deliver Shares or Receipts upon termination of a Pre-Release transaction (and shall not, for the avoidance of doubt, constitute Deposited Securities hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing.

9. **TITLE TO RECEIPTS.**

It is a condition of this Receipt and every successive Owner and Beneficial Owner of this Receipt by accepting or holding the same consents and agrees, that title to this Receipt when properly endorsed or accompanied by proper instruments of transfer, is transferable by delivery with the same effect as in the case of a negotiable instrument; under the laws of New York; provided, however, that the Depositary, notwithstanding any notice to the contrary, may treat the person in whose name this Receipt is registered on the books of the Depositary as the absolute owner hereof for the purpose of determining the person entitled to distribution of dividends or other distributions or to any notice provided for in the Deposit Agreement and for all other purposes.

10. **VALIDITY OF RECEIPT.**

This Receipt shall not be entitled to any benefits under the Deposit Agreement or be valid or obligatory for any purpose, unless this Receipt shall have been executed by the Depositary by the manual signature of a duly authorized signatory of the Depositary; provided, however, that such signature may be a facsimile if a Registrar for the Receipts shall have been appointed, and such Receipts are countersigned by the manual or facsimile signature of a duly authorized officer of the Registrar.

11. **REPORTS; INSPECTION OF TRANSFER BOOKS.**

The Company is subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and, accordingly, files certain reports with the Securities and Exchange Commission (hereinafter called the "Commission").

Such reports and communications will be available for inspection and copying at the public reference facilities maintained by the Commission located at 450 Fifth Street, N.W., Washington, D.C. 20549.

The Depositary will make available for inspection by Owners of Receipts at its Corporate Trust Office, as promptly as practicable after receipt, any reports and communications, including any proxy soliciting material, received from the Company which are both (a) received by the Depositary as the holder of the Deposited Securities and (b) made generally available to the holders of such Deposited Securities by the Company. The Depositary shall also send to the Owners of Receipts copies of such reports when furnished by the Company pursuant to the Deposit Agreement. Any such reports and communications, including any such proxy soliciting material, furnished to the Depositary by the Company shall be furnished in English.

The Depositary shall keep books at its Corporate Trust Office for the registration of Receipts and transfers of Receipts which at all reasonable times shall be open for inspection by the Owners and the Company, provided that such inspection shall not be for the purpose of communicating with Owners of Receipts in the interest of a business or object other than the business of the Company or a matter related to the Deposit Agreement or the Receipts.

12. **DIVIDENDS AND DISTRIBUTIONS.**

Whenever the Depositary shall receive any cash dividend or other cash distribution on any Deposited Securities, the Depositary shall, if at the time of receipt thereof any amounts received in a foreign currency can in the judgment of the Depositary be converted on a reasonable basis into United States dollars transferable to the United States, and subject to the Deposit Agreement, convert such dividend or distribution into Dollars and shall distribute the amount thus received (net of the fees and expenses of the Depositary as provided in the Deposit Agreement, if applicable) to the Owners of Receipts entitled thereto, provided, however, that in the event that the Company or the Depositary shall be required to withhold and does withhold from such cash dividend or such other cash distribution in respect of any Deposited Securities an amount on account of taxes, the amount distributed to the Owners of the Receipts evidencing American Depositary Shares representing such Deposited Securities shall be reduced accordingly.

Subject to the provisions of Sections 4.11 and 5.9 of the Deposit Agreement, whenever the Depositary shall receive any distribution other than a distribution described in Sections 4.1, 4.3 or 4.4 of the Deposit Agreement, the Depositary shall, subject to all applicable laws, cause the securities or property received by it to be distributed to the Owners of Receipts entitled thereto, after deduction or upon payment of any fees and expenses of the Depositary or any taxes or other governmental charges, in any manner that the Depositary may deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners of Receipts entitled thereto, or if for any other reason the Depositary deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including, but not limited to, the public or private sale of the securities or property thus received, or any part thereof, and the net proceeds of any such sale (net of the fees of the Depositary as provided in Section 5.9 of the Deposit Agreement) shall be distributed by the Depositary to the Owners of Receipts entitled thereto as in the case of a distribution received in cash. The Depositary may refuse to effect any distribution of securities under Section 4.2 of the Deposit Agreement unless it has received an opinion of United States counsel for the Company that is satisfactory to the Depositary that the distribution does not require registration under the Securities Act.

If any distribution upon any Deposited Securities consists of a dividend in, or free distribution of, Shares, the Depositary may distribute to the Owners of outstanding Receipts entitled thereto, additional Receipts evidencing an aggregate number of American Depositary Shares representing the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of American Depositary Shares evidenced by Receipts, including the withholding of any tax or other governmental charge as provided in Section 4.11 of the Deposit Agreement and the payment of the fees and expenses of the Depositary as provided in Section 5.9 of the Deposit Agreement. In lieu of delivering Receipts for fractional American Depositary Shares in any such case, the Depositary shall use reasonable efforts to sell the amount of Shares represented by the aggregate of such fractions and distribute any net proceeds to the Owners entitled to them, all in the manner and subject to the conditions set forth in the Deposit Agreement. If additional Receipts are not so distributed, each American Depositary Share shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

The Company or its agent will remit to the appropriate governmental agencies in the Cayman Islands and the People's Republic of China all amounts withheld and owing to such agencies. The Depositary will forward to the Company or its agent such information from its records as the Company may reasonably request to enable the Company or its agent to file necessary reports with governmental agencies, and the Depositary or the Company or its agent may file any such reports necessary to obtain benefits under the applicable tax treaties for the Owners of Receipts. In the event that the Depositary determines that any distribution in property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may by public or private sale dispose of all or a portion of such property (including Shares and rights to subscribe therefor) in such amounts and in such manner as the Depositary deems necessary and practicable to pay any such taxes or charges and the Depositary shall distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners of Receipts entitled thereto.

13. **CONVERSION OF FOREIGN CURRENCY.**

Whenever the Depositary or the Custodian shall receive foreign currency, by way of dividends or other distributions or the net proceeds from the sale of securities, property or rights, and if at the time of the receipt thereof the foreign currency so received can in the judgment of the Depositary be converted on a reasonable basis into Dollars and the resulting Dollars transferred to the United States, the Depositary shall convert or cause to be converted, by sale or in any other manner that it may determine, such foreign currency into Dollars, and such Dollars shall be distributed to the Owners entitled thereto or, if the Depositary shall have distributed any warrants or other instruments which entitle the holders thereof to such Dollars, then to the holders of such warrants and/or instruments upon surrender thereof for cancellation. Such distribution may be made upon an averaged or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions, the date of delivery of any Receipt or otherwise and shall be net of any expenses of conversion into Dollars incurred by the Depositary as provided in Section 5.9 of the Deposit Agreement.

If such conversion or distribution can be effected only with the approval or license of any government or agency thereof, the Depositary shall file such application for approval or license, if any, as it may deem desirable.

If at any time the Depositary shall determine that in its judgment any foreign currency received by the Depositary or the Custodian is not convertible on a reasonable basis into Dollars transferable to the United States, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable without excessively burdensome or otherwise unreasonable efforts, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, or if there are foreign exchange controls in place that prohibit such conversion, the Depositary may distribute the foreign currency (or an appropriate document evidencing the right to receive such foreign currency) received by the Depositary to, or in its discretion may hold such foreign currency uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled to receive the same.

If any such conversion of foreign currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in Dollars to the extent permissible to the Owners entitled thereto and may distribute the balance of the foreign currency received by the Depositary to, or hold such balance uninvested and without liability for interest thereon for the respective accounts of, the Owners entitled thereto.

14. **RIGHTS.**

In the event that the Company shall offer or cause to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary shall have discretion as to the procedure to be followed in making such rights available to any Owners to them or in disposing of such rights on behalf of any Owners otherwise entitled to them and making the net proceeds available to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse. If at the time of the offering of any rights the Depositary determines in its reasonable discretion that it is lawful and feasible to make such rights available to all Owners or to certain Owners but not to other Owners, the Depositary may distribute, to any Owner to whom it determines the distribution to be lawful and feasible, in proportion to the number of American Depositary Shares held by such Owner, warrants or other instruments therefor in such form as it deems appropriate.

In circumstances in which rights would otherwise not be distributed, if an Owner of Receipts requests the distribution of warrants or other instruments in order to exercise the rights allocable to the American Depositary Shares of such Owner under the Deposit Agreement, the Depositary will make such rights available to such Owner upon written notice from the Company to the Depositary that (a) the Company has elected in its sole discretion to permit such rights to be exercised and (b) such Owner has executed such documents as the Company has determined in its sole discretion are reasonably required under applicable law.

If the Depositary has distributed warrants or other instruments for rights to all or certain Owners, then upon instruction from such an Owner pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received upon the exercise of the rights, and upon payment of the fees and expenses of the Depositary and any other charges as set forth in such warrants or other instruments, the Depositary shall, on behalf of such Owner, exercise the rights and purchase the Shares, and the Company shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited pursuant to Section 2.2 of the Deposit Agreement, and shall, pursuant to Section 2.3 of the Deposit Agreement, execute and deliver Receipts to such Owner. In the case of a distribution pursuant to the second paragraph of this Article, such Receipts shall be legended in accordance with applicable U.S. laws, and shall be subject to the appropriate restrictions on sale, deposit, cancellation and transfer under such laws.

If the Depositary determines in its reasonable discretion that it is not lawful and feasible to make such rights available to all or certain Owners, it may sell the rights, warrants or other instruments in proportion to the number of American Depositary Shares held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales (net of the fees and expenses of the Depositary as provided in Section 5.9 of the Deposit Agreement and all taxes and governmental charges payable in connection with such rights and subject to the terms and conditions of the Deposit Agreement) for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any Receipt or otherwise.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act with respect to a distribution to Owners or are registered under the provisions of the Securities Act; provided, however, that nothing in the Deposit Agreement shall create any obligation on the part of the Company to file a registration statement with respect to such rights or underlying securities or to endeavor to have such a registration statement declared effective. If an Owner of Receipts requests distribution of warrants or other instruments, notwithstanding that there has been no such registration under the Securities Act, the Depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for the Company upon which the Depositary may rely that such distribution to such Owner is exempt from such registration; provided, however, that the Company shall have no obligation to cause its counsel to issue such opinion at the request of such Owner.

The Depositary shall not be responsible for any reasonable failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

15. **RECORD DATES.**

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each American Depositary Share, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, or whenever the Depositary shall find it necessary or convenient, the Depositary shall fix a record date, which date shall be the same date, to the extent practicable, as the record date for the Deposited Securities or if different, as close thereto as practicable (a) for the determination of the Owners of Receipts who shall be (i) entitled to receive such dividend, distribution or rights or the net proceeds of the sale thereof or (ii) entitled to give instructions for the exercise of voting rights at any such meeting, (b) on or after which each American Depositary Share will represent the changed number of Shares or (c) for any other matter, subject to the provisions of the Deposit Agreement.

16. **VOTING OF DEPOSITED SECURITIES.**

Upon receipt of notice of any meeting of holders of Shares or other Deposited Securities, if requested in writing by the Company the Depositary shall, as soon as practicable thereafter, mail to the Owners a notice, the form of which notice shall be in the discretion of the Depositary and shall contain (a) such information as is contained in such notice of meeting, and (b) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of the People's Republic of China and Cayman Islands law and of the Memorandum and Articles of Association of the Company, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective American Depositary Shares and (c) a statement as to the manner in which such instructions may be given, including an express indication that such instructions may be given or deemed given in accordance with the last sentence of this paragraph if no instruction is received, to the Depositary to give a discretionary proxy to a person designated by the Company. Upon the written request of an Owner of a Receipt on such record date, received on or before the date established by the Depositary for such purpose (the "Instruction Date"), the Depositary shall endeavor, in so far as practicable, to vote or cause to be voted the amount of Shares or other Deposited Securities represented by the American Depositary Shares evidenced by such Receipt in accordance with the instructions set forth in such request. The Depositary shall not vote or attempt to exercise the right to vote that attaches to such Shares or other Deposited Securities other than in accordance with such instructions or deemed instructions. If no instructions are received by the Depositary from any Owner with respect to any of the Deposited Securities represented by the American Depositary Shares evidenced by such Owner's Receipts on or before the date established by the Depositary for such purpose, the Depositary shall deem such Owner to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Securities and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Securities; provided, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which the Company informs the Depositary (and the Company agrees to provide such information as promptly as practicable in writing) that (x) the Company does not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of Shares.

There can be no assurance that Owners generally or any Owner in particular will receive the notice described in the first paragraph of Section 4.7 of the Deposit Agreement sufficiently prior to the Instruction Date to ensure that the Depositary will vote the Shares or Deposited Securities in accordance with the provisions of that paragraph.

17. **CHANGES AFFECTING DEPOSITED SECURITIES.**

In circumstances where the provisions of Section 4.3 of the Deposit Agreement do not apply, upon any change in nominal value, change in par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalization, reorganization, merger or consolidation, or sale of assets affecting the Company or to which it is a party, any securities which shall be received by the Depositary or a Custodian in exchange for or in conversion of or in respect of Deposited Securities shall be treated as new Deposited Securities under the Deposit Agreement, and American Depositary Shares shall thenceforth represent, in addition to the existing Deposited Securities, if any, the new Deposited Securities so received in exchange or conversion, unless additional Receipts are delivered pursuant to the following sentence. In any such case the Depositary may execute and deliver additional Receipts as in the case of a dividend in Shares, or call for the surrender of outstanding Receipts to be exchanged for new Receipts specifically describing such new Deposited Securities.

18. **LIABILITY OF THE COMPANY AND DEPOSITARY.**

Neither the Depositary nor the Company nor any of their respective directors, officers, employees, agents or affiliates shall incur any liability to any Owner or Beneficial Owner of any Receipt, if by reason of any provision of any present or future law or regulation of the United States, the People's Republic of China or any other country, or of any governmental or regulatory authority or stock exchange, or by reason of any provision, present or future, of the Memorandum and Articles of Association of the Company, or by reason of any provision of any securities issued or distributed by the Company, or any Offering or distribution thereof or by reason of any act of God or war or terrorism or other circumstances beyond its control, the Depositary or the Company shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of the Deposit Agreement or Deposited Securities it is provided shall be done or performed; nor shall the Depositary or the Company or any of their respective directors, officers, employees, agents or affiliates incur any liability to any Owner or Beneficial Owner of a Receipt by reason of any non-performance or delay, caused as aforesaid, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for in the Deposit Agreement. Where, by the terms of a distribution pursuant to Sections 4.1, 4.2 or 4.3 of the Deposit Agreement, or an offering or distribution pursuant to Section 4.4 of the Deposit Agreement, or for any other reason, such distribution or offering may not be made available to Owners of Receipts, and the Depositary may not dispose of such distribution or offering on behalf of such Owners and make the net proceeds available to such Owners, then the Depositary shall not make such distribution or offering, and shall allow any rights, if applicable, to lapse in each such case without liability to the Company or the Depositary.

Neither the Company nor the Depositary nor any of their directors, officers, employees, agents or affiliates assumes any obligation or shall be subject to any liability under the Deposit Agreement to Owners or Beneficial Owners of Receipts, except that the Company and the Depositary agree to perform their obligations specifically set forth in the Deposit Agreement without negligence or bad faith. The Depositary shall not be subject to any liability with respect to the validity or worth of the Deposited Securities. Neither the Depositary nor the Company shall be under any obligation to appear in, prosecute or defend any action, suit or other proceeding in respect of any Deposited Securities or in respect of the Receipts that in its opinion may involve it in expense or liability, unless indemnity satisfactory to it against all expenses and liability shall be furnished as often as may be required, and the Custodian shall not be under any obligation whatsoever with respect to such proceedings, the responsibility of the Custodian being solely to the Depositary. Neither the Depositary nor the Company shall be liable for any action or nonaction by it in reliance upon the advice of or information from legal counsel, accountants, any person presenting Shares for deposit, any Owner or Beneficial Owner of a Receipt, or any other person believed by it in good faith to be competent to give such advice or information. The Depositary shall not be liable for any acts or omissions made by a successor depositary whether in connection with a previous act or omission of the Depositary or in connection with any matter arising wholly after the removal or resignation of the Depositary, provided that in connection with the issue out of which such potential liability arises the Depositary performed its obligations without negligence or bad faith while it acted as Depositary. The Depositary shall not be responsible for any failure to carry out any instructions to vote any of the Deposited Securities, or for the manner in which any such vote is cast or the effect of any such vote, provided that any such action or nonaction is in good faith. No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

19. **RESIGNATION AND REMOVAL OF THE DEPOSITARY.**

The Depositary may at any time resign as Depositary under the Deposit Agreement by written notice of its election so to do delivered to the Company, such resignation to take effect upon the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. The Depositary may at any time be removed by the Company by 120 days prior written notice of such removal, which shall become effective upon the later to occur of the (i) 120th day after delivery of the notice to the Depositary or (ii) the appointment of a successor depositary and its acceptance of such appointment as provided in the Deposit Agreement. Whenever the Depositary in its discretion determines that it is in the best interest of the Owners of Receipts to do so, it may appoint a substitute or additional custodian or custodians.

20. **AMENDMENT.**

The form of the Receipts and any provisions of the Deposit Agreement may at any time and from time to time be amended by agreement between the Company and the Depositary without the consent of Owners and Beneficial Owners in any respect which they may deem necessary or desirable. Any amendment which shall impose or increase any fees or charges (other than taxes and other governmental charges, registration fees, cable, telex or facsimile transmission costs, delivery costs or other such expenses), or which shall otherwise prejudice any substantial existing right of Owners of Receipts, shall, however, not become effective as to outstanding Receipts until the expiration of 30 days after notice of such amendment shall have been given to the Owners of outstanding Receipts. Every Owner of a Receipt at the time any amendment so becomes effective shall be deemed, by continuing to hold such Receipt, to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby. In no event shall any amendment impair the right of the Owner of any Receipt to surrender such Receipt and receive therefor the Deposited Securities represented thereby, except in order to comply with mandatory provisions of applicable law.

21. **TERMINATION OF DEPOSIT AGREEMENT.**

The Depositary shall at any time at the direction of the Company terminate the Deposit Agreement by mailing notice of such termination to the Owners of all Receipts then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement by mailing notice of such termination to the Company and the Owners of all Receipts then outstanding if at any time 60 days shall have expired after the Depositary shall have delivered to the Company a written notice of its election to resign and a successor depositary shall not have been appointed and accepted its appointment as provided in the Deposit Agreement. On and after the date of termination, the Owner of a Receipt will, upon (a) surrender of such Receipt at the Corporate Trust Office of the Depositary, (b) payment of the fee of the Depositary for the surrender of Receipts referred to in Section 2.5 of the Deposit Agreement and (c) payment of any applicable taxes or governmental charges, be entitled to delivery, to him or upon his order, of the amount of Deposited Securities represented by the American Depositary Shares evidenced by such Receipt. If any Receipts shall remain outstanding after the date of termination, the Depositary thereafter shall discontinue the registration of transfers of Receipts, shall suspend the distribution of dividends to the Owners thereof, and shall not give any further notices or perform any further acts under the Deposit Agreement, except that the Depositary shall continue to collect dividends and other distributions pertaining to Deposited Securities, shall sell rights and other property as provided in the Deposit Agreement, and shall continue to deliver Deposited Securities, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for Receipts surrendered to the Depositary (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement and any applicable taxes or governmental charges). At any time after the expiration of six months from the date of termination, the Depositary may sell the Deposited Securities then held under the Deposit Agreement and may thereafter hold uninvested the net proceeds of any such sale, together with any other cash then held by it thereunder, unsegregated and without liability for interest, for the pro rata benefit of the Owners of Receipts which have not theretofore been surrendered, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement, except for its obligations to the Company under Section 5.8 of the Deposit Agreement and to account for such net proceeds and other cash (after deducting, in each case, the fee of the Depositary for the surrender of a Receipt, any expenses for the account of the Owner of such Receipt in accordance with the terms and conditions of the Deposit Agreement, and any applicable taxes or governmental charges). Upon the termination of the Deposit Agreement, the Company shall be discharged from all obligations under the Deposit Agreement except for its obligations to the Depositary under Sections 5.8 and 5.9 of the Deposit Agreement.

23. **SUBMISSION TO JURISDICTION; APPOINTMENT OF AGENT FOR SERVICE OF PROCESS.**

The Company has (i) irrevocably designated and appointed CT Corporation System, 111 Eighth Avenue, New York, New York, as the Company's authorized agent upon which process may be served in any suit or proceeding arising out of or relating to the Shares or Deposited Securities, the American Depositary Shares, the Receipts or this Agreement, (ii) consents and submits to the jurisdiction of any state or federal court in the State of New York in which any such suit or proceeding may be instituted, and (iii) agrees that service of process upon said authorized agent shall be deemed in every respect effective service of process upon the Company in any such suit or proceeding. The Company agrees to deliver, upon the execution and delivery of the Deposit Agreement, a written acceptance by such agent of its appointment as such agent. The Company further agrees to take any and all action, including the filing of any and all such documents and instruments, as may be necessary to continue such designation and appointment in full force and effect for so long as any American Depositary Shares or Receipts remain outstanding or the Deposit Agreement remains in force. In the event the Company fails to continue such designation and appointment in full force and effect, the Company hereby waives personal service of process upon it and consents that any such service of process may be made by certified or registered mail, return receipt requested, directed to the Company at its address last specified for notices hereunder, and service so made shall be deemed completed five (5) days after the same shall have been so mailed.

24. **ARBITRATION.**

In the event the Depositary is advised that a judgment of a court in the United States court may not be recognized, the following provisions shall apply:

(i) Any controversy, claim or cause of action brought by any party or parties hereto against any other party or parties hereto arising out of or relating to the Deposit Agreement shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association, and judgment upon the award rendered by the arbitrators may be entered in any court having jurisdiction thereof.

(ii) The place of the arbitration shall be the City of New York, State of New York, United States of America, and the language of the arbitration shall be English.

(iii) The number of arbitrators shall be three, each of whom shall be disinterested in the dispute or controversy, shall have no connection with any party thereto, and shall be an attorney experienced in international securities transactions. Each party shall appoint one arbitrator and the two arbitrators shall select a third arbitrator who shall serve as chairperson of the tribunal. If a dispute, controversy or cause of action shall involve more than two parties, the parties shall attempt to align themselves in two sides (i.e., claimant and respondent), each of which shall appoint one arbitrator as if there were only two parties to such dispute, controversy or cause of action. If either or both parties fail to select an arbitrator, or if such alignment (in the event there is more than two parties) shall not have occurred, within sixty (60) calendar days after the initiating party serves the arbitration demand or the two arbitrators fail to select a third arbitrator within sixty (60) calendar days of the selection of the second arbitrator, the American Arbitration Association shall appoint the arbitrator or arbitrators in accordance with its rules. The parties and the American Arbitration Association may appoint the arbitrators from among the nationals of any country, whether or not a party is a national of that country.

(iv) The arbitrators shall have no authority to award damages not measured by the prevailing party's actual damages and shall have no authority to award any consequential, special or punitive damages, and may not, in any event, make any ruling, finding or award that does not conform to the terms and conditions of the Deposit Agreement.

In the event any third-party action or proceeding is instituted against the Depository relating to or arising from any act or failure to act by the Company, the Company hereby submits to the personal jurisdiction of the court or administrative agency in which such action or proceeding is brought.

25. **COMPLIANCE WITH U.S. SECURITIES LAWS.**

Notwithstanding anything in the Deposit Agreement to the contrary, the Company and the Depository each agrees that it will not exercise any rights it has under the Deposit Agreement to permit the withdrawal or delivery of Deposited Securities in a manner which would violate the U.S. securities laws, including, but not limited to, Section I.A.(1) of the General Instructions to the Form F-6 Registration Statement, as amended from time to time, under the Securities Act.

BAIDU.COM, INC.**SECOND AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT**

THIS SECOND AMENDED AND RESTATED SHAREHOLDERS' AGREEMENT (this "Agreement") is made and entered into as of June 9, 2004 by and among Baidu.com, Inc., an exempted limited liability company organized under the laws of the Cayman Islands (the "Company"), Yanhong (Robin) Li and Yong (Eric) Xu (collectively, the "Founders" and each, a "Founder"), the investors in the Series A Shares (as defined below) and the investors in the Series B Shares (as defined below) as set forth on Exhibit A hereto (collectively, the "Prior Investors") and the investors in the Series C Shares (as defined below) listed on Exhibit B hereto (the "Series C Investors", collectively with the Prior Investors, the "Investors" and each, an "Investor").

RECITALS

WHEREAS, holders of the Series A preferred shares, par value US\$0.00005 per share, of the Company (the "Series A Shares") and the Series B preferred shares, par value US\$0.00005 per share, of the Company (the "Series B Shares") entered into an Amended and Restated Investors' Rights Agreement (the "Prior Investors' Rights Agreement") and an Amended and Restated Shareholder Agreement (the "Prior Shareholders' Agreement"), each dated as of September 8, 2000;

WHEREAS, the Series C Investors have agreed to purchase from the Company, and the Company has agreed to sell to such Series C Investors, certain Series C preferred shares, par value US\$0.00005 per share, of the Company (the "Series C Shares"), on the terms and conditions set forth in that certain Series C Preferred Share Purchase Agreement dated as of June 2, 2004 by and among the Company, Baidu Holdings Limited, Baidu Online Network Technology (Beijing) Co. Ltd., Baidu Netcom Science and Technology Co. Ltd., the Founders and the Series C Investors (the "Purchase Agreement");

WHEREAS, the Purchase Agreement provides that the execution and delivery of this Agreement by the parties hereto shall be a condition precedent to the consummation of the transactions contemplated thereunder;

WHEREAS, the share numbers set forth herein reflect a two-for-one forward share split of the Company's capital stock effective as of April 7, 2004;

WHEREAS, the Company and the Prior Investors desire to terminate the Prior Investors' Rights Agreement; and

WHEREAS, the Company, the Founders and the Prior Investors desire to amend and restate the Prior Shareholders' Agreement to read in its entirety as set forth herein.

NOW, THEREFORE, in consideration of the foregoing recitals, the mutual promises hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

SECTION 1. DEFINITIONS.

“Acquisition Transaction” shall mean any of the following (in a single transaction or a series of related transactions): (i) any merger, consolidation, share exchange, business combination, recapitalization, liquidation, dissolution or other similar transaction involving the Company or any Material Subsidiary (as defined below); (ii) any sale, lease, exchange, transfer or other disposition of all or a substantial part of the assets of the Company or of any Material Subsidiary; or (iii) any sale, exchange, transfer or other disposition of forty percent (40%) or more of the outstanding capital of the Company or of any Material Subsidiary on a fully-diluted basis.

“Board” or “Board of Directors” shall mean the board of directors of the Company.

“Business Day” shall mean any day that is not a Saturday, Sunday or a public holiday in Hong Kong or the United States.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended, and any successor statute thereto.

“Form S-3 of Form F-3” shall mean such respective form under the Securities Act (as defined below) or any successor registration form under the Securities Act subsequently adopted by the SEC (as defined below) which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

“Google” shall mean Google International LLC.

“Holder” shall mean any person owning or having the rights to acquire Registrable Securities or any permitted assignee of record of such Registrable Securities to whom rights under Section 2 have been duly assigned in accordance with this Agreement.

“Major Investor” has the meaning set forth in Section 2.10 hereof.

“Material Subsidiary” shall mean a subsidiary of the Company (i) whose total assets account for 20% or more of the consolidated assets of the Company, (ii) whose total revenues represent 20% or more of the consolidated revenues of the Company or (iii) whose total net income represent 20% or more of the consolidated net income of the Company.

“Ordinary Shares” shall mean ordinary shares, par value US\$0.00005 per share, of the Company.

“Permitted Transferee” shall mean, for purposes of Section 5 hereof, in the case of a Founder, such Founder’s parents (including parents-in-law), spouse, children or grandchildren or a trust for the benefit of any of the foregoing, provided such transfers are made solely for estate planning purposes and each Permitted Transferee agrees to be bound by the terms and restrictions of this Agreement. In addition, a Founder’s initial transfer of up to an aggregate of ten percent(10%) of such Founder’s Shares subject to this Agreement (i.e., 792,000 of Yanhong (Robin) Li’s Ordinary Shares and 264,000 of Young (Eric) Xu’s Ordinary Shares, as adjusted for share splits, combinations, reclassifications and the like) shall not be subject to the terms of Section 5. The term “Permitted Transferee” shall, in the case of an Investor,

mean any Affiliate (as defined below) of such Investor, or, if the Investor is a partnership, any partner of such partnership. For purposes of this definition, an Affiliate of an Investor shall mean a partnership, corporation or any other entity which directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Investor, provided that, for the purpose of this definition, an Affiliate shall, except in the case of Google, exclude any entity competing directly or indirectly with the Company in the same or similar industry. The term “control” shall mean the ownership, directly or indirectly, of shares possessing more than fifty percent (50%) of the voting power of the corporation, or the partnership or other entity (other than, in the case of corporation, stock having such power only by reason of the happening of a contingency), or having the power to control the management or elect a majority of members to the board of directors or equivalent decision-making body of such corporation, partnership or other entity.

“Person” shall mean any individual, firm, company, corporation, unincorporated association, partnership, trust, joint venture or other entity, and shall include any successor (by merger or otherwise) of such entity.

“PRC” shall mean the People’s Republic of China excluding Hong Kong, Macau and Taiwan.

“Preferred Shares” shall mean the Series A Shares, the Series B Shares and the Series C Shares, collectively.

“Pro Rata Portion” shall mean: (i) with respect to the right of first refusal provisions of Section 5, the number of Subject Shares (as defined in Section 5.2(a)) multiplied by a fraction, the numerator of which shall equal the number of shares the Non-Transferring Investor (as defined in Section 5.2(a)) desires to purchase, and the denominator of which shall equal the aggregate number of shares all of the Non-Transferring Investors desire to purchase; and (ii) with respect to the co-sale provisions of Section 5, the amount of Subject Shares multiplied by a fraction, the numerator of which shall equal the number of Shares then held by such Person, and the denominator which shall equal the number of Shares held by all Persons having co-sale rights under this Agreement.

“Qualified IPO” shall mean a firm underwritten public offering of the Ordinary Shares of the Company under the Securities Act reflecting a total market capitalization of the Company of at least US\$215,000,000, or upon consummation of a similar public offering of the Ordinary Shares of the Company in another jurisdiction which results in the Ordinary Shares trading publicly on a recognized regional or national securities exchange outside the United States, provided that such offering satisfies the foregoing requirement of total market capitalization, and the regulatory approval for such offering is reasonably equivalent to that of the aforementioned public offering in the United States.

The terms “register,” “registered,” and “registration” refer to a registration effected by filing a registration statement which is in a form which complies with, and is declared effective by the SEC in accordance with, the Securities Act or by a comparable process pursuant to other applicable laws in connection with a registration in a jurisdiction other than the United States and the declaration or ordering of the effectiveness of such registration.

“Registration Expenses” shall mean all expenses incurred by the Company in complying with Sections 2.2, 2.3 and 2.4 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, reasonable fees and disbursements of counsel for the Holders, “blue sky” fees and expenses and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company which shall be paid in any event by the Company).

“Registrable Securities” shall mean (i) any Ordinary Shares issuable or issued upon conversion of any Preferred Shares, and (ii) any other Ordinary Shares of the Company issued as (or issuable upon the conversion or exercise of any warrant, right or other security (including the Preferred Shares) which is issued as) a dividend or other distribution with respect to, or in exchange for or in replacement of, the Ordinary Shares listed in (i). Notwithstanding the foregoing, “Registrable Securities” shall not include any Registrable Securities sold by a person in a transaction in which rights under this Agreement are not assigned in accordance with this Agreement or any Registrable Securities sold in an offering to the public, whether sold pursuant to Rule 144 promulgated under the Securities Act, or in a registered offering, or otherwise.

The number of shares of “Registrable Securities then outstanding” shall mean the number of Ordinary Shares of the Company that are Registrable Securities and are then issued and outstanding, plus the number of Ordinary Shares issuable upon the exercise or conversion of then exercisable or convertible securities that are Registrable Securities.

“SEC” or “Commission” shall mean the Securities and Exchange Commission of the United States.

“Securities Act” shall mean the Securities Act of 1933, as amended, and any successor statute thereto.

SECTION 2. REGISTRATION RIGHTS.

2.1 Applicability of Rights. The Holders shall be entitled to the following rights with respect to any potential public offering of the Company’s Ordinary Shares in the United States and shall be entitled to reasonably equivalent or analogous rights with respect to any other offering of the Company’s securities in any other jurisdiction in which the Company undertakes to publicly offer or list such securities for trading on a recognized international securities exchange.

2.2 Demand Registration.

(a) Request by Holders. If the Company shall, at any time after the earlier of (i) September 8, 2005 or (ii) six (6) months after the effective date of a registration statement for a Qualified IPO, receive a written request from the Holders of at least fifty percent (50%) of the Registrable Securities then outstanding that the Company effect any registration covering the Registrable Securities pursuant to this Section 2.2, and provided that (i) the Registrable Securities to be registered would exceed twenty percent (20%) of the total Registrable Securities then outstanding or (ii) the anticipated aggregate gross proceeds of such registration would exceed US\$2,000,000, then the Company shall, within ten (10)

Business Days of the receipt of such written request, give written notice of such request (“Request Notice”) to all Holders, and use its best efforts to effect, as soon as practicable, the registration of all Registrable Securities that the Holders request to be registered and included in such registration by written notice given by such Holders to the Company within twenty (20) days after receipt of the Request Notice, subject only to the limitations of this Section 2.2; provided that the Company shall not be obligated to effect any such registration (i) if the Company has already effected one registration pursuant to this Section 2.2; (ii) during the period beginning on the date sixty (60) days prior to the Company’s good faith estimate of the filing date of, and ending on the 180th day after the effective date of, a registration pursuant to a Company Registration as described in Section 2.3 below; or (iii) if the securities proposed to be registered may be immediately registered on Form S-3 or Form F-3, as applicable.

(b) Underwriting. If the Holders initiating the registration request under this Section 2.2 (the “Initiating Holders”) intend to distribute the Registrable Securities covered by their request by means of an underwriting, then they shall so advise the Company as a part of their request made pursuant to this Section 2.2 and the Company shall include such information in the Request Notice. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder’s participation in such underwriting and the inclusion of such Holder’s Registrable Securities in the underwriting (unless otherwise mutually agreed by a majority in interest of the Initiating Holders and such Holder) to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with the managing underwriter or underwriters selected for such underwriting by the Holders of a majority of the Registrable Securities being registered and reasonably acceptable to the Company. Notwithstanding any other provision of this Section 2.2, if the underwriter(s) advise(s) the Company in writing that marketing factors require a limitation of the number of securities to be underwritten, then the Company shall so advise all Holders of Registrable Securities which would otherwise be registered and underwritten pursuant hereto, and the number of Registrable Securities that may be included in the underwriting shall be reduced as required by the underwriter(s) and allocated among the Holders of Registrable Securities on a pro rata basis according to the number of Registrable Securities then outstanding held by each Holder requesting registration (including the Initiating Holders); provided, however, that the number of the Registrable Securities to be included in such underwriting shall not be reduced unless all other securities including those of the Company are first entirely excluded from the underwriting. If any Holder disapproves of the terms of any such underwriting, such Holder may elect to withdraw therefrom by written notice to the Company and the underwriter(s), delivered at least ten (10) Business Days prior to the effective date of the registration statement. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

(c) Maximum Number of Demand Registrations. The Company shall not be obligated to effect more than three (3) such demand registrations pursuant to this Section 2.2.

(d) Deferral. Notwithstanding the foregoing, if the Company shall furnish to the Holders requesting a registration under this Section 2.2 a certificate signed by the Chief Executive Officer of the Company stating that, in the good faith judgment of a majority of the independent members of the Board of Directors of the Company, such a registration would be detrimental to the Company, then the Company shall have the right to

defer such filing for a period of not more than ninety (90) days after receipt of the request of the Initiating Holders; provided, however, that the Company may not utilize this right more than once in any twelve (12) month period; provided, further, that the Company shall not register any other of its shares during such twelve (12) month period.

(e) Expenses. The Company shall bear all of the Registration Expenses other than underwriting discounts and commissions, fees and disbursements of counsel for the selling Holders, provided, however, that any expense in excess of US\$15,000 of any special audit required by such registration shall be borne pro rata by the selling Holders in proportion to the number of Registrable Securities they have requested to be registered under this Section 2.2.

2.3 Company Registration.

(a) The Company shall notify all Holders of Registrable Securities in writing at least thirty (30) days prior to the submission of any registration for purposes of effecting a public offering of securities of the Company (including, but not limited to, registrations relating to secondary offerings of securities of the Company and under Section 2.2 of this Agreement or under any similar demand registration rights granted to other shareholders of Company, but excluding registrations under Section 2.4 of this Agreement or relating to any employee benefit plan or a corporate reorganization), and shall afford each such Holder an opportunity to include in such registration all or any part of the Registrable Securities then held by such Holder. Each Holder desiring to include in any such registration all or any part of the Registrable Securities held by it shall within twenty (20) days after receipt of the above-described notice from the Company, so notify the Company in writing, and in such notice shall inform the Company of the number of Registrable Securities such Holder wishes to include in such registration. Upon receipt of the written notice from such Holder, the Company shall, subject to Section 2.7 hereof, use its best efforts to cause to be registered all of the Registrable Securities such Holder has requested to be registered. If a Holder decides not to include all of its Registrable Securities in any registration thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration or registrations as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

(b) Expenses. The Company shall bear all of the Registration Expenses incurred in connection with any registration under this Section 2.3.

2.4 Form S-3 or Form F-3 Registration. In case the Company shall receive from any Holder or Holders of at least fifteen percent (15%) of all Registrable Securities then outstanding a written request or requests that the Company effect a registration on Form S-3, Form F-3 (or any successor form to Form S-3 or Form F-3) or any comparable form for a registration in a jurisdiction other than the United States, with respect to all or a part of the Registrable Securities owned by such Holder or Holders, then the Company shall:

(a) Notice. Promptly give written notice of the proposed registration and the Holder's or Holders' request therefor to all other Holders of Registrable Securities; and

(b) Registration. As soon as practicable, effect such registration as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of such Holders or Holders' Registrable Securities as are specified in such request, together with all or such portion of the Registrable Securities of any other Holder or Holders joining in such request as are specified in a written request given within fifteen (15) days after the receipt of the Company's written notice contemplated by Section 2.4(a); provided, however, that the Company shall not be obligated to effect any such registration pursuant to this Section 2.4:

(i) if Form S-3, Form F-3 or such comparable form for a registration in a jurisdiction other than the United States is not available for such offering by the Holders;

(ii) if the Holders, together with the holders of any other securities of the Company entitled to inclusion in such registration, propose to sell Registrable Securities and such other securities (if any) at an aggregate price to the public (net of any underwriters' discounts or commissions) of less than US\$500,000;

(iii) if the Company shall furnish to the Holders a certificate signed by the Chief Executive Officer of the Company stating that in the good faith judgment of a majority of the independent members of the Board of Directors of the Company, it would be materially detrimental to the Company and its shareholders for such a registration on Form S-3, Form F-3 or a comparable form for a registration in a jurisdiction other than the United States to be effected at such time, in which event the Company shall have the right to defer the filing of the Form S-3, Form F-3 or such comparable form in a jurisdiction other than the United States, as applicable, for a period of not more than sixty (60) days after receipt of the request of the Holder or Holders under this Section 2.4, provided, however, that the Company shall not utilize this right more than once in any twelve (12) month period;

(iv) if the Company has, within the twelve (12) month period preceding the date of such request, already effected two (2) registrations on Form S-3, Form F-3 or such comparable form for a registration in a jurisdiction other than the United States, as applicable, for the Holders pursuant to this Section 2.4; or

(v) if by effecting such registration, the Company would be required to qualify to do business or to execute a general consent to service of process in any particular jurisdiction where it is not already qualified to do business and subject to service of process.

Subject to the foregoing, the Company shall file a Form S-3 or Form F-3 registration statement, as applicable, covering the Registrable Securities and other securities so requested to be registered as soon as practicable after receipt of the request or requests of the Holders.

(c) Expenses. All Registration Expenses other than underwriting discounts, commissions, share transfer taxes and fees, and the fees and disbursements for counsel for the selling Holders incurred in connection with each registration requested pursuant to this Section 2.4 shall be borne by the Company; provided, however, that the Company shall not be required to pay for any expenses of any registration proceeding begun

pursuant to this Section 2.4 if the registration request is subsequently withdrawn at the request of the Holders of a majority of the Registrable Securities to be registered (in which case all participating Holders shall bear such expenses), unless if the registration request is withdrawn during the period, if any, that the Company exercises its right to defer, and defers, filing a registration statement pursuant to Section 2.4(b)(iii); provided, further, that if the requested registration is withdrawn and at the time of such withdrawal the Holders have learned of a material adverse change in the condition, business or prospects of the Company from that known to the Holders at the time of their request and have withdrawn the request with reasonable promptness following disclosure by the Company of such material adverse change, then the Holders shall not be required to pay any of such expenses; provided, further, that if such material adverse change occurred through no fault of the Company and that the Company has disclosed the material adverse change to the Holders with reasonable promptness, then the Holders shall bear the expenses relating to the registration if they withdraw their registration request. Except as provided in the immediately preceding sentence, all expenses incurred in connection with a registration requested pursuant to this Section 2.4 shall be borne by the Company. Registrations effected pursuant to this Section 2.4 shall not be counted as demands for registration or registrations effected pursuant to Sections 2.2 or 2.3, respectively.

2.5 Obligations of the Company. Whenever required to effect the registration of any Registrable Securities under this Agreement the Company shall, as expeditiously as reasonably possible:

(a) Registration. Prepare and file with the SEC or a comparable governmental or regulatory agency in a jurisdiction other than the United States a registration statement or a comparable form in such other jurisdiction, respectively, with respect to such Registrable Securities and use its best efforts to cause such registration to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration effective for a period of up to one hundred and twenty (120) days or, in the case of Registrable Securities registered under Form S-3 or Form F-3 in accordance with Rule 415 under the Securities Act or a successor rule, until the distribution contemplated in the registration has been completed; provided, however, that (i) such one hundred and twenty (120) day period shall be extended for a period of time equal to the period any Holder refrains from selling any securities included in such registration at the request of the underwriter(s), and (ii) in the case of any registration of Registrable Securities on Form S-3, Form F-3 or a comparable form in a jurisdiction other than the United States which are intended to be offered on a continuous or delayed basis, such one hundred and twenty (120) day period shall be extended, if necessary, to keep the registration statement or such comparable form, as the case may be, effective until all such Registrable Securities are sold.

(b) Amendments and Supplements. Prepare and file with the SEC or such similar governmental or regulatory agency in a jurisdiction other than the United States such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement in the United States or such comparable forms and offering documents in such other jurisdiction, as the case may be, as may be necessary to comply with the provisions of the Securities Act or comparable securities laws in such other jurisdiction, as the case may be, with respect to the disposition of all securities covered by such registration statement.

(c) Prospectuses. If applicable, furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, or such number of copies of such offering documents in conformity with the requirements of comparable securities laws in a jurisdiction other than the United States, and such other documents as they may reasonably request in order to facilitate the disposition of the Registrable Securities owned by them that are included in such registration.

(d) Blue Sky. Use its best efforts to register and qualify the securities covered by such registration under such other securities or “blue sky” laws of such jurisdictions as shall be reasonably requested by the Holders, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions, unless the Company is already subject to service in such jurisdiction and except as may be required by the Securities Act or comparable securities laws in a jurisdiction other than the United States.

(e) Underwriting. In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement in usual and customary form, with the managing underwriter(s) of such offering. Unless otherwise provided herein, each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

(f) Notification. Notify each Holder of Registrable Securities covered by such registration at any time when a prospectus relating thereto is required to be delivered under the Securities Act or comparable securities laws in a jurisdiction other than the United States of (i) the issuance of any stop order by the SEC or a comparable governmental or regulatory agency in a jurisdiction other than the United States in respect of such registration, or (ii) the occurrence of any event as a result of which the prospectus included in such registration, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

(g) Listing. Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange (or the Nasdaq National Market System) on which similar securities of the Company are then listed.

(h) Transfer Agent and Registrar. Provide a transfer agent and registrar for all Registrable Securities registered pursuant hereunder and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

(i) Opinion and Comfort Letter. Furnish, at the request of any Holder requesting registration of Registrable Securities, on the date that such Registrable Securities are delivered to the underwriter(s) for sale in connection with a registration pursuant to this Section 2, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration with respect to such securities becomes effective, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and

substance as is customarily given to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities and (ii) letters dated as of (x) the effective date of the registration covering such Registrable Securities and (y) the closing date of the offering, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering and reasonably satisfactory to a majority in interest of the Holders requesting registration, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities.

2.6 Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Sections 2.2, 2.3 or 2.4 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be reasonably requested to timely effect the registration of their Registrable Securities.

2.7 Underwriting Requirements. In connection with any offering involving an underwriting of the Company's securities, unless otherwise provided herein, the Company shall not be required under Section 2.3 to include any of the Holders' securities in such underwriting unless they accept the terms of the underwriting as agreed upon between the Company and the underwriters selected in accordance herewith, and then only in such quantity as the underwriters determine in their sole discretion will not jeopardize the success of the offering by the Company. If the total amount of securities, including Registrable Securities, requested by Holders to be included in such offering exceeds the amount of securities to be offered other than by the Company that the underwriters determine in their sole discretion is compatible with the success of the offering, then the Company shall be required to include in the offering only that number of such securities, including Registrable Securities, which the underwriters determine in their sole discretion will not jeopardize the success of the offering (the securities so included to be apportioned pro rata among the selling Holders according to the total amount of securities entitled to be included therein owned by each selling Holder or in such other proportions as shall mutually be agreed to by such selling Holders) but in no event shall the amount of securities of the selling Holders of Registrable Securities included in the offering be reduced below twenty percent (20%) of the total amount of securities included in such offering, unless such offering is the initial public offering of the Company's securities in which case the selling Holders may be excluded if the underwriters make the determination described above and no other Registrable Securities and securities of other selling shareholders are included. For purposes of the preceding parenthetical concerning apportionment, for any selling member which is a Holder of Registrable Securities and which is a partnership or corporation, the partners, retired partners and members and retired or former members of such Holder, or the estates and family members of any such partners and retired partners and any trusts for the benefit of any of the foregoing persons shall be deemed to be a single "selling Holder," and any pro-rata reduction with respect to such "selling Holder" shall be based upon the aggregate amount of shares carrying registration rights owned by all entities and individuals included in such "selling Holder," as defined in this sentence.

2.8 Indemnification. In the event any Registrable Securities are included in a registration under Sections 2.2, 2.3 or 2.4:

(a) By the Company. To the extent permitted by law, the Company will indemnify and hold harmless each Holder, its partners, officers, directors, legal counsel, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act, other United States federal or state law, or other comparable laws or regulations for registrations in a jurisdiction other than the United States, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"):

(i) any untrue statement or alleged untrue statement of a material fact contained in such registration, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto;

(ii) any omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or

(iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any United States federal or state securities law, any rule or regulation promulgated under the Securities Act, the Exchange Act, or any United States federal or state securities law in connection with the offering covered by such registration statement, or any other comparable laws or regulations for registrations in a jurisdiction other than the United States; and

(iv) the Company will reimburse each such Holder, its partner, officer, director, legal counsel, underwriter or controlling person for any legal or other expenses reasonably incurred by them, as such expenses are incurred, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 2.8(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, officer, director, legal counsel, underwriter or controlling person of such Holder.

(b) By Selling Holders. To the extent permitted by law, each selling Holder will, severally but not jointly, indemnify and hold harmless the Company, each of its directors, each of its officers who has signed the registration statement or comparable form for registrations in a jurisdiction other than the United States, each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or comparable form for registrations in a jurisdiction other than the United States or any of such other Holder's partners, directors, officers, legal counsel or any person who controls such Holder within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or

liabilities (joint or several) to which the Company or any such director, officer, legal counsel, controlling person, underwriter or other such Holder, partner or director, officer or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act, other United States federal or state law or comparable securities laws and regulations for a registration in a jurisdiction other than the United States, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder expressly for use in connection with such registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, partner, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 2.8(b) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; and provided, further, that in no event shall any indemnity under this Section 2.8(b) exceed the proceeds (net of underwriting discounts and commissions) received by such Holder in the registered offering out of which the applicable Violation arises.

(c) Notice. Promptly after receipt by an indemnified party under this Section 2.8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall relieve such indemnifying party of liability to the indemnified party under this Section 2.8 to the extent the indemnifying party is prejudiced as a result thereof, but the omission to so deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.8.

(d) Contribution. If the indemnification provided in this Section 2.8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense to referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the

omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

(e) Conflict. Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with an underwritten public offering are in conflict with the foregoing provisions, the provisions in such underwriting agreement shall control.

(f) Survival; Consents to Judgments and Settlements. The obligations of the Company and Holders under this Section 2.8 shall survive the completion of any offering of Registrable Securities in a registration statement, regardless of the expiration of any statutes of limitation or extensions of such statutes. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect to such claim or litigation.

2.9 Termination of the Company's Obligations. The Company's obligations under this Section 2 shall terminate upon the earlier to occur of (i) the third anniversary of the consummation of a Qualified IPO; and (ii) as to any Holder, in the opinion of counsel to the Company mutually acceptable to the Company and such Holder, all such Registrable Securities proposed to be sold by such Holder may then be sold without registration in any ninety (90) day period pursuant to Rule 144 promulgated under the Securities Act.

2.10 Assignment of Registration Rights. The rights to cause the Company to register Registrable Securities pursuant to this Section 2 may be assigned (but only with all related obligations), other than to a direct competitor of the Company, as reasonably determined by the Company (and such direct competitor restriction shall not apply to any transfer by Google to any Affiliate or subsidiary of Google), by a Holder holding at least one hundred and sixty thousand (160,000) shares of Registrable Securities (subject to appropriate adjustment for any recapitalization) (a "Major Investor") (i) to one or more of its partners or employees, shareholders or members, (ii) to any wholly-owned subsidiary or parent of, or to any corporation, person or entity that is, within the meaning of the Securities Act, controlling, controlled by or under common control with, any such Holder, or (iii) to a transferee or assignee of such securities who, after such assignment or transfer, either (a) holds at least one hundred and sixty thousand (160,000) shares of Registrable Securities (subject to appropriate adjustment for any recapitalization) or (b) holds all of the Registrable Securities then held by the Holder immediately prior to such sale, provided that upon such transfer to any transferee or assignee: (a) the Company is, within a reasonable time after such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (b) such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement, including without limitation the provisions of Section 2.11 below; and (c) such assignment shall be effective only if, immediately following such transfer, the further disposition of such securities by the transferee or assignee is restricted under the Securities Act. For the purposes of determining the number of shares of Registrable Securities held by a transferee or assignee pursuant to clause (iii) above, the holdings of transferees and assignees of a partnership or

limited liability company who are employees, partners or retired partners, members or former members of such partnership (including spouses and ancestors, lineal descendants and siblings of such employees, partners or spouses who acquire Registrable Securities by gift, will or intestate succession) shall be aggregated together and with the partnership or limited liability company; provided, further that all assignees and transferees pursuant to clause (i) or (ii) who would not qualify individually for assignment of registration rights pursuant to clause (iii) shall have a single attorney-in-fact for the purpose of exercising any rights, receiving notices or taking any action under this Section 2.

2.11 Market Stand-Off. Each Investor hereby agrees that, during the period of duration specified by the Company and an underwriter of Ordinary Shares or other securities of the Company, following the effective date of a registration of the Company, it shall not, to the extent requested by the Company and such underwriter, directly or indirectly sell, offer to sell, contract to sell (including, without limitation, any short sale), grant any option to purchase or otherwise transfer or dispose of (other than to donees who agree to be similarly bound) any securities of the Company held by it at any time during such period except Ordinary Shares or other securities included in such registration; provided, however, that:

(a) such agreement shall be applicable only to the first registration of the Company which covers Ordinary Shares (or other securities) to be sold on its behalf to the public in an underwritten offering;

(b) all officers and directors and greater than one percent (1%) shareholders of the Company and all other persons with registration rights (whether or not pursuant to this Agreement) enter into similar agreements; and

(c) such market stand-off time period shall not exceed one hundred eighty (180) days.

In order to enforce the foregoing covenant, the Company may impose stop-transfer instructions with respect to the Registrable Securities of each Investor (and the shares or securities of every other person subject to the foregoing restriction) until the end of such period.

In the event that the Company or the underwriters, as the case may be, release(s) a certain number of Ordinary Shares (or other securities) that are subject to any market stand-off provisions (the "Released Shares") from such market stand-off provisions prior to the termination of the market stand-off time period of such market stand-off provisions, such Released Shares shall be allocated among the Investors such that the number of shares held by each Investor that are released from the market stand-off shall be equal to such Investor's Pro Rata Share of the Released Shares. For the purposes of this Section 2.11, each Investor's "Pro Rata Share" shall mean that number of Released Shares that equals the total number of Released Shares multiplied by the ratio of the number of shares of the Company held by such Investor bears to the total number of shares of the Company then outstanding (assuming full conversion and exercise of all convertible securities then outstanding).

Notwithstanding the foregoing, the obligations described in this Section 2.11 shall not apply to a registration relating solely to employee benefit plans on Form S-1 or Form S-8 or similar forms which may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction.

2.12 Rule 144 Information Rights. With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may at any time permit the sale of the Registrable Securities to the public without registration or pursuant to a registration on Form S-3 or Form F-3, after such time as a public market exists for the Ordinary Shares, the Company agrees to:

(a) make and keep public information available, as those terms are understood and defined in Rule 144 under the Securities Act, at all times after ninety (90) days after the effective date of the first registration under the Securities Act filed by the Company for an offering of its securities to the general public;

(b) take such action, including the voluntary registration of its Ordinary Shares under Section 12 of the Exchange Act, as is necessary to enable the Holders to utilize Form S-3 or Form F-3, as applicable, for the sale of their Registrable Securities, such action to be taken as soon as practicable after the end of the fiscal year in which the first registration statement filed by the Company for the offering of its securities to the general public is declared effective;

(c) file with the SEC in a timely manner all reports and other documents required of the Company under the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements); and

(d) so long as a Holder owns any Registrable Securities, to furnish to such Holder forthwith upon request (i) a written statement by the Company as to its compliance with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the Company's initial public offering), the Securities Act and the Exchange Act (at any time after it has become subject to such reporting requirements), or its qualification as a registrant whose securities may be resold pursuant to Form S-3 or Form F-3, as applicable (at any time after it so qualifies), (ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents promptly after such reports or documents are filed with the SEC, and (iii) such other information as a Holder may reasonably request in availing itself of any rule or regulation of the SEC that permits the selling of any such securities without registration or pursuant to Form S-3 or Form F-3, as applicable.

2.13 Limitations on Subsequent Registration Rights. From and after the date of this Agreement, the Company shall not, without the prior written consent of the Holders of at least two-thirds (2/3) of the Registrable Securities then outstanding, enter into any agreement with any holder or prospective holder of any securities of the Company which would allow such holder or prospective holder to:

(a) include such securities in any registration filed under Section 2.2 hereof, unless under the terms of such agreement, such holder or prospective holder may include such securities in any such registration only to the extent that the inclusion of his/her/its securities will not reduce the number of the Registrable Securities of the Holders which are includable;

(b) make a demand registration prior to the date which is one hundred eighty (180) days after the effective date of the Company's initial public offering of any of its securities; or

(c) cause the Company to include such securities in any registration filed under Section 2.3 or Section 2.4 on a basis more favorable to such holder or prospective holder than is provided to the Holders under Section 2.3 or Section 2.4.

SECTION 3. INFORMATION RIGHTS AND BOARD REPRESENTATION.

3.1 Information Rights.

(a) Information Rights. The Company covenants and agrees that, commencing on the date of this Agreement, for so long as any Preferred Shares shall be outstanding, the Company shall deliver to each holder of Preferred Shares:

(i) audited annual consolidated financial statements, as soon as practicable but in any event within ninety (90) days after the end of each fiscal year, prepared in accordance with the United States generally accepted accounting principles ("U.S. GAAP") containing the income statement, cash flows statement, balance sheet, statement of shareholders' equity and schedule of the sources and applications of funds for such year; and

(ii) unaudited quarterly consolidated financial statements, as soon as practicable but in any event within forty-five (45) days of the end of each of the first three quarters of each fiscal year, prepared in accordance with U.S. GAAP containing an unaudited profit or loss statement and income statement, schedule of the sources and application of funds for such quarter and an unaudited balance sheet.

The rights set forth above in this Section 3.1(a) shall be referred to collectively as the "Information Rights".

(b) Intended Use by Google. In connection with the Information Rights under this Section 3.1(a), the Company may disclose to Google certain Confidential Information (as defined in the Mutual Non-Disclosure Agreement dated as of April 2, 2004 by and between the Company and Google Inc. (the "Mutual NDA") with the exceptions set forth in Section 6 thereof). Google agrees that it shall protect such Confidential Information in accordance with the terms and conditions of the Mutual NDA and shall not use such Confidential Information for any purpose other than directly in connection with Google's investment in the Company.

(c) Termination of Rights. The Information Rights shall terminate upon the consummation of a Qualified IPO.

3.2 Board Representation.

The Board of Directors shall initially consist of five (5) persons. So long as any Series A Shares are outstanding, holders of the outstanding Series A Shares, voting as a single class, shall be entitled to appoint two (2) directors to the Board. So long as

any Series B Shares are outstanding, holders of the outstanding Series B Shares, voting as a single class, shall be entitled to appoint two (2) directors (the "Series B Directors") to the Board, provided that Draper Fisher Jurvetson ePlanet Ventures L.P. shall be given the right to appoint the Series B Directors so long as it holds a majority of the Series B Shares then outstanding. The fifth director shall be Yanhong (Robin) Li, the Chief Executive Officer of the Company. Holders of the Series C Shares shall not have any right to nominate or appoint directors to the Board.

SECTION 4. RIGHT OF FIRST OFFER.

Subject to the terms and conditions specified in this Section 4, the Company hereby grants to each Major Investor a right of first offer with respect to future sales by the Company of its equity securities or securities convertible into or exercisable for any class of the Company's equity securities ("Shares").

Each time the Company proposes to offer any Shares, the Company shall first make an offering of fifty percent (50%) of such Shares (the "First-Offer Shares") to each Major Investor in accordance with the following provisions:

(a) The Company shall deliver a notice by certified mail ("Notice") to the Major Investors stating (i) its bona fide intention to offer such Shares, (ii) the number of such Shares to be offered, and (iii) the price and terms, if any, upon which it proposes to offer such Shares.

(b) Within fifteen (15) calendar days after the date on which the Notice was mailed, a Major Investor may elect to purchase or obtain, at the price and on the terms specified in the Notice, up to that portion of such First-Offer Shares which equals the proportion that the number of Ordinary Shares issued and held, or issuable upon conversion of the Preferred Shares then held by such Major Investor bears to the total number of Ordinary Shares of the Company then outstanding (assuming full conversion of all convertible securities) (the "Pro Rata Amount"). The Company shall promptly inform in writing each Major Investor who has elected to purchase its Pro Rata Amount ("Fully-Exercising Investor") of any other Major Investor's failure to do likewise. During the ten (10)-day period commencing after the date of mailing of such information, each Fully-Exercising Investor shall have a right to obtain that portion of the First-Offer Shares (for which Major Investors were entitled to subscribe but which were not already subscribed for by Major Investors) which is equal to the proportion that the number of Ordinary Shares issued and held, or issuable upon conversion of the Preferred Shares then held, by such Fully-Exercising Investor bears to the total number of Ordinary Shares issued and held, or issuable upon conversion of the Preferred Shares then held, by all Fully-Exercising Investors who wish to purchase such unsubscribed First-Offer Shares.

(c) If all First-Offer Shares referred to in the Notice are not elected to be purchased as provided in paragraph (b) above, the Company may, during the one hundred and twenty (120)-day period following the expiration of the period provided in paragraph (b) above, offer the remaining unsubscribed portion of the First-Offer Shares together with the other fifty percent (50%) of the Shares (the "Remaining Shares") to any person or persons at a price not less, and upon terms no more favorable to the offeree, than those specified in the Notice. If the Company does not enter into an agreement for the sale of the Remaining Shares within such period, or if such agreement is not consummated within such one hundred

and twenty (120)-day period, the right provided hereunder shall be deemed to be revived and such Remaining Shares shall not be offered to any third party unless first reoffered to the Major Investors in accordance herewith.

(d) The right of first offer in this Section 4 shall not be applicable to (i) the issuance or sale of Shares (or options therefor) to officers, directors, employees, consultants or vendors for the primary purpose of soliciting or retaining their employment or services, (ii) the issuance or sale of Shares in connection with the consummation of a Qualified IPO, (iii) the issuance or sale of the Shares pursuant to the conversion or exercise of convertible or exercisable securities, (iv) the issuance or sale of the Shares in connection with a bona fide business acquisition by the Company, whether by merger, consolidation, sale of assets, sale or exchange of shares or otherwise, (v) a dividend or distribution of the Shares, or (vi) the issuance or sale of the Shares that is not primarily for capital raising purposes, at any time in amounts approved by the Board of Directors (A) in connection with corporate partnerships, joint development agreements, distribution agreements; (B) to customers or vendors of the Company; or (C) in connection with leases or bank debt financings.

(e) The right of first offer set forth in this Section 4 shall terminate upon the consummation of a Qualified IPO.

SECTION 5. TRANSFER OF SHARES

Except as set forth under Sections 5.3, 5.4, 5.5 and 5.6 hereof and the provisions of Section 5.2(b) relating to receipt of the Transfer Notice (as defined below), the rights and obligations of the Investors as set forth in this Section 5 shall not apply to Google.

5.1 Transfer Restrictions. Any transfer of Shares by a Founder or any transfer of Preferred Shares by an Investor, other than a transfer to a Permitted Transferee, shall be subject to the Right of First Refusal (as defined below), as set forth below in Section 5.2 hereof.

5.2 Right of First Refusal.

(a) In the event that a Founder, a Permitted Transferee or an Investor (including Google) (the "Transferring Shareholder") at any time prior to a Qualified IPO, proposes to sell, pledge or otherwise transfer any portion of the Shares owned by it in the Company (the "Subject Shares") (except in the event of a proposed transfer by a Founder to a Permitted Transferee, to which this Right of First Refusal does not pertain) or any interest therein to any person or entity for value, the Investors other than the Transferring Shareholder (excluding Google) (the "Non-Transferring Investors") and the Company shall have a right of first refusal (the "Right of First Refusal") with respect to such Subject Shares as more fully described below in this Section 5.2.

(b) The Transferring Shareholder shall give a written notice (the "Transfer Notice") to the Non-Transferring Investors and Google at least thirty (30) days prior to the date of the proposed sale, describing fully the proposed transfer, including the number of the Subject Shares proposed to be transferred, the proposed transfer price, and the name and address of the proposed transferee(s) (the "Proposed Transferee"). The Transfer Notice shall be signed by both the Transferring Shareholder and the Proposed Transferee and shall constitute a binding commitment of both such parties for the transfer of such Subject Shares.

The Non-Transferring Investors shall have the right to purchase its Pro Rata Portion of the Subject Shares covered by the Transfer Notice, on at least the same terms as the bona fide offer of the Proposed Transferee. The time period given to the Non-Transferring Investors to elect to purchase the Subject Shares shall not be more than ten (10) days.

(c) If not all such Subject Shares are elected to be purchased as provided in paragraph (b) above, the Transferring Shareholder shall then offer the remaining unsubscribed portion of such Subject Shares to the Company, on at least the same terms as the bona fide offer of the Proposed Transferee. The time period given to the Company to elect to purchase the remaining unsubscribed portion of Subject Shares shall not be more than ten (10) days.

(d) In the event that the Transfer Notice provides for consideration other than cash, in lieu of such consideration, the Company or the Non-Transferring Investors, as the case may be, may make payment in cash in an amount equal to the fair market value of such non-cash consideration as determined by the Board of Directors in good faith. A Non-Transferring Investor may make payment by cash, check, cancellation of indebtedness, or any combination of the foregoing at such Non-Transferring Investor's sole option.

(e) In the event that the Company fails to exercise the Right of First Refusal within the period specified in paragraph (c) above, the Transferring Shareholder shall have sixty (60) days following delivery of the Transfer Notice to the Company to sell or enter into an agreement (pursuant to which the sale of the Subject Shares covered thereby shall be closed, if at all, within thirty (30) days after the date of said agreement) to sell the Subject Shares that have not been elected to be purchased at a price and upon terms no more favorable to the Proposed Transferee than specified in the Transfer Notice. In the event the Transferring Shareholder has not sold the Subject Shares (or entered into an agreement to sell the Subject Shares in accordance with the foregoing within thirty (30) days from the date of said agreement), the Transferring Shareholder shall not thereafter sell any of its Shares, without first offering such Shares to the Company and the Non-Transferring Investors in the manner provided above in this Section 5.2.

(f) Unless terminated earlier as otherwise provided in this Agreement, the Right of First Refusal under this Section 5.2 shall terminate upon the consummation of a Qualified IPO.

5.3 Right of Co-Sale.

(a) Right to Participate. In the event and to the extent that in a proposed sale by a Transferring Shareholder, the Right of First Refusal described in Section 5.2 above is not exercised in its entirety by the Non-Transferring Investors and the Company, the Non-Transferring Investors shall have the right to participate, to the extent of their respective Pro Rata Portion, in the sale to the Proposed Transferee ("Right of Co-Sale"), subject to the terms and conditions set forth in this Section 5.3.

(b) Google's Right of Co-Sale. In the event that a Founder or a Permitted Transferee of a Founder (but not an Investor), at any time prior to a Qualified IPO, proposes to sell, pledge or otherwise transfer any Subject Shares, and to the extent that the Right of First Refusal as described in Section 5.2 is not exercised in its entirety by the

Non-Transferring Investors and the Company, Google shall have a right, together with the other Non-Transferring Investors, to participate in the sale by such Founder or such Permitted Transferee of a Founder to the Proposed Transferee to the extent of Google's Pro Rata Portion, subject to the terms and conditions set forth in this Section 5.3.

(c) Delivery of Notice and Certificates. Each Non-Transferring Investor (and Google, as applicable) shall exercise its Right of Co-Sale by delivering to the Company and the Transferring Shareholder, prior to the expiration of the thirty (30)-day period set forth in Section 5.2(b), (i) a written notice of its intention to participate in such co-sale, specifying the maximum number of Shares such Non-Transferring Investor (or Google, as applicable) desires to sell to the Proposed Transferee, and (ii) one or more certificates representing the Shares (identical or senior in class to the Subject Shares) which such Non-Transferring Investor (or Google, as applicable) elects to sell hereunder, duly endorsed for transfer to the Proposed Transferee.

(d) Qualified Participation. If the Proposed Transferee desires to purchase a number of Shares other than such number of Subject Shares as originally offered by the Transferring Shareholder, then the number of Shares that the Proposed Transferee desires to purchase shall be substituted for the number of Subject Shares for purposes of determining the Pro Rata Portion of each of the Non-Transferring Investors (and Google, as applicable) in connection with the Right of Co-Sale. In the event of the Non-Transferring Investors' (and Google's, as applicable) participation in the co-sale as described in this Section 5.3, the number of Subject Shares which the Transferring Shareholder is entitled to sell on his/her/its own behalf pursuant to Section 5.2 hereof shall be reduced accordingly, and the Transferring Shareholder shall include such Non-Transferring Investors' (and Google's, as applicable) Shares in the sale at the closing thereof.

(e) Termination. Unless terminated earlier as otherwise provided in this Agreement, the Right of Co-Sale in this Section 5.3 shall terminate on the earlier of (i) the consummation of a Qualified IPO by the Company or (ii) fifteen (15) years from the closing of the sale and purchase of the Series C Shares pursuant to the Purchase Agreement.

5.4 Prohibited Transfers. Any attempt by a Founder to transfer any Shares in violation of this Section 5 shall be void, and the Company agrees it will not effect such a transfer nor will it treat any alleged transferee(s) as the holder of such shares without the written consent of at least two-thirds (2/3) of the Registrable Securities then outstanding. The Company may issue to the transfer agent stop transfer instructions if, in the Company's reasonable judgment, the Founder attempts to transfer Shares in violation of this Agreement.

5.5 Termination. The provisions under this Section 5 shall terminate upon the first to occur of the following events, unless terminated earlier as otherwise provided in this Agreement:

(a) The closing of a Qualified IPO; or

(b) Immediately prior to the closing of a sale of all or substantially all of the assets of the Company, or a consolidation or merger of the Company with another entity, or another transaction or a series of related transactions, in which at least fifty percent (50%) of the voting shares of the Company are transferred.

5.6 LEGEND REQUIREMENT.

All certificates evidencing Founders' Shares subject to this Section 5 shall, during the term of this Agreement, bear such restrictive legends as the Company and the Company's counsel deem necessary or advisable under applicable laws or pursuant to this Agreement, including, without limitation, the following:

THE SHARES REPRESENTED BY THIS CERTIFICATE: (1) HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO, OR IN CONNECTION WITH, THE SALE OR DISTRIBUTION THEREOF. NO SUCH SALE OR DISPOSITION MAY BE EFFECTED WITHOUT AN EFFECTIVE REGISTRATION STATEMENT RELATED THERETO OR AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED; (2) HAVE BEEN ISSUED UNDER THE LIMITED OFFERING EXEMPTION PROVIDED BY SECTION 25102(f) OF THE CALIFORNIA CORPORATIONS CODE; AND (3) MAY BE TRANSFERRED ONLY IN ACCORDANCE WITH THE TERMS OF AGREEMENTS BETWEEN THE COMPANY AND THE HOLDER OF THE SHARES, COPIES OF WHICH ARE ON FILE WITH THE SECRETARY OF THE COMPANY.

SECTION 6. CONFIDENTIALITY AND NON-DISCLOSURE.

6.1 Disclosure of Terms. The Company and Google acknowledge that Google's purchase of the Series C Shares, the number of Series C Shares purchased by Google, the aggregate purchase price for such Series C Shares and the terms and obligations of the purchase by Google, including, but not limited to, the terms and conditions of this Agreement and the Purchase Agreement, and all exhibits and schedules attached to such agreements, including their existence (collectively, the "Financing Terms"), shall be considered confidential information and shall not be disclosed by either party to any third party without the prior written consent of the other party, which consent shall not be unreasonably withheld, or by any other party hereto to any third party without the prior written consent of both the Company and Google; provided that the Company shall be able to disclose Google's name along with the names of other Series C Investors in its press release in respect of the sale and purchase of the Series C Shares, which press release shall be reviewed and approved by Google in writing prior to its release. Any public statement by the Company or Google, whether written or oral, regarding the purchase of the Series C Shares by Google must be approved in advance by both Google and the Company in writing.

6.2 Permitted Disclosures. Notwithstanding the foregoing, either the Company or Google may disclose any of the Financing Terms if:

- (a) it is required to do so by law, including without limitation U.S. securities laws, PRC and Cayman Islands laws;
- (b) it is required to do so by the rules of any securities exchange or regulatory or governmental body to which it is or may become subject;

(c) it engages in financing activities and is required to disclose the Financing Terms to potential investors and/or creditors, provided that such potential investors and creditors agree to keep such information confidential and enter into an appropriate non-disclosure agreement in respect of the Financing Terms; or

(d) it considers it necessary to disclose the Financing Terms to its professional advisers or auditors, provided that such professional advisers or auditors agree to keep such information confidential and enter into an appropriate non-disclosure agreement in respect of the Financing Terms.

SECTION 7. NOTICE OF ACQUISITION TRANSACTION.

7.1 Prior to the consummation of a Qualified IPO, the Company shall promptly, and in any event within five (5) Business Days, notify Google of any inquiries, discussions or written proposals that are reasonably likely to lead to an Acquisition Transaction.

7.2 The Company shall not, without providing Google with prior written notice at least five (5) Business Days in advance, (i) approve any Acquisition Transaction or enter into any letter of intent, indication of interest, term sheet, exclusivity agreement, contract or commitment contemplating or otherwise relating to any Acquisition Transaction or (ii) authorize any person to take any such action.

7.3 Any notice provided under this Section 7 shall include the identities of the parties involved in such inquiry, discussion, proposal, contract or commitment and the material terms thereof (and amendments thereto), including any additional necessary and relevant information reasonably requested by Google; provided that the Company may withhold the identities of the parties and other material terms if disclosure of such information is subject to confidentiality obligations of the Company, under which circumstances the Company shall only notify Google that an inquiry, discussion, proposal, contract or commitment has been submitted to the Company which is reasonably likely to lead to an Acquisition Transaction.

7.4 For avoidance of any doubt, the provisions set forth above in this Section 7 shall constitute all of the Company's obligations to Google and all of Google's rights with regard to notice of an Acquisition Transaction.

SECTION 8. MISCELLANEOUS.

8.1 Notices. Except as may be otherwise provided herein, all notices, requests, waivers and other communications made pursuant to this Agreement shall be in writing and shall be conclusively deemed to have been duly given (a) when hand delivered to the other party, upon delivery; (b) when sent by facsimile at the number set forth in Exhibit C hereto, upon receipt of confirmation of error-free transmission and follow-up confirmation by telephone of receipt of such facsimile; or (c) three (3) Business Days after deposit with an express delivery service provided by an internationally recognized courier, postage prepaid, addressed to the parties as set forth in Exhibit C with next Business Day delivery guaranteed, provided that the sending party receives a confirmation of delivery from the delivery service provider.

A party may change or supplement the addresses given above, or designate additional addresses, for purposes of this Section 8.1 by giving the other party written notice of the new address in the manner set forth above.

8.2 Governing Law. This Agreement shall be governed by and construed under the internal laws of the State of California as permitted by Section 1646.5 of the California Civil Code (or any similar successor provision) without giving effect to any choice of law rule that would cause the application of the laws of any jurisdiction other than the internal laws of the State of California to the rights and duties of the parties. The Company shall maintain the effectiveness of the Consent to Service of Process with the Commissioner of Corporations of the State of California dated September 13, 2001.

8.3 Severability. If any provision of this Agreement is found to be invalid or unenforceable, then such provision shall be construed, to the extent feasible, so as to render the provision enforceable and to provide for the consummation of the transactions contemplated hereby on substantially the same terms as originally set forth herein, and if no feasible interpretation would save such provision, it shall be severed from the remainder of this Agreement, which shall remain in full force and effect unless the severed provision is essential to the rights or benefits intended by the parties. In such event, the parties shall use best efforts to negotiate, in good faith, a substitute, valid and enforceable provision or agreement which most nearly effects the parties' intent in entering into this Agreement.

8.4 Successors and Assigns. Except as otherwise provided herein, the terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

8.5 Interpretation; Captions. This Agreement shall be construed according to its fair language. The rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be employed in interpreting this Agreement. The captions to sections of this Agreement have been inserted for identification and reference purposes only and shall not be used to construe or interpret this Agreement. Unless otherwise expressly provided herein, all references to Sections and Exhibits herein are to Sections and Exhibits of this Agreement.

8.6 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

8.7 Adjustments for Share Splits, Etc. Wherever in this Agreement there is a reference to a specific number of shares of Preferred Shares or Ordinary Shares of the Company, then, upon the occurrence of any subdivision, combination or share dividend of the Preferred Shares or Ordinary Shares, the specific number of shares so referenced in this Agreement shall automatically be proportionally adjusted to reflect the effect on the outstanding shares of such class or series of shares by such subdivision, combination or share dividend.

8.8 Aggregation of Shares. All Preferred Shares or Ordinary Shares held or acquired by Affiliated entities or persons (as defined in Rule 144 under the Securities Act) shall be aggregated together for the purpose of determining the availability of any rights under this Agreement.

8.9 Amendments and Waivers. Unless otherwise provided by this Section 8.9, any provision of this Agreement may be amended and the observance of any provision of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively), only with the written consent of the Company, the Founders and the holders of at least two-thirds (2/3) of the Registrable Securities then outstanding; provided, however, that if an amendment or waiver affects a Holder in a manner that is different from the effect on all other Holders, or imposes any material obligation or liability on a Holder beyond that already imposed on such Holder hereunder prior to such amendment or waiver, then the written consent of such Holder shall be required; provided, further, that the provisions set forth in Sections 3.1(b), 6 and 7 may not be amended or waived without the prior written consent of Google. In addition, Section 5.3(b) may not be amended or waived without the prior written consent of Google, unless the right of co-sale of all of the Investors under Section 5.3 has been amended or waived in accordance with relevant provisions in this Agreement. Any amendment or waiver effected in accordance with this paragraph shall be binding upon each holder of any Registrable Securities then outstanding, each future holder of all such Registrable Securities, each Permitted Transferee and the Company.

8.10 Shareholders Agreement to Control. If and to the extent that there are inconsistencies between the provisions of this Agreement and those of the Memorandum and Articles of Association the Company (the "Memorandum and Articles"), the terms of this Agreement shall control. The parties agree to take all actions necessary or advisable, as promptly as practicable after the discovery of such inconsistency, to amend the Memorandum and Articles so as to eliminate such inconsistency.

8.11 Dispute Resolution.

(a) Negotiation Between Parties; Mediations. The parties hereto agree to negotiate in good faith to resolve all disputes arising out of or in connection with this Agreement. If the negotiations do not resolve the dispute to the reasonable satisfaction of all parties involved within thirty (30) days, Section 8.11(b) shall apply.

(b) Arbitration. In the event the parties are unable to settle a dispute between them regarding this Agreement in accordance with Section 8.11(a) above, such dispute shall be referred to and finally settled by arbitration in Singapore in accordance with the Arbitration Rules of the Singapore International Arbitration Centre (the "SIAC Rules") from time to time in force, which rules are deemed to be incorporated by reference into this Section 8.11(b). The law of the arbitration shall be the International Arbitration Act of Singapore (CAP 143A). The arbitration tribunal shall consist of three (3) arbitrators to be appointed in accordance with the SIAC Rules. The language of the arbitration shall be English.

(c) Injunctive Relief. Notwithstanding the foregoing, the parties hereto may apply to any court of competent jurisdiction for injunctive relief without breach of this arbitration provision.

8.12 Entire Agreement. This Agreement, the Purchase Agreement and any ancillary agreements, together with all the exhibits hereto and thereto, constitute and contain the entire agreement and understanding of the parties with respect to the subject matter hereof and supersedes any and all prior negotiations, correspondence, agreements, understandings, duties or obligations between the parties respecting the subject matter hereof.

8.13 Amendment of Prior Shareholders' Agreement. The Company, the Founders and certain Prior Investors agree that the Prior Shareholders' Agreement is hereby amended and restated in its entirety to read as set forth herein.

8.14 Termination of Prior Investors' Rights Agreement. The Company and certain Prior Investors agree that the Prior Investors' Rights Agreement is terminated and of no force and effect as of the date hereof.

– REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK –

IN WITNESS WHEREOF, the parties hereto have caused their respective duly authorized representatives to execute this Agreement as of the date and year as first above written.

BAIDU.COM, INC.

By: /s/

Name: Yanhong (Robin) Li
Title: Chief Executive Officer

DRAPER FISHER JURVETSON ePLANET VENTURES L.P.

By: /s/

Name: John Fisher
Title: Managing Director

GOOGLE INTERNATIONAL LLC

By: /s/

Name: DAVID C. DRUMMOND
Title: MANAGER

INTEGRITY PARTNERS V, LLC

By: /s/

Name: Scott Walchek
Title: General Partner, Integrity Partners

PENINSULA CAPITAL FUND I, LLC

By: /s/

Name: Gregory B. Penner
Title: Managing Member

IDG TECHNOLOGY VENTURE INVESTMENTS, LP

By: IDG TECHNOLOGY VENTURE
INVESTMENTS, LLC, General Partner

By: /s/

Name: Young Guo
Title:

YANHONG (ROBIN) LI

/s/

YONG (ERIC) XU

/s/

VENTURE TDF TECHNOLOGY FUND III LP

By: /s/

Name: David Su
Title: Managing Director

**CHINAEQUITY INTERNATIONAL HOLDING
COMPANY LIMITED (BVI)**

By: /s/

Name: Chaoyong Wang
Title: Chairman and Chief Executive Officer

SWIFTCURRENT OFFSHORE, LTD.

By: Bridger Management, LLC
its Investment Advisor

By: /s/

Name: Roberto Mignone
Title: President

CMT CV-BD LIMITED

By: /s/

Name: Michael K. Shen
Title: Director

**DRAPER FISHER JURVETSON ePLANET PARTNERS
FUND, LLC**

By: /s/ _____

Name: John Fisher
Title: Managing Member

**DRAPER FISHER JURVETSON ePLANET VENTURES
GMBH & CO. KG**

By: /s/ _____

Name: John Fisher
Title: Managing Director

Exhibit A

Investors in the Series A Shares and the Series B Shares

Series A Shares:

Integrity Partners III, LLC
Peninsula Capital Fund I, LLC

Series B Shares:

Peninsula Capital Fund I, LLC
Draper Fisher Jurvetson ePlanet Ventures, L.P.
Integrity Partners IV, LLC
Draper Fisher Jurvetson ePlanet Partners Fund, LLC
Draper Fisher Jurvetson ePlanet Ventures GmbH & Co. KG
IDG Technology Venture Investments L.P.

Exhibit BInvestors in the Series C Shares

<u>Name</u>	<u>No. of Shares</u>	<u>Investment Amount (US\$)</u>
Google International LLC	749,625	4,999,998.75
Draper Fisher Jurvetson ePlanet Ventures L.P.	721,888	4,814,992.96
Draper Fisher Jurvetson ePlanet Partners Fund, LLC	14,993	100,003.31
Draper Fisher Jurvetson ePlanet Ventures GmbH & Co., KG	12,744	85,002.48
Integrity Partners V, LLC	202,399	1,350,001.33
Swiftcurrent Offshore, Ltd.	14,993	100,003.31
Peninsula Capital Fund I, LLC	193,403	1,289,998.01
Venture TDF Technology Fund III LP	149,926	1,000,006.42
CMT CV-BD Limited	164,918	1,100,003.06
China Equity International Holding Company Limited (BVI)	23,988	159,999.96

Exhibit C**Notices****BAIDU.COM, INC.**

Lixiang International Building, 12th Floor
Zhong Guan Cun Plaza
Beijing, 100086, PRC
Attn: Yanhong (Robin) Li
Fax: (8610) 8260-7007

DRAPER FISHER JURVETSON ePLANET VENTURES L.P.

c/o Draper Fisher Jurvetson ePlanet International (Singapore)
Advisors Pte Ltd.
30 Cecil Street
#18-08 Prudential Tower
Singapore 049712
Attn: Jixun Foo
Fax: (65) 6538-5755

DRAPER FISHER JURVETSON ePLANET PARTNERS FUND, LLC

c/o Draper Fisher Jurvetson ePlanet International (Singapore)
Advisors Pte Ltd.
30 Cecil Street
#18-08 Prudential Tower
Singapore 049712
Attn: Jixun Foo
Fax: (65) 6538-5755

DRAPER FISHER JURVETSON ePLANET VENTURES GMBH & CO. KG

c/o Draper Fisher Jurvetson ePlanet International (Singapore)
Advisors Pte Ltd.
30 Cecil Street
#18-08 Prudential Tower
Singapore 049712
Attn: Jixun Foo
Fax: (65) 6538-5755

GOOGLE INTERNATIONAL LLC

1600 Amphitheatre Parkway
Mountain View, CA 94043, U.S.A.
Attn: David C. Drummond, Esq.
Fax: (650) 618-1499

INTEGRITY PARTNERS V, LLC

3201 Danville Boulevard
Suite 255
Alamo, CA 94507, U.S.A.
Attn: Scott Walchek
Fax: 1-925-279-1226

PENINSULA CAPITAL FUND I, LLC

c/o The Seiyu Ltd.
2-1-1 Akabane, Kita-ku
Tokyo 115-0045, Japan
Attn: Gregory B. Penner
Fax: (81) 3-3403-2616

VENTURE TDF TECHNOLOGY FUND III LP

Unit 2102-2103, China Merchants Tower
161 Lujiazui East Road, Pudong
Shanghai 200120, PRC
Attn: Tina Ju
Fax: (8621) 5840-0078

CHINA EQUITY INTERNATIONAL HOLDING COMPANY LIMITED (BVI)

Suite 516, West Tower, China World Trade Centre
No. 1, Jianguomenwai Avenue
Beijing, 100004, PRC
Attn: Chaoyong Wang
Fax: (8610) 6505-6110

SWIFTCURRENT OFFSHORE, LTD.

c/o Bridger Management, LLC
101 Park Avenue, 48th Floor
New York, NY 10178, U.S.A.
Attn: Michael Tierney
Fax: 1-212-984-2131

CMT CV-BD LIMITED

c/o CMT ChinaValue Capital Advisors Limited
11/F, Ming An Plaza
8 Sunning Road, Causeway Bay, Hong Kong
Attn: Charlie Y. Shi/Michael Shen
Fax: (852) 2890-8993

IDG TECHNOLOGY VENTURE INVESTMENTS, LP

Room 616, Tower A, COFCO Plaza
8 Jianguomennei Avenue
Beijing, 100005, PRC
Attn: Yihong Guo
Fax: (8610) 6526-0700

YANHONG (ROBIN) LI

Lixiang International Building, 12th Floor
Zhong Guan Cun Plaza
Beijing, 100086, PRC
Fax: (8610) 8260-7007

YONG (ERIC) XU

Lixiang International Building, 12th Floor
Zhong Guan Cun Plaza
Beijing, 100086, PRC
Fax: (8610) 8260-7007

Our ref RJT/302152/326599/v1
Your ref

Baidu.com, Inc.
12/F Ideal International Plaza,
No. 58 West-North 4th Ring,
Beijing 100080,
People's Republic of China

Direct: +852 2971 3007
Mobile: +852 9020 8007
E-mail: richard.thorp@maplesandcalder.com

_____ 2005

Dear Sirs:

Baidu.com, Inc.

We have acted as Cayman Islands legal advisers to Baidu.com, Inc. (the "**Company**") in connection with the Company's registration statement on Form F-1, including all amendments or supplements thereto (the "**Registration Statement**"), originally filed with the Securities and Exchange Commission under the U.S. Securities Act of 1933, as amended, on [_____] 2005 (Registration No. [____]), relating to the offering by the Company and the sale by the selling shareholders (the "**Selling Shareholders**") of certain American Depositary Shares, each of which represents [_____] of the Company's ordinary shares of par value US\$0.00005 each (the "**Ordinary Shares**"). We are furnishing this opinion as Exhibit 5.1 to the Registration Statement.

1 DOCUMENTS REVIEWED

For the purposes of this opinion, we have reviewed only originals, copies or final drafts of the following documents:

- 1.1 the Certificate of Incorporation dated 18 January 2000, the Memorandum and Articles of Association of the Company as filed with the Registrar in Cayman and the form of Amended and Restated Memorandum and Articles of Association of the Company adopted with effect from [] 2005 by special resolution (together the "**Memorandum and Articles of Association**");
- 1.2 the register of members of the Company;
- 1.3 the written resolutions of the board of Directors dated [_____] 2005;
- 1.4 the written resolutions of the shareholders of the Company dated [_____] 2005;

1.5 a certificate from a Director of the Company addressed to this firm dated [] 2005, a copy of which is attached hereto (the “**Director’s Certificate**”); and

1.6 The Registration Statement.

2 ASSUMPTIONS

Save as aforesaid we have not been instructed to undertake and have not undertaken any further enquiry or due diligence in relation to the transaction the subject of this opinion. The following opinions are given only as to and based on circumstances and matters of fact existing at the date hereof and of which we are aware consequent upon the instructions we have received in relation to the matter the subject of this opinion and as to the laws of the Cayman Islands as the same are in force at the date hereof. In giving this opinion, we have relied upon the completeness and accuracy (and assumed the continuing completeness and accuracy as at the date hereof) of the Director’s Certificate as to matters of fact and the Certificate of Good Standing without further verification and have relied upon the following assumptions, which we have not independently verified:

- (i) Copy documents or drafts of documents provided to us are true and complete copies of, or in the final forms of, the originals.
- (ii) The genuineness of all signatures and seals.
- (iii) There is no contractual or other prohibition (other than as may arise by virtue of the laws of the Cayman Islands) binding on the Company or on any other party prohibiting it from entering into and performing its obligations.

3 OPINION

The following opinions are given only as to matters of Cayman Islands law and we have assumed that there is nothing under any other law that would affect or vary the following opinions.

Based upon the foregoing and subject to the qualifications set out below and having regard to such legal considerations as we deem relevant, we are of the opinion that:

- 3.1 The Company has been duly incorporated as an exempted company with limited liability for an unlimited duration and is validly existing under the laws of the Cayman Islands.
- 3.2 The authorised share capital of the Company, with effect on [] 2005, and following the automatic conversion of all the Preferred Shares in issue into Ordinary Shares, will be [US\$43,520] divided into [870,400,000] Ordinary Shares of par value US\$0.00005 each.
- 3.3 The issue and allotment of the Ordinary Shares has been duly authorised. When allotted, issued and paid for as contemplated in the Registration Statement and registered in the register of members (shareholders), the Ordinary Shares will be legally issued and allotted, fully paid and non-assessable.
- 3.4 Ordinary Shares to be sold by the Selling Shareholders have been legally and validly issued and are fully paid and non-assessable.

4 QUALIFICATIONS

Except as specifically stated herein, we make no comment with respect to any representations and warranties which may be made by or with respect to the Company in the Registration Statement or otherwise with respect to the commercial terms of the transactions the subject of this opinion.

We hereby consent to the use of this opinion in, and the filing hereof as an Exhibit to, the Registration Statement and to the reference to our name under the headings "Enforceability of Civil Liabilities", "Taxation" and "Legal Matters" and elsewhere in the prospectus included in the Registration Statement. 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 U.S. Securities Act of 1933, as amended, or the Rules and Regulations of the Commission thereunder.

Yours faithfully,

MAPLES and CALDER

53rd at Third
885 Third Avenue
New York, New York 10022-4834
Tel: (212) 906-1200 Fax: (212) 751-4864
www.lw.com

LATHAM & WATKINS LLP

FIRM / AFFILIATE OFFICES
Boston New York
Brussels Northern Virginia
Chicago Orange County
Frankfurt Paris
Hamburg San Diego
Hong Kong San Francisco
London Shanghai
Los Angeles Silicon Valley
Milan Singapore
Moscow Tokyo
New Jersey Washington, D.C.

[_____], 2005

Baidu.com, Inc.
12/F., Ideal International Plaza
No. 58, West-North 4th Ring
Haidian District
Beijing 100080, PRC

Re: [_____] American Depositary Shares (the "ADSs"), representing [_____] Ordinary Shares of Baidu.com, Inc. (the "Company").

Ladies and Gentlemen:

In connection with the public offering on the date hereof of [_____] American Depositary Shares ("ADSs"), each representing [_____] ordinary shares, par value \$0.0005 per share ("Ordinary Shares"), of the Company, pursuant to the registration statement on Form F-1 under the Securities Act of 1933, as amended (the "Act"), filed by the Company with the Securities and Exchange Commission (the "Commission") on [_____] 2005, as amended to date (the "F-1 Registration Statement"), you have requested our opinion concerning the statements in the F-1 Registration Statement under the caption "Taxation—United States Federal Income Taxation."

The facts, as we understand them, and upon which with your permission we rely in rendering the opinion herein, are set forth in the F-1 Registration Statement.

In our capacity as counsel to the Company, we have made such legal and factual examinations and inquiries, including an examination of originals or copies certified or otherwise identified to our satisfaction of such documents, corporate records and other instruments as we have deemed necessary or appropriate for purposes of this opinion. In our examination, we have assumed the authenticity of all documents submitted to us as originals, the genuineness of all signatures thereon, the legal capacity of natural persons executing such documents and the conformity to authentic original documents of all documents submitted to us as copies. For the purpose of our opinion, we have not made an independent investigation, or audit of the facts set forth in the above-referenced documents.

LATHAM & WATKINS LLP

We are opining herein as to the effect on the subject transaction only of the federal income tax laws of the United States and we express no opinion with respect to the applicability thereto, or the effect thereon, of other federal laws, the laws of any state or any other jurisdiction or as to any matters of municipal law or the laws of any other local agencies within any state.

Based on such facts and subject to the limitations set forth in the F-1 Registration Statement, the statements of law or legal conclusions in the F-1 Registration Statement under the caption "Taxation—U.S. Federal Income Taxation" constitute the opinion of Latham & Watkins LLP as to the material U.S. federal income tax consequences of an investment in the ADSs or ordinary shares offered pursuant to the F-1 Registration Statement.

No opinion is expressed as to any matter not discussed herein.

This opinion is rendered to you as of the date of this letter, and we undertake no obligation to update this opinion subsequent to the date hereof. This opinion is based on various statutory provisions, regulations promulgated thereunder and interpretations thereof by the Internal Revenue Service and the courts having jurisdiction over such matters, all of which are subject to change either prospectively or retroactively. Also, any variation or difference in the facts from those set forth in the F-1 Registration Statement may affect the conclusions stated herein.

This opinion is furnished to you, and is only for your use in connection with the transactions set forth in the F-1 Registration Statement. We hereby consent to the filing of this opinion as an exhibit to the F-1 Registration Statement and to the use of our name under the caption "Legal Matters" in the prospectus included in the F-1 Registration Statement. In giving such consent, we do not thereby admit that we are within the category of persons whose consent is required under Section 7 of the Act, or the rules or regulations of the Commission promulgated thereunder.

Very truly yours,

BAIDU.COM, INC.

2000 OPTION PLAN

1. Purposes of the Plan. The purposes of this Option Plan are to attract and retain the best available personnel, to provide additional incentive to Employees, Directors and Consultants and to promote the success of the Company's business.

2. Definitions. As used herein, the following definitions shall apply:

(a) "Administrator" means the Board or any of the Committees appointed to administer the Plan.

(b) "Applicable Laws" means the legal requirements relating to the administration of option plans, if any, under applicable provisions of federal securities laws, state corporate and securities laws, the Code, the rules of any applicable stock exchange or national market system, and the rules of any foreign jurisdiction applicable to Awards granted to residents therein.

(c) "Award" means the grant of an Option or other right or benefit under the Plan.

(d) "Award Agreement" means the written agreement evidencing the grant of an Award executed by the Company and the Grantee, including any amendments thereto.

(e) "Board" means the Board of Directors of the Company.

(f) "Cause" means, with respect to the termination by the Company or a Related Entity of the Grantee's Continuous Service, that such termination is for "Cause" as such term is expressly defined in a then-effective written agreement between the Grantee and the Company or such Related Entity, or in the absence of such then-effective written agreement and definition, is based on, in the determination of the Administrator, the Grantee's: (i) refusal or failure to act in accordance with any specific, lawful direction or order of the Company or a Related Entity; (ii) unfitness or unavailability for service or unsatisfactory performance (other than as a result of Disability); (iii) performance of any act or failure to perform any act in bad faith and to the detriment of the Company or a Related Entity; (iv) dishonesty, intentional misconduct or material breach of any agreement with the Company or a Related Entity; or (v) commission of a crime involving dishonesty, breach of trust, or physical or emotional harm to any person. At least 30 days prior to the termination of the Grantee's Continuous Service pursuant to (i) or (ii) above, the Company shall provide the Grantee with notice of the Company's or such Related Entity's intent to terminate, the reason therefor, and an opportunity for the Grantee to cure such defects in his or her service to the Company's or such Related Entity's satisfaction. During this 30 day (or longer) period, no Award issued to the Grantee under the Plan may be exercised or purchased.

(g) "Code" means the U.S. Internal Revenue Code of 1986, as amended.

(h) "Committee" means any committee appointed by the Board to administer the Plan.

(i) “Company” means Baidu.com, Inc., a company organized under the laws of the Cayman Islands.

(j) “Consultant” means any person (other than an Employee or a Director, solely with respect to rendering services in such person’s capacity as a Director) who is engaged by the Company or any Related Entity to render consulting or advisory services to the Company or such Related Entity, including members of the Company’s Advisory Board.

(k) “Continuous Service” means that the provision of services to the Company or a Related Entity in any capacity of Employee, Director or Consultant, is not interrupted or terminated. Continuous Service shall not be considered interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entity, or any successor, in any capacity of Employee, Director or Consultant, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director or Consultant (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave. For purposes of Incentive Stock Options, no such leave may exceed ninety (90) days, unless reemployment upon expiration of such leave is guaranteed by statute or contract.

(l) “Corporate Transaction” means any of the following transactions to which the Company is a party:

(i) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the jurisdiction in which the Company is incorporated;

(ii) the sale, transfer or other disposition of all or substantially all of the assets of the Company (including the capital stock of the Company’s subsidiary corporations) in connection with the complete liquidation or dissolution of the Company;

(iii) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities are transferred to a person or persons different from those who held such securities immediately prior to such merger; or

(iv) acquisition by any person or related group of persons (other than the Company or by a Company-sponsored employee benefit plan) of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of securities possessing more than fifty percent (50%) of the total combined voting power of the Company’s outstanding securities, but excluding any such transaction that the Administrator determines shall not be a Corporate Transaction.

(m) “Director” means a member of the Board or the board of directors of any Related Entity.

(n) “Disability” means that a Grantee is permanently unable to carry out the responsibilities and functions of the position held by the Grantee by reason of any medically determinable physical or mental impairment. A Grantee will not be considered to have incurred a Disability unless he or she furnishes proof of such impairment sufficient to satisfy the Administrator in its discretion.

(o) “Employee” means any person, including an Officer or Director, who is an employee of the Company or any Related Entity. The payment of a director’s fee by the Company or a Related Entity shall not be sufficient to constitute “employment” by the Company.

(p) “Exchange Act” means the Securities Exchange Act of 1934, as amended.

(q) “Fair Market Value” means, as of any date, the value of Ordinary Shares as follows:

(i) Where there exists a public market for the Ordinary Shares, the Fair Market Value shall be (A) the closing price for a Share for the last market trading day prior to the time of the determination (or, if no closing price was reported on that date, on the last trading date on which a closing price was reported) on the stock exchange determined by the Administrator to be the primary market for the Ordinary Shares or the Nasdaq National Market, whichever is applicable or (B) if the Ordinary Shares are not traded on any such exchange or national market system, the average of the closing bid and asked prices of a Share on the Nasdaq Small Cap Market for the day prior to the time of the determination (or, if no such prices were reported on that date, on the last date on which such prices were reported), in each case, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or

(ii) In the absence of an established market for the Ordinary Shares of the type described in (i), above, the Fair Market Value thereof shall be determined by the Administrator in good faith by reference to the placing price of the latest private placement of the Shares and the development of the Company’s business operations since such latest private placement.

(r) “Good Reason” means the occurrence after a Corporate Transaction of any of the following events or conditions unless consented to by the Grantee:

(i) a decrease in the Grantee’s base salary and/or a material decrease in his standard management bonus plan or employee benefits as in effect at any time within six (6) months preceding the date of a Corporate Transaction or at any time thereafter;

(ii) a material adverse change in the Grantee’s title, authority, responsibilities or duties, as measured against his or her title, authority, responsibilities or duties immediately prior to such change, as in effect at any time within six (6) months preceding the date of a Corporate Transaction or at any time thereafter;

(iii) the imposition of a requirement that such Grantee relocate more than sixty (60) miles from his or her current primary residence, that the principal place of business of Baidu, Inc. be relocated more than sixty (60) miles from the city of Mountain View, California or that the principal place of business of the PRC operating subsidiary of the Company be relocated more than thirty-five (35) miles from the city of Beijing, China; or

(iv) death or Disability of the Grantee.

(s) “Grantee” means an Employee, Director or Consultant who receives an Award under the Plan.

(t) “Immediate Family,” means any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships, any person sharing the Grantee’s household (other than a tenant or employee), a trust in which these persons (or the Grantee) have more than fifty percent (50%) of the beneficial interest, a foundation in which these persons (or the Grantee) control the management of assets, and any other entity in which these persons (or the Grantee) own more than fifty percent (50%) of the voting interests.

(u) “Incentive Stock Option” means an Option intended to qualify as an incentive stock option within the meaning of Section 422 of the Code.

(v) “Non-Qualified Stock Option” means an Option not intended to qualify as an Incentive Stock Option.

(w) “Officer” means a person who is an officer of the Company or a Related Entity within the meaning of Section 16 of the Exchange Act and the rules and regulations promulgated thereunder.

(x) “Option” means an option to purchase Shares pursuant to an Award Agreement granted under the Plan.

(y) “Ordinary Share” means an ordinary share, US\$0.0001 par value, of the Company.

(z) “Parent” means a “parent corporation,” whether now or hereafter existing, as defined in Section 424(e) of the Code.

(aa) “Plan” means this 2000 Option Plan.

(bb) “Post-Termination Exercise Period” means the period specified in the Award Agreement of not less than three (3) months.

(cc) “Registration Date” means the first to occur of (i) the closing of the first sale to the general public of (A) the Ordinary Shares or (B) the same class of securities of a successor corporation (or its Parent) issued pursuant to a Corporate Transaction in exchange for or in substitution of the Ordinary Shares, pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended; and (ii) in the event of a Corporate Transaction, the date of the consummation of the Corporate Transaction if the same class of securities of the successor corporation (or its Parent) issuable in such Corporate Transaction shall have been sold to the general public pursuant to a registration statement filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933, as amended, on or prior to the date of consummation of such Corporate Transaction.

(dd) “Related Entity” means any Parent, Subsidiary and any business, corporation, partnership, limited liability company or other entity in which the Company, a Parent or a Subsidiary holds a substantial ownership interest, directly or indirectly.

(ee) “Restricted Stock” means Shares issued under the Plan to the Grantee for such consideration, if any, and subject to such restrictions on transfer, rights of first refusal, repurchase provisions, forfeiture provisions, and other terms and conditions as established by the Administrator.

(ff) “Share” means an Ordinary Share.

(gg) “Subsidiary” means a “subsidiary corporation,” whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Shares Subject to the Plan.

(a) Subject to the provisions of Section 10(a) below, the maximum aggregate number of Shares which may be issued pursuant to all Awards (including Incentive Stock Options) is 1,920,000 Shares. In addition, the total number of Shares issuable upon exercise of all outstanding Awards shall not exceed a number of Shares which is equal to 20% of the then outstanding shares of the Company, unless a percentage higher than 20% is approved by the Company’s Series A Preferred Shareholders. The Shares may be authorized, but unissued, or reacquired Ordinary Shares.

(b) Any Shares covered by an Award (or portion of an Award) which is forfeited or canceled, expires or is settled in cash, shall be deemed not to have been issued for purposes of determining the maximum aggregate number of Shares which may be issued under the Plan. If any unissued Shares are retained by the Company upon exercise of an Award in order to satisfy the exercise price for such Award or any withholding taxes due with respect to such Award, such retained Shares subject to such Award shall become available for future issuance under the Plan (unless the Plan has terminated). Shares that actually have been issued under the Plan pursuant to an Award shall not be returned to the Plan and shall not become available for future issuance under the Plan, except that if unvested Shares are forfeited, or repurchased by the Company at their original purchase price, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Plan Administrator. With respect to grants of Awards to Employees, Directors, or Consultants, the Plan shall be administered by (A) the Board or (B) a Committee (or a subcommittee of the Committee) designated by the Board, which Committee shall be constituted in such a manner as to satisfy Applicable Laws. Once appointed, such Committee shall continue to serve in its designated capacity until otherwise directed by the Board.

(b) Powers of the Administrator. Subject to Applicable Laws and the provisions of the Plan (including any other powers given to the Administrator hereunder), and except as otherwise provided by the Board, the Administrator shall have the authority, in its discretion:

- (i) to select the Employees, Directors and Consultants to whom Awards may be granted from time to time hereunder;

(ii) to determine whether and to what extent Awards are granted hereunder;

(iii) to determine the number of Shares or the amount of other consideration to be covered by each Award granted hereunder;

(iv) to approve forms of Award Agreements for use under the Plan;

(v) to determine the terms and conditions of any Award granted hereunder;

(vi) to establish additional terms, conditions, rules or procedures to accommodate the rules or laws of applicable foreign jurisdictions and to afford Grantees favorable treatment under such rules or laws; provided, however, that no Award shall be granted under any such additional terms, conditions, rules or procedures with terms or conditions which are inconsistent with the provisions of the Plan;

(vii) to amend the terms of any outstanding Award granted under the Plan, provided that any amendment that would adversely affect the Grantee's rights under an outstanding Award shall not be made without the Grantee's written consent;

(viii) to construe and interpret the terms of the Plan and Awards, including without limitation, any notice of award or Award Agreement, granted pursuant to the Plan; and

(ix) to take such other action, not inconsistent with the terms of the Plan, as the Administrator deems appropriate.

5. Eligibility. Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants. Incentive Stock Options may be granted only to Employees of the Company, a Parent or a Subsidiary. An Employee, Director or Consultant who has been granted an Award may, if otherwise eligible, be granted additional Awards. Awards may be granted to such Employees, Directors or Consultants who are residing in foreign jurisdictions as the Administrator may determine from time to time.

6. Terms and Conditions of Awards.

(a) Type of Awards. The Administrator is authorized under the Plan to award any type of arrangement to an Employee, Director or Consultant that is not inconsistent with the provisions of the Plan and that by its terms involves or might involve the issuance of (i) Shares, (ii) an Option, or similar right with a fixed or variable price related to the Fair Market Value of the Shares and with an exercise or conversion privilege related to the passage of time, the occurrence of one or more events, or the satisfaction of performance criteria or other conditions, or (iii) any other security with the value derived from the value of the Shares. Such awards include, without limitation, Options, and an Award may consist of one such security or benefit, or two (2) or more of them in any combination or alternative.

(b) Designation of Award. Each Award shall be designated in the Award Agreement. In the case of an Option, the Option shall be designated as either an Incentive Stock Option or a Non-Qualified Stock Option. However, notwithstanding such designation, to the extent that the aggregate Fair Market Value of Shares subject to Options designated as Incentive Stock Options which become exercisable for the first time by a Grantee during any calendar year (under all plans of the Company or any Parent or Subsidiary) exceeds \$100,000, such excess Options, to the extent of the Shares covered thereby in excess of the foregoing limitation, shall be treated as Non-Qualified Stock Options. For this purpose, Incentive Stock Options shall be taken into account in the order in which they were granted, and the Fair Market Value of the Shares shall be determined as of the grant date of the relevant Option.

(c) Conditions of Award. Subject to the terms of the Plan, the Administrator shall determine the provisions, terms, and conditions of each Award including, but not limited to, the Award vesting schedule, repurchase provisions, rights of first refusal, forfeiture provisions, form of payment (cash, Shares, or other consideration) upon settlement of the Award, payment contingencies, and satisfaction of any performance criteria. The performance criteria established by the Administrator may be based on any one of, or combination of, increase in share price, earnings per share, total shareholder return, return on equity, return on assets, return on investment, net operating income, cash flow, revenue, economic value added, personal management objectives, or other measure of performance selected by the Administrator. Partial achievement of the specified criteria may result in a payment or vesting corresponding to the degree of achievement as specified in the Award Agreement.

(d) Acquisitions and Other Transactions. The Administrator may issue Awards under the Plan in settlement, assumption or substitution for, outstanding awards or obligations to grant future awards in connection with the Company or a Related Entity acquiring another entity, an interest in another entity or an additional interest in a Related Entity whether by merger, stock purchase, asset purchase or other form of transaction.

(e) Deferral of Award Payment. The Administrator may establish one or more programs under the Plan to permit selected Grantees the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Grantee to payment or receipt of Shares or other consideration under an Award. The Administrator may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, Shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Administrator deems advisable for the administration of any such deferral program.

(f) Award Exchange Programs. The Administrator may establish one or more programs under the Plan to permit selected Grantees to exchange an Award under the Plan for one or more other types of Awards under the Plan on such terms and conditions as determined by the Administrator from time to time.

(g) Separate Programs. The Administrator may establish one or more separate programs under the Plan for the purpose of issuing particular forms of Awards to one or more classes of Grantees on such terms and conditions as determined by the Administrator from time to time.

(h) Early Exercise. The Award Agreement may, but need not, include a provision whereby the Grantee may elect at any time while an Employee, Director or Consultant to exercise any part or all of the Award prior to full vesting of the Award. Any unvested Shares received pursuant to such exercise may be subject to a repurchase right in favor of the Company or a Related Entity or to any other restriction the Administrator determines to be appropriate.

(i) Term of Award. The term of each Award shall be the term stated in the Award Agreement; provided, however, that the term shall be no more than ten (10) years from the date of grant thereof. However, in the case of an Incentive Stock Option granted to a Grantee who, at the time the Option is granted, owns shares representing more than ten percent (10%) of the voting power of all classes of shares of the Company or any Parent or Subsidiary, the term of the Incentive Stock Option shall be five (5) years from the date of grant thereof or such shorter term as may be provided in the Award Agreement.

(j) Transferability of Awards. Non-Qualified Stock Options shall be transferable (i) to the extent provided in the Award Agreement and (ii) by will, and by the laws of descent and distribution. Incentive Stock Options may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Grantee, only by the Grantee; provided, however, that the Grantee may designate a beneficiary of the Grantee's Incentive Stock Option in the event of the Grantee's death on a beneficiary designation form provided by the Administrator. Other Awards shall be transferred by will and by the laws of descent and distribution, and during the lifetime of the Grantee, by gift and or pursuant to a domestic relations order to members of the Grantee's Immediate Family to the extent and in the manner determined by the Administrator.

(k) Time of Granting Awards. The date of grant of an Award shall for all purposes be the date on which the Administrator makes the determination to grant such Award, or such other date as is determined by the Administrator. Notice of the grant determination shall be given to each Employee, Director or Consultant to whom an Award is so granted within a reasonable time after the date of such grant.

7. Award Exercise or Purchase Price, Consideration and Taxes.

(a) Exercise or Purchase Price. The exercise or purchase price, if any, for an Award shall be as follows:

(i) In the case of an Incentive Stock Option granted to an Employee who, at the time of the grant of such Incentive Stock Option owns shares representing more than ten percent (10%) of the voting power of all classes of shares of the Company or any Parent or Subsidiary, the per Share exercise price shall be not less than one hundred ten percent (110%) of the Fair Market Value per Share on the date of grant.

(ii) Notwithstanding Section 7(a)(i), in the case of an Award issued pursuant to Section 6(d), above, the exercise or purchase price for the Award shall be determined in accordance with the principles of Section 424(a) of the Code.

(b) Consideration. Subject to Applicable Laws, the consideration to be paid for the Shares to be issued upon exercise or purchase of an Award including the method of payment, shall be determined by the Administrator (and, in the case of an Incentive Stock Option, shall be determined at the time of grant). In addition to any other types of consideration the Administrator may determine, the Administrator is authorized to accept as consideration for Shares issued under the Plan the following:

(i) cash or check in U.S. dollars (in connection with the Administrator may require the Grantee to provide evidence that the funds were taken out of the People's Republic of China in accordance with applicable foreign exchange control laws and regulations);

(ii) cash or check in Chinese Renminbi (in an amount converted from U.S. dollars at the official rate promulgated by the People's Bank of China on the date the Notice of Exercise is received by the Company);

(iii) surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require (including withholding of Shares otherwise deliverable upon exercise of the Award) which have a Fair Market Value on the date of surrender or attestation equal to the aggregate exercise price of the Shares as to which said Award shall be exercised (but only to the extent that such exercise of the Award would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price unless otherwise determined by the Administrator);

(iv) if the exercise or purchase occurs on or after the Registration Date, surrender of Shares or delivery of a properly executed form of attestation of ownership of Shares as the Administrator may require (including withholding of Shares otherwise deliverable upon exercise of the Option) which have a Fair Market Value on the date of surrender or attestation equal to the aggregate exercise price of the Shares as to which the Option is being exercised (but only to the extent that such exercise of the Option would not result in an accounting compensation charge with respect to the Shares used to pay the exercise price);

(v) if the exercise occurs on or after the Registration Date, payment through a broker-dealer sale and remittance procedure pursuant to which the Grantee (i) shall

provide written instructions to a Company designated brokerage firm to effect the immediate sale of some or all of the purchased Shares and remit to the Company, out of the sale proceeds available on the settlement date, sufficient funds to cover the aggregate exercise price payable for the purchased Shares and (ii) shall provide written directives to the Company to deliver the certificates for the purchased Shares directly to such brokerage firm in order to complete the sale transaction; or

(vi) any combination of the foregoing methods of payment.

(c) Taxes. No Shares shall be delivered under the Plan to any Grantee or other person until such Grantee or other person has made arrangements acceptable to the Administrator for the satisfaction of any foreign, federal, state, or local income and employment tax withholding obligations, including, without limitation, obligations incident to the receipt of Shares or the disqualifying disposition of Shares received on exercise of an Incentive Stock Option. Upon exercise of an Award the Company shall withhold or collect from Grantee an amount sufficient to satisfy such tax obligations.

8. Exercise of Award.

(a) Procedure for Exercise; Rights as a Shareholder.

(i) Any Award granted hereunder shall be exercisable at such times and under such conditions as determined by the Administrator under the terms of the Plan and specified in the Award Agreement but in the case of an Option, in no case at a rate of less than twenty percent (20%) per year over five (5) years from the date the Option is granted, subject to reasonable conditions such as continued employment. Notwithstanding the foregoing, in the case of an Option granted to an Officer, Director or Consultant, the Award Agreement may provide that the Option may become exercisable, subject to reasonable conditions such as such Officer's, Director's or Consultant's Continuous Service, at any time or during any period established in the Award Agreement.

(ii) An Award shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Award by the person entitled to exercise the Award and full payment for the Shares with respect to which the Award is exercised, including, to the extent selected, use of the broker-dealer sale and remittance procedure to pay the purchase price as provided in Section 7(b)(v). Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company) of the share certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a shareholder shall exist with respect to Shares subject to an Award, notwithstanding the exercise of an Option or other Award. No adjustment will be made for a dividend or other right for which the record date is prior to the date the share certificate is issued, except as provided in the Award Agreement or Section 11(a), below.

(b) Exercise of Award Following Termination of Continuous Service. In the event of termination of a Grantee's Continuous Service for any reason other than Disability or death (but not in the event of a Grantee's change of status from Employee to Consultant or from Consultant to Employee), such Grantee may, but only during the Post-Termination Exercise

Period (but in no event later than the expiration date of the term of such Award as set forth in the Award Agreement), exercise the Award to the extent that the Grantee was entitled to exercise it at the date of such termination or to such other extent as may be determined by the Administrator. The Grantee's Award Agreement may provide that upon the termination of the Grantee's Continuous Service for Cause, the Grantee's right to exercise the Award shall terminate concurrently with the termination of Grantee's Continuous Service. In the event of a Grantee's change of status from Employee to Consultant, an Employee's Incentive Stock Option shall convert automatically to a Non-Qualified Stock Option on the day three (3) months and one day following such change of status. To the extent that the Grantee is not entitled to exercise the Award at the date of termination, or if the Grantee does not exercise such Award to the extent so entitled within the Post-Termination Exercise Period, the Award shall terminate.

(c) Disability of Grantee. In the event of termination of a Grantee's Continuous Service as a result of his or her Disability, Grantee may, but only within twelve (12) months from the date of such termination (and in no event later than the expiration date of the term of such Award as set forth in the Award Agreement), exercise the Award to the extent that the Grantee was otherwise entitled to exercise it at the date of such termination; provided, however, that if such Disability is not a "disability" as such term is defined in Section 22(e)(3) of the Code, in the case of an Incentive Stock Option such Incentive Stock Option shall automatically convert to a Non-Qualified Stock Option on the day three (3) months and one day following such termination. To the extent that the Grantee is not entitled to exercise the Award at the date of termination, or if Grantee does not exercise such Award to the extent so entitled within the time specified herein, the Award shall terminate.

(d) Death of Grantee. In the event of a termination of the Grantee's Continuous Service as a result of his or her death, or in the event of the death of the Grantee during the Post-Termination Exercise Period or during the twelve (12) month period following the Grantee's termination of Continuous Service as a result of his or her Disability, the Grantee's estate or a person who acquired the right to exercise the Award by bequest or inheritance may exercise the Award, but only to the extent that the Grantee was entitled to exercise the Award as of the date of termination, within twelve (12) months from the date of death (but in no event later than the expiration of the term of such Award as set forth in the Award Agreement). To the extent that, at the time of death, the Grantee was not entitled to exercise the Award, or if the Grantee's estate or a person who acquired the right to exercise the Award by bequest or inheritance does not exercise such Award to the extent so entitled within the time specified herein, the Award shall terminate.

9. Conditions Upon Issuance of Shares.

(a) Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all Applicable Laws, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation is required by any Applicable Laws.

10. Repurchase Rights. If the provisions of an Award Agreement grant to the Company the right to repurchase Shares upon termination of the Grantee's Continuous Service, the Award Agreement shall (or may, with respect to Awards granted or issued to Officers, Directors or Consultants) provide that:

(a) the right to repurchase must be exercised, if at all, within ninety (90) days of the termination of the Grantee's Continuous Service (or in the case of Shares issued upon exercise of Awards after the date of termination of the Grantee's Continuous Service, within ninety (90) days after the date of the Award exercise);

(b) the consideration payable for the Shares upon exercise of such repurchase right shall be made in cash or by cancellation of purchase money indebtedness within the ninety (90) day periods specified in Section 10(a);

(c) the amount of such consideration shall (i) be equal to the original purchase price paid by Grantee for each such Share; provided, that the right to repurchase such Shares at the original purchase price shall lapse at the rate of at least twenty percent (20%) of the Shares subject to the Award per year over five (5) years from the date the Award is granted (without respect to the date the Award was exercised or became exercisable), and (ii) with respect to Shares, other than Shares subject to repurchase at the original purchase price pursuant to clause (i) above, not less than the Fair Market Value of the Shares to be repurchased on the date of termination of Grantee's Continuous Service; and

(d) the right to repurchase Shares, other than the right to repurchase Shares at the original purchase price pursuant to clause (i) of Section 10(c), shall terminate on the Registration Date.

11. Adjustments Upon Changes in Capitalization or Corporate Transaction.

(a) Adjustments upon Changes in Capitalization. Subject to any required action by the shareholders of the Company, the number of Shares covered by each outstanding Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan, the exercise or purchase price of each such outstanding Award, as well as any other terms that the Administrator determines require adjustment shall be proportionately adjusted for (i) any increase or decrease in the number of issued Shares resulting from a share split, reverse share split, share dividend, combination or reclassification of the Shares, or similar transaction affecting the Shares, (ii) any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company, or (iii) as the Administrator may determine in its discretion, any other transaction with respect to Shares to which Section 424(a) of the Code applies or a similar transaction; provided, however that conversion of any convertible securities of the Company shall not be deemed to have been "effected without receipt of consideration." Such adjustment shall be made by the Administrator and its determination shall be final, binding and conclusive. Except as the Administrator determines, no issuance by the Company of shares of any class, or securities convertible into shares of any class, shall affect, and no adjustment by reason hereof shall be made with respect to, the number or price of Shares subject to an Award.

(b) Corporate Transaction.

(i) Termination of Award if Not Assumed. In the event of a Corporate Transaction, each Award will terminate upon the consummation of the Corporate Transaction, unless the Award is assumed by the successor corporation or Parent thereof in connection with the Corporate Transaction.

(ii) Acceleration of Award Upon Corporate Transaction. Except as provided otherwise in an individual Award Agreement, in the event of a Corporate Transaction and:

(A) to the extent an Award either is (x) assumed by the successor corporation or Parent thereof or replaced with a comparable Award (as determined by the Administrator) with respect to shares of the capital stock of the successor corporation or Parent thereof or (y) replaced with a cash incentive program of the successor corporation which preserves the compensation element of such Award existing at the time of the Corporate Transaction and provides for subsequent payout in accordance with the same vesting schedule applicable to such Award, then such Award (if assumed), the replacement Award (if replaced), or the cash incentive program automatically shall become fully vested, exercisable and payable and be released from any restrictions on transfer (other than transfer restrictions applicable to Options) and repurchase or forfeiture rights, immediately upon termination of the Grantee's Continuous Service (substituting the successor employer corporation for "Company or Related Entity" for the definition of "Continuous Service") if such Continuous Service is terminated by the successor company without Cause or voluntarily by the Grantee with Good Reason within twelve (12) months of the Corporate Transaction; or

(B) in the event an Award which is at the time outstanding under the Plan is not assumed by the successor corporation or the Parent thereof, each such Award shall automatically become fully vested and exercisable and be released from any restrictions on transfer (other than transfer restrictions applicable to Incentive Stock Options) and repurchase or forfeiture rights, immediately prior to the specified effective date of such Corporate Transaction, for all of the Shares at the time represented by such Award.

12. Effective Date and Term of Plan. The Plan shall become effective upon its adoption by the Board. It shall continue in effect for a term of ten (10) years unless sooner terminated. Subject to Section 17, below, and Applicable Laws, Awards may be granted under the Plan upon its becoming effective.

13. Amendment, Suspension or Termination of the Plan.

(a) The Board may at any time amend, suspend or terminate the Plan. To the extent necessary to comply with Applicable Laws, the Company shall obtain shareholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) No Award may be granted during any suspension of the Plan or after termination of the Plan.

(c) Any amendment, suspension or termination of the Plan (including termination of the Plan under Section 12, above) shall not affect Awards already granted, and such Awards shall remain in full force and effect as if the Plan had not been amended, suspended or terminated, unless mutually agreed otherwise between the Grantee and the Administrator, which agreement must be in writing and signed by the Grantee and the Company.

14. Reservation of Shares.

(a) The Company, during the term of the Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

(b) The inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

15. No Effect on Terms of Employment/Consulting Relationship. The Plan shall not confer upon any Grantee any right with respect to the Grantee's Continuous Service, nor shall it interfere in any way with his or her right or the Company's right to terminate the Grantee's Continuous Service at any time, with or without cause.

16. No Effect on Retirement and Other Benefit Plans. Except as specifically provided in a retirement or other benefit plan of the Company or a Related Entity, Awards shall not be deemed compensation for purposes of computing benefits or contributions under any retirement plan of the Company or a Related Entity, and shall not affect any benefits under any other benefit plan of any kind or any benefit plan subsequently instituted under which the availability or amount of benefits is related to level of compensation. The Plan is not a "Retirement Plan" or "Welfare Plan" under the Employee Retirement Income Security Act of 1974, as amended.

17. Shareholder Approval. The grant of Incentive Stock Options under the Plan shall be subject to approval by the shareholders of the Company within twelve (12) months before or after the date the Plan is adopted excluding Incentive Stock Options issued in substitution for outstanding Incentive Stock Options pursuant to Section 424(a) of the Code. Such shareholder approval shall be obtained in the degree and manner required under Applicable Laws. The Administrator may grant Incentive Stock Options under the Plan prior to approval by the shareholders, but until such approval is obtained, no such Incentive Stock Option shall be exercisable. In the event that shareholder approval is not obtained within the twelve (12) month period provided above, all Incentive Stock Options previously granted under the Plan shall be exercisable as Non-Qualified Stock Options.

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (the "Agreement") is entered into as of _____, 200__ by and between Baidu.com, Inc., a Cayman Islands company (the "Company") and the undersigned, a [director or officer] of the Company ("Indemnitee").

RECITALS

1. The Company recognizes that highly competent persons are becoming more reluctant to serve corporations as directors or in other capacities unless they are provided with adequate protection through insurance or adequate indemnification against risks of claims and actions against them arising out of their services to the corporation.

2. The Board of Directors of the Company (the "Board") has determined that the inability to attract and retain highly competent persons to serve the Company is detrimental to the best interests of the Company and its shareholders and that it is reasonable and necessary for the Company to provide adequate protection to such persons against risks of claims and actions against them arising out of their services to the corporation.

3. The Indemnitee does not regard the indemnities available under the Company's current memorandum and articles of association (the "Articles of Association") as adequate to protect him against the risks associated with his service to the Company.

4. The Company is willing to indemnify Indemnitee to the fullest extent permitted by applicable law, and Indemnitee is willing to serve and continue to serve the Company on the condition that he be so indemnified.

AGREEMENT

In consideration of the premises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

A. DEFINITIONS

The following terms shall have the meanings defined below:

Expenses shall include damages, judgments, fines, penalties, settlements and costs, attorneys' fees and disbursements and costs of attachment or similar bond, investigations, and any expenses paid or incurred in connection with investigating, defending, being a witness in, participating in (including on appeal), or preparing for any of the foregoing in, any Proceeding.

Indemnifiable Event means any event or occurrence that takes place either before or after the execution of this Agreement, related to the fact that Indemnitee is or was a director of the Company or an officer of the Company or any of its subsidiaries, or is or was serving at the request of the Company as a director or officer of another corporation, partnership, joint venture or other entity, or related to anything done or not done by Indemnitee in any such capacity.

Participant means a person who is a party to, or witness or participant (including on appeal) in, a Proceeding.

Proceeding means any threatened, pending, or completed action, suit or proceeding, or any inquiry, hearing or investigation, whether civil, criminal, administrative, investigative or other, including appeal, in which Indemnitee may be or may have been involved as a party or otherwise by reason of an Indemnifiable Event, including, without limitation, any threatened, pending, or completed action, suit or proceeding by or in the right of the Company.

B. AGREEMENT TO INDEMNIFY

1. General Agreement. In the event Indemnitee was, is, or becomes a Participant in, or is threatened to be made a Participant in, a Proceeding, the Company shall indemnify the Indemnitee from and against any and all Expenses which Indemnitee incurs or becomes obligated to incur in connection with such Proceeding, to the fullest extent permitted by applicable law.

2. Indemnification of Expenses of Successful Party. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee has been successful on the merits in defense of any Proceeding or in defense of any claim, issue or matter in such Proceeding, Indemnitee shall be indemnified against all Expenses incurred in connection with such Proceeding or such claim, issue or matter, as the case may be, offset by the amount of cash, if any, received by the Indemnitee resulting from his/her success therein.

3. Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for a portion of Expenses, but not for the total amount of Expenses, the Company shall indemnify the Indemnitee for the portion of such Expenses to which Indemnitee is entitled.

4. Exclusions. Notwithstanding anything in this Agreement to the contrary, Indemnitee shall not be entitled to indemnification under this Agreement:

(a) to the extent that payment is actually made to Indemnitee under a valid, enforceable and collectible insurance policy;

(b) to the extent that Indemnitee is indemnified and actually paid other than pursuant to this Agreement;

(c) in connection with a judicial action by or in the right of the Company, in respect of any claim, issue or matter as to which the Indemnitee shall have been adjudicated by final judgment in a court of law to be liable for intentional misconduct in the performance of his duty to the Company unless and only to the extent that any court in which such action was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the Indemnitee is fairly and reasonably entitled to indemnity for such Expenses as such court shall deem proper;

(d) in connection with any Proceeding initiated by Indemnitee against the Company, any director or officer of the Company or any other party, and not by way of defense, unless (i) the Company has joined in or the Reviewing Party (as hereinafter defined) has consented to the initiation of such Proceeding; or (ii) the Proceeding is one to enforce indemnification rights under this Agreement or any applicable law;

(e) for a disgorgement of profits made from the purchase and sale by the Indemnitee of securities pursuant to Section 16(b) of the Exchange Act or similar provisions of any applicable U.S. state statutory law or common law;

(f) brought about by the dishonesty or fraud of the Indemnitee seeking payment hereunder; provided, however, that the Indemnitee shall be protected under this Agreement as to any claims upon which suit may be brought against him by reason of any alleged dishonesty on his part, unless a judgment or other final adjudication thereof adverse to the Indemnitee establishes that he committed (i) acts of active and deliberate dishonesty, (ii) with actual dishonest purpose and intent, and (iii) which acts were material to the cause of action so adjudicated;

(g) for any judgment, fine or penalty which the Company is prohibited by applicable law from paying as indemnity;

(h) arising out of Indemnitee's personal tax matter; or

(i) arising out of Indemnitee's breach of an employment agreement with the Company (if any) or any other agreement with the Company or any of its subsidiaries.

5. No Employment Rights. Nothing in this Agreement is intended to create in Indemnitee any right to continued employment with the Company.

6. Contribution. If the indemnification provided in this Agreement is unavailable and may not be paid to Indemnitee for any reason other than those set forth in Section 4, then the Company shall contribute to the amount of Expenses paid in settlement actually and reasonably incurred and paid or payable by Indemnitee in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on the one hand and by the Indemnitee on the other hand from the transaction from which such Proceeding arose, and (ii) the relative fault of the Company on the one hand and of the Indemnitee on the other hand in connection with the events which resulted in such Expenses, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of the Indemnitee on the other hand shall be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the circumstances resulting in such Expenses, judgments, fines or settlement amounts. The Company agrees that it would not be just and equitable if contribution pursuant to this Section 6 were determined by pro rata allocation or any other method of allocation which does not take account of the foregoing equitable considerations.

C. INDEMNIFICATION PROCESS

1. Notice and Cooperation By Indemnitee. Indemnitee shall, as a condition precedent to his right to be indemnified under this Agreement, give the Company notice in writing as soon as practicable of any claim made against Indemnitee for which indemnification will or could be sought under this Agreement. Notice to the Company shall be given in accordance with Section F.7 below. In addition, Indemnitee shall give the Company such information and cooperation as the Company may reasonably request.

2. Indemnification Payment.

(a) *Advancement of Expenses.* Indemnatee may submit a written request with reasonable particulars to the Company requesting that the Company advance to Indemnatee all Expenses that may be reasonably incurred in advance by Indemnatee in connection with a Proceeding. The Company shall, within ten (10) business days of receiving such a written request by Indemnatee, advance all requested Expenses to Indemnatee. Any excess of the advanced Expenses over the actual Expenses will be repaid to the Company.

(b) *Reimbursement of Expenses.* To the extent Indemnatee has not requested any advanced payment of Expenses from the Company, Indemnatee shall be entitled to receive reimbursement for the Expenses incurred in connection with a Proceeding from the Company as soon as practicable after Indemnatee makes a written request to the Company for reimbursement.

(c) *Determination by the Reviewing Party.* Notwithstanding anything foregoing to the contrary, in the event the Reviewing Party informs the Company that Indemnatee is not entitled to indemnification in connection with a Proceeding under this Agreement or applicable law, the Company shall be entitled to be reimbursed by Indemnatee for all the Expenses previously advanced or otherwise paid to Indemnatee in connection with such Proceeding; provided, however, that Indemnatee may bring a suit to enforce his indemnification right in accordance with Section C.3 below.

3. Suit to Enforce Rights. Regardless of any action by the Reviewing Party, if Indemnatee has not received full indemnification within 30 days after making a written demand in accordance with Section C.2 above, Indemnatee shall have the right to enforce its indemnification rights under this Agreement by commencing litigation in any court of competent jurisdiction seeking a determination by the court or challenging any determination by the Reviewing Party or any breach in any aspect of this Agreement. Any determination by the Reviewing Party not challenged by Indemnatee and any judgment entered by the court shall be binding on the Company and Indemnatee.

4. Assumption of Defense. In the event the Company is obligated under this Agreement to advance or bear any Expenses for any Proceeding against Indemnatee, the Company shall be entitled to assume the defense of such Proceeding, with counsel approved by Indemnatee, upon delivery to Indemnatee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnatee and the retention of such counsel by the Company, the Company will not be liable to Indemnatee under this Agreement for any fees of counsel subsequently incurred by Indemnatee with respect to the same Proceeding, unless (i) the employment of counsel by Indemnatee has been previously authorized by the Company, (ii) Indemnatee shall have reasonably concluded, based on written advice of counsel, that there may be a conflict of interest of such counsel retained by the Company between the Company and Indemnatee in the conduct of any such defense, or (iii) the Company ceases or terminates the employment of such counsel with respect to the defense of such Proceeding, in any of which events the fees and expenses of Indemnatee's counsel shall be at the expense of the Company. At all times, Indemnatee shall have the right to employ counsel in any Proceeding at Indemnatee's expense.

5. Defense to Indemnification, Burden of Proof and Presumptions. It shall be a defense to any action brought by Indemnitee against the Company to enforce this Agreement that it is not permissible under this Agreement or applicable law for the Company to indemnify the Indemnitee for the amount claimed. In connection with any such action or any determination by the Reviewing Party or otherwise as to whether Indemnitee is entitled to be indemnified under this Agreement, the burden of proving such a defense or determination shall be on the Company. Neither the failure of the Reviewing Party or the Company to have made a determination prior to the commencement of such action by Indemnitee that indemnification is proper under the circumstances because Indemnitee has met the standard of conduct set forth in applicable law, nor an actual determination by the Reviewing Party or the Company that Indemnitee had not met such applicable standard of conduct shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

6. No Settlement Without Consent. Neither party to this Agreement shall settle any Proceeding in any manner that would impose any damage, loss, penalty or limitation on Indemnitee without the other party's written consent. Neither the Company nor Indemnitee shall unreasonably withhold its consent to any proposed settlement.

7. Company Participation. Subject to Section B.6, the Company shall not be liable to indemnify the Indemnitee under this Agreement with regard to any judicial action if the Company was not given a reasonable and timely opportunity, at its expense, to participate in the defense, conduct and/or settlement of such action.

8. Reviewing Party.

(a) For purposes of this Agreement, the Reviewing Party with respect to each indemnification request of Indemnitee shall be (A) the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors (as hereinafter defined), or (B) if a quorum of the Board of Directors consisting of Disinterested Directors is not obtainable or, even if obtainable, said Disinterested Directors so direct, Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee; and, if it is determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any Independent Counsel or member of the Board of Directors shall act reasonably and in good faith in making a determination under this Agreement of the Indemnitee's entitlement to indemnification. Any reasonable costs or expenses (including reasonable attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Company hereby indemnifies and agrees to hold Indemnitee harmless therefrom to the extent as aforesaid. "Disinterested Director" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(b) If the determination of entitlement to indemnification is to be made by Independent Counsel, the Independent Counsel shall be selected as provided in this Section 8(b). The Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board of Directors, in which event the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors shall select), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within 10 days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; *provided, however*, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of “Independent Counsel” as defined in Section 8(d) of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If a written objection is made and substantiated, the Independent Counsel selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If the determination of entitlement to indemnification is to be made by Independent Counsel, but within 20 days after submission by Indemnitee of a written request for indemnification, no Independent Counsel shall have been selected and not objected to, then the Board of Directors by a majority vote shall select the Independent Counsel. The Company shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with acting under this Agreement, and the Company shall pay all reasonable fees and expenses incident to the procedures of this Section 8(b), regardless of the manner in which such Independent Counsel was selected or appointed.

(c) In making a determination with respect to entitlement to indemnification hereunder, the Reviewing Party shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with this Agreement, and the Company shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption. The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement (with or without court approval), conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his conduct was unlawful. For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith if Indemnitee’s action is based on the records or books of account of the Company and any other corporation, partnership, joint venture or other entity of which Indemnitee is or was serving at the written request of the Company as a director, officer, employee, agent or fiduciary, including financial statements, or on information supplied to Indemnitee by the officers and directors of the Company or such other corporation, partnership, joint venture or other entity in the course of their duties, or on the advice of legal counsel for the Company or such other corporation, partnership, joint venture or other entity or on information or records given or reports made to the Company or such other corporation, partnership, joint venture or other entity by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Company or such other corporation, partnership, joint venture or other entity. In addition, the knowledge and/or actions, or failure to act, of any

director, officer, agent or employee of the Company or such other corporation, partnership, joint venture or other entity shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement. The provisions of this Section 8(c) shall not be deemed to be exclusive or to limit in any way the other circumstances in which the Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

(d) “Independent Counsel” means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five (5) years has been, retained to represent (i) the Company or Indemnitee in any matter material to either such party (other than with respect to matters concerning the Indemnitee under this Agreement, or of other indemnitees under similar indemnification agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee’s rights under this Agreement. The Company agrees to pay the reasonable fees of the Independent Counsel referred to above.

D. DIRECTOR AND OFFICER LIABILITY INSURANCE

1. Good Faith Determination. The Company shall from time to time make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with reputable insurance companies providing the officers and directors of the Company with coverage for losses incurred in connection with their services to the Company or to ensure the Company’s performance of its indemnification obligations under this Agreement.

2. Coverage of Indemnitee. To the extent the Company maintains an insurance policy or policies providing directors’ and officers’ liability insurance, Indemnitee shall be covered by such policy or policies, in accordance with its or their terms, to the maximum extent of the coverage available for any of the Company’s directors or officers.

3. No Obligation. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain any director and officer insurance policy if the Company determines in good faith that such insurance is not reasonably available in the case that (i) premium costs for such insurance are disproportionate to the amount of coverage provided, (ii) the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit, or (iii) Indemnitee is covered by similar insurance maintained by a parent or subsidiary of the Company.

E. NON-EXCLUSIVITY; FEDERAL PREEMPTION; TERM

1. Non-Exclusivity. The indemnification provided by this Agreement shall not be deemed exclusive of any rights to which Indemnitee may be entitled under the Articles of Association, applicable law or any written agreement between Indemnitee and the Company (including its subsidiaries and affiliates). The indemnification provided under this Agreement shall continue to be available to Indemnitee for any action taken or not taken while serving in an indemnified capacity even though he may have ceased to serve in any such capacity at the time of any Proceeding.

2. Federal Preemption. Notwithstanding the foregoing, both the Company and Indemnitee acknowledge that in certain instances, U.S. federal law or public policy may override applicable law and prohibit the Company from indemnifying its directors and officers under this Agreement or otherwise. Indemnitee acknowledges that the U.S. Securities and Exchange Commission believes that indemnification for liabilities arising under certain U.S. federal securities laws is against public policy and is, therefore, unenforceable and that the Company has undertaken or may be required in the future to undertake with the SEC to submit the question of indemnification to a court in certain circumstances for a determination of the Company's right under public policy to indemnify Indemnitee.

3. Duration of Agreement. All agreements and obligations of the Company contained herein shall continue during the period Indemnitee is an officer and/or a director of the Company (or is or was serving at the request of the Company as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise) and shall continue thereafter so long as Indemnitee shall be subject to any Proceeding by reason of his former or current capacity at the Company or any other enterprise at the Company's request, whether or not he is acting or serving in any such capacity at the time any Expense is incurred for which indemnification can be provided under this Agreement. This Agreement shall continue in effect regardless of whether Indemnitee continues to serve as an officer and/or a director of the Company or any other enterprise at the Company's request.

F. MISCELLANEOUS

1. Amendment of this Agreement. No supplement, modification, or amendment of this Agreement shall be binding unless executed in writing by the parties hereto. No waiver of any of the provisions of this Agreement shall operate as a waiver of any other provisions (whether or not similar), nor shall such waiver constitute a continuing waiver. Except as specifically provided in this Agreement, no failure to exercise or any delay in exercising any right or remedy shall constitute a waiver.

2. Subrogation. In the event of payment to Indemnitee by the Company under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and shall do everything that may be necessary to secure such rights, including the execution of such documents necessary to enable the Company to bring suit to enforce such rights.

3. Assignment; Binding Effect. Neither this Agreement nor any of the rights or obligations hereunder may be assigned by either party hereto without the prior written consent of the other party; except that the Company may, without such consent, assign all such rights and obligations to a successor in interest to the Company which assumes all obligations of the Company under this Agreement. Notwithstanding the foregoing, this Agreement shall be binding upon and inure to the benefit of and be enforceable by and against the parties hereto and the Company's successors (including any direct or indirect successor by purchase, merger, consolidation, or otherwise to all or substantially all of the business and/or assets of the Company) and assigns, as well as Indemnitee's spouses, heirs, and personal and legal representatives.

4. Severability and Construction. Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to a court order, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. In addition, if any portion of this Agreement shall be held by a court of competent jurisdiction to be invalid, void, or otherwise unenforceable, the remaining provisions shall remain enforceable to the fullest extent permitted by applicable law. The parties hereto acknowledge that they each have opportunities to have their respective counsels review this Agreement. Accordingly, this Agreement shall be deemed to be the product of both of the parties hereto, and no ambiguity shall be construed in favor of or against either of the parties hereto.

5. Counterparts. This Agreement may be executed in two counterparts, both of which taken together shall constitute one instrument.

6. Governing Law. This agreement and all acts and transactions pursuant hereto and the rights and obligations of the parties hereto shall be governed, construed and interpreted in accordance with the laws of the State of New York, U.S.A., without giving effect to conflicts of law provisions thereof.

7. Notices. All notices, demands, and other communications required or permitted under this Agreement shall be made in writing and shall be deemed to have been duly given if delivered by hand, against receipt, or mailed, postage prepaid, certified or registered mail, return receipt requested, and addressed to the Company at:

Baidu.com, Inc.
12/F, Ideal International Plaza
No. 58 West-North 4th Ring
Beijing 100080, People's Republic of China
Attention: Shawn Wang

and to Indemnitee at:

[Name]
[Address]
[Address]
[Address]

8. Entire Agreement. This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

(Signature page follows)

IN WITNESS WHEREOF, the parties hereto execute this Agreement as of the date first written above.

COMPANY

Baidu.com, Inc.

Name:

Title:

INDEMNITEE

[Name]

BAIDU.COM, INC.

EXECUTIVE EMPLOYMENT AGREEMENT

This EXECUTIVE EMPLOYMENT AGREEMENT (the "Agreement"), entered into as of _____, 2004 by and between Baidu.com, Inc., a limited company organized under the laws of the Cayman Islands (the "Company") and _____ (the "Executive") (collectively, the "Parties").

RECITALS

A. The Company desires to employ the Executive as _____ of the Company and to assure itself of the services of the Executive for the Period of Employment (as defined below).

B. The Executive desires to be employed by the Company as _____ of the Company for the Period of Employment and upon the terms and conditions of this Agreement.

AGREEMENT

ACCORDINGLY, the Parties agree as follows:

1. Term of Employment. The Company shall employ the Executive to render services to the Company in the position and with the duties and responsibilities described in Section 2 for a period of two (2) years starting from the date of this Agreement (the "Period of Employment"), unless the Period of Employment is terminated sooner in accordance with Sections 4 or 5 below.

2. Position, Duties, Responsibilities.

2.1 Position. The Executive shall render services to the Company in the position of Vice President of Engineering and shall perform all services appropriate to that position having similar nature with positions in companies of similar operational and financial conditions in similar industries as well as such other services as may reasonably be assigned by the Company, including serving as the _____ of Baidu Online Network Technology (Beijing) Co., Ltd. (百度在线网络技术(北京)有限公司), a wholly owned subsidiary of the Company established in the People's Republic of China (the "PRC"). The Executive's principal place of employment shall be Beijing, China. The Executive shall devote his best efforts and full-time attention to the performance of his duties. The Executive shall report to the board of directors of the Company.

2.2 Other Activities. Except upon the prior written consent of the board of directors of the Company, the Executive shall not (i) accept any other employment (except for academic employment, position in industrial or professional associations, non-executive director of other companies which do not compete with the Company's business provided that

Exhibit 10.4

such other companies purchase director liability insurance), or (ii) engage, invest or assist, directly or indirectly, in any other business activity (whether or not pursued for pecuniary advantage) that is or may be in conflict with, or that might place the Executive in a conflicting position to that of the Company.

2.3 Execution of Labor Contract. The Executive shall execute a written labor contract (the "Labor Contract"), in the form attached as Exhibit A, with Baidu Online Network Technology (Beijing) Co., Ltd. (百度在线网络技术(北京)有限公司) in accordance with the laws and regulations of the PRC and as requested by the Company.

3. Compensation and Holiday. In consideration of the services to be rendered under this Agreement, the Executive shall be entitled to the following:

3.1 Base Salary. The Company shall pay the Executive a "Base Salary" of RMB _____ per month, subject to adjustment in accordance with Section 3.2 below.

3.2 Salary Adjustment. The Executive's Base Salary will be reviewed from time to time in accordance with the established procedures of the Company for adjusting salaries for similarly situated employees.

3.3 Benefits. The Executive shall be eligible to participate in the benefits (including but not limited to insurance) made generally available by the Company to similarly-situated executives, in accordance with the benefit plans established by the Company, and as may be amended from time to time in the Company's sole discretion. The Executive shall also be entitled to any mandatory benefits or welfare (including without limited to the housing public fund (住房公积金)) applicable under the laws of the PRC.

3.4 Bonus. The Executive shall be entitled to a standard year end bonus up to two months of Base Salary based upon the performance of the Executive, and evaluated by the board of directors or the compensation committee of the Company (as the case may be).

3.5 Stock Option. The Company has previously granted to the Executive stock options, details of which are set out at Exhibit B.

3.6 Holidays. The Executive shall be entitled, in addition to the PRC statutory public holidays, to take _____ number of working days as paid holiday in each full calendar year. If the Executive's employment commences or terminates part way through a calendar year, his entitlement to holidays will be assessed on a pro-rata basis in accordance with the Company's holiday policy, as it may change from time to time.

3.7 Others. The salary and welfare provided respectively in the Labor Contract and this Agreement shall not be cumulative. If there is any discrepancy between the above provisions in Article 3 herein and the salary and other welfare provided in the Labor Contract, the Executive shall, in addition to the salary and welfare provided in the Labor Contract, be entitled to the additional amount of the salary and welfare (if any) provided in this Agreement only to the extent it exceeds those provided in the Labor Contract.

4. Termination By Company.

4.1 Termination for Cause. For purposes of this Agreement, “For Cause” shall mean the occurrence of any of the following, subject only to any statutory requirement of any applicable law: (i) the failure of the Executive to properly carry out his duties after notice by the Company of the failure to do so and a reasonable opportunity for the Executive to correct the same within a reasonable period specified by the Company; (ii) any breach by the Executive of one or more provisions of any written agreement with, or written policies of, the Company or his fiduciary duties to the Company likely to cause material harm to the Company and its affiliates, or (iii) any theft, fraud, dishonesty or serious misconduct by the Executive involving his duties or the property, business, reputation or affairs of the Company and its affiliates. The Company may terminate the Executive’s employment For Cause at any time, without any advance notice or payment in lieu of notice. The Company shall pay to the Executive all compensation prescribed under Section 3 hereof to which the Executive is entitled up through the date of termination, subject to any other rights or remedies of the Company under law, and thereafter all obligations of the Company under this Agreement shall cease.

4.2 By Death. The Executive’s employment shall terminate automatically upon the Executive’s death. The Company shall pay to the Executive’s beneficiaries or estate, as appropriate, any compensation then due and owing under Section 3 hereof to which the Executive is entitled up through the date of termination, subject to any other rights or remedies of the Company under law, and thereafter all obligations of the Company under this Agreement shall cease. Nothing in this section shall affect any entitlement of the Executive’s heirs or devisees to the benefits of any life insurance plan or other applicable benefits, if any. If the Executive dies during the course of or in connection with the performance of his duty, the Company shall pay to the Executive’s beneficiaries or estate, as appropriate, a special compensation not exceeding the annual Base Salary as provided in Article 3.1 above, as decided by the board of directors of the Company.

4.3 By Disability. If the Executive becomes eligible for the Company’s long-term disability benefits or if, in the sole opinion of the Company, the Executive is unable to carry out the responsibilities and functions of the position held by the Executive by reason of any physical or mental impairment for more than ninety (90) consecutive days or more than one hundred twenty (120) days in any twelve-month period, then, to the extent permitted by law, the Company may terminate the Executive’s employment. The Company shall pay to the Executive all compensation prescribed under Section 3 hereof to which the Executive is entitled up through the date of termination, and thereafter all obligations of the Company under this Agreement shall cease. Nothing in this section shall affect the Executive’s rights under any disability plan in which the Executive is a participant, if any.

4.4 Other Termination by Company. In addition to Sections 4.1 through 4.3, the Company may at any time terminate the employment of the Executive without cause by giving two (2) months written notice to the Executive, in which case the Executive will be eligible to receive an amount equal to six (6) months of the then-current Base Salary of the Executive payable in the form of salary continuation. Such severance shall be reduced by any remuneration paid to the Executive because of the Executive’s employment or self-employment during the severance period, i.e., six (6) months, and the Executive shall promptly report all such remuneration to the Company in writing. The Executive’s eligibility

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for severance is conditioned on the Executive having first signed a Termination Certificate in the form attached as Exhibit C. The Executive shall not be entitled to any severance payments if the Executive's employment is terminated For Cause, by death or by disability (as provided above) or if the Executive's employment is terminated by the Executive for any reason other than Good Reason, as defined below.

5. Termination By Executive.

5.1 Termination by Executive other than for Good Reason. The Executive may terminate employment with the Company at any time for any reason or no reason at all, upon two (2) months' advance written notice. During such notice period the Executive shall continue to diligently perform all of the Executive's duties hereunder. The Company shall have the option, in its sole discretion, to make the Executive's termination effective at any time prior to the end of such notice period as long as the Company pays the Executive all compensation under Section 3 hereof to which the Executive is entitled up through the last day of the two (2) months' notice period. Thereafter all obligations of the Company shall cease. Unless the Executive terminates his employment for Good Reason, as provided in Section 5.2, no severance or other separation benefits shall be paid to the Executive.

5.2 Termination for Good Reason After Change in Control. The Executive's termination shall be for Good Reason (as defined below) if the Executive provides written notice to the Company of the Good Reason within three (3) months of the event constituting Good Reason and provides the Company with a period of twenty (20) days to cure the Good Reason and the Company fails to cure the Good Reason within that period. For purposes of this Agreement, "Good Reason" shall mean any of the following events if (i) the event is effected by the Company without the consent of the Executive (voting for such event as a director shall not constitute a consent) and (ii) such event occurs within six (6) months after a Change in Control (as hereinafter defined): (A) a change in the Executive's position with the Company which materially reduces the Executive's level of responsibility; (B) a material reduction in the Executive's Base Salary, except for reductions that are comparable to reductions generally applicable to similarly situated executives of the Company; or (C) a relocation of the Executive's principal place of employment by more than one hundred miles. For purposes of this Agreement, a "Change in Control" of the Company shall be deemed to have occurred when: (i) the shareholders of the Company approve a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the shareholders of the Company immediately prior thereto holding fifty percent (50%) or more of the outstanding voting securities of the Company or the surviving entity immediately after such merger or consolidation; or (ii) the shareholders of the Company approve either a plan of liquidation or dissolution of the Company or an agreement for the sale, lease, exchange or other transfer or disposition by the Company of fifty-percent (50%) or more of the Company's assets. If the Executive terminates his employment for Good Reason, the Executive will be eligible to receive an amount equal to one (1) month of the Executive's then-current Base Salary payable in the form of salary continuation. Thereafter all obligations of the Company or its successor under this Agreement shall cease. Any severance shall be reduced by any remuneration paid to the Executive because of the Executive's employment or self-employment during the severance period, and the Executive shall promptly report all such remuneration to the Company or its successor in writing. The Executive's eligibility for severance is conditioned on the Executive having first signed a Termination Certificate in the form attached as Exhibit C.

6. Termination Obligations.

The Executive agrees that on or before termination of employment, he will promptly return to the Company all documents and materials of any nature pertaining to his work with the Company, including all originals and copies of all or any part of any Proprietary Information or Inventions (as defined below) along with any and all equipment and other tangible and intangible property of the Company. The Executive agrees not to retain any documents or materials or copies thereof containing any Proprietary Information or Inventions.

The Executive further agrees that: (i) all representations, warranties, and obligations under Articles 6, 7, 8, 12, 14.1, 14.2 and 14.3 contained in this Agreement shall survive the termination of the Period of Employment; (ii) the Executive's representations, warranties and obligations under Articles 6, 7, 8, 12, 14.1, 14.2 and 14.3 shall also survive the expiration of this Agreement; and (iii) following any termination of the Period of Employment, the Executive shall fully cooperate with the Company in all matters relating to his continuing obligations under this Agreement, including but not limited to the winding up of pending work on behalf of the Company, the orderly transfer of work to the other employees of the Company, and to the extent not causing any conflict of interest by existing event, provide reasonable assistance in the defense of any action brought by any third party against the Company that relates in any way to the Executive's acts or omissions while employed by the Company. The Executive also agrees to sign and deliver the Termination Certificate attached hereto as Exhibit C prior to his termination of employment with the Company.

7. Post-Termination Activity.

7.1 No Use of Proprietary Information. The Executive acknowledges that the pursuit of the activities forbidden by this subsection would necessarily involve the use or disclosure of Proprietary Information in breach of this Agreement, but that proof of such a breach would be extremely difficult. To forestall such disclosure, use, and breach, and in consideration of the employment under this Agreement, the Executive also agrees that while employed by the Company, and for a period of one (1) year after termination of the Executive's employment, the Executive shall not, directly or indirectly:

(i) divert or attempt to divert from the Company or any Affiliate ("Affiliate" shall mean any person or entity that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with such entity. For the purposes of this definition "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise, and includes (x) ownership directly or indirectly of 50% or more of the shares in issue or other equity interests of such person, (y) possession directly or indirectly of 50% or more of the voting power of such person or (z) the power directly or indirectly to appoint a majority of the members of the board of directors or similar governing body of such person, and the terms "controlling" and "controlled" have meanings correlative to the foregoing) any business of any kind in which it is engaged, including, without limitation, soliciting business from or performing services for, any persons, company or other entity which at any time during the Executive's employment by the Company is a client, supplier, or customer of the Company or prospective client (for the purpose of this Agreement, prospective clients shall mean prospective clients that the

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Executive deals with in the course of the ordinary business of the Company during the term of the Executive's employment with the Company), supplier, or customer of the Company if such business or services are of the same general character as those engaged in or performed by the Company;

(ii) solicit or otherwise induce any person to terminate his employment or consulting relationship with the Company or any Affiliate; and

(iii) engage, invest or assist in any business activity that directly or indirectly competes with the business or future business plans of the Company or any Affiliate, unless the Executive can prove that any action taken in contravention of this subsection was done without the use in any way of Proprietary Information.

In addition, because the Executive acknowledges the difficulty of establishing when any intellectual property, invention, or proprietary information is first conceived or developed by the Executive, or whether it results from access to Proprietary Information or the Company equipment, supplies, facilities, or data, the Executive agrees that any intellectual property, invention, or proprietary information shall be reported to the Company and, unless proven otherwise to the reasonable satisfaction of the Company, shall be presumed to be an Invention for the purpose of this Agreement and shall be subject to all terms and conditions hereof, if reduced to practice by the Executive or with the aid of the Executive within six (6) months after termination of the Period of Employment.

7.2 No Competition. Notwithstanding Section 7.1 above, while employed by the Company and for a period equal to the greater of one (1) year after the termination of the Executive's employment with the Company for any reason whatsoever or such period of time for which the Executive is entitled to receive severance payments in accordance with Section 4.4 or 5.2 herein, the Executive shall not, directly or indirectly, as an executive, employer, employee, consultant, agent, principal, partner, manager, stockholder, officer, director, or in any other individual or representative capacity, engage or participate in any business within Hong Kong and/or the PRC that is competitive with the business of the Company or any Affiliate. Notwithstanding the foregoing, the Executive may own less than five percent (5%) of any class of stock or security of any corporation listed on an internationally recognized securities exchange which competes with the Company.

7.3 Enforceability. The covenants of this Article 7 are several and separate, and the unenforceability of any specific covenant shall not affect the provisions of any other covenant. If any provision of this Article 7 relating to the time period or geographic area of the restrictive covenants shall be declared by a court of competent jurisdiction to exceed the maximum time period or geographic area, as applicable, that such court deems reasonable and enforceable, then this Agreement shall automatically be considered to have been amended and revised to reflect the maximum time period or geographic area that such court deems enforceable.

7.4 Independent Covenants. All of the covenants in this Article 7 shall be construed as an agreement independent of any other provision in this Agreement, and the existence of any claim or cause of action of the Executive against the Company or any of its Affiliates, whether predicated on this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of such covenants.

8. Proprietary Information.

The Executive agrees during his employment with the Company and thereafter, to hold in strictest confidence and trust, and not to use or disclose to any person, firm or corporation any Proprietary Information without the prior written consent of the Company, except as necessary in carrying out his duties as an employee of the Company for the benefit of the Company. “Proprietary Information” means any information of a proprietary, confidential or secret nature that may be disclosed to the Executive that relates to the business of the Company or of any parent, subsidiary, Affiliate, customer or supplier of the Company or any other party with whom the Company agrees to hold information of such party in confidence (“Relevant Parties”). Such Proprietary Information includes, but is not limited to, Inventions, research, product plans, products, services, business strategies, personnel information, customer lists, customers, markets, technical information, forecasts, marketing, finances or other business information of the Company and its Affiliates. This information shall remain confidential whether it was disclosed to the Executive either directly or indirectly in writing, orally or by drawings or observation. The Executive understands that Proprietary Information does not include any of the foregoing items which has become publicly known and made generally available through no wrongful act of the Executive or others who were under confidentiality obligations as to the items involved.

9. Former Employer Information.

The Executive agrees that he will not, during his employment with the Company, improperly use or disclose any proprietary information or trade secrets, or bring onto the premises of the Company any unpublished document or proprietary information belonging to any former or concurrent employer or other person or entity.

10. Third Party Information.

The Executive recognizes that the Company has received and in the future will receive confidential or proprietary information from third parties. The Executive agrees to hold all such confidential or proprietary information in the strictest confidence and trust, and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out his work for the Company consistent with the Company’s agreement with such third party.

11. No Conflict.

The Executive represents and warrants that the Executive’s execution of this Agreement, his employment with the Company, and the performance of his proposed duties under this Agreement shall not violate any obligations he may have to any former employer or other party, including any obligations with respect to proprietary or confidential information or intellectual property rights of such party.

12. Inventions.

12.1 Inventions Retained and Licensed. The Executive has attached, as Exhibit D, a list describing all inventions, original works of authorship, developments, improvements, and trade secrets which were made by the Executive prior to the Executive’s employment

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with the Company (“Prior Inventions”), which belong to the Executive, and which relate to the Company’s actual and/or proposed business, products or research and development. If, in the course of his employment with the Company, the Executive incorporates into a Company product, process or machine a Prior Invention owned by the Executive or in which the Executive has an interest, the Company is hereby granted and shall have a non-exclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

12.2 Assignment of Inventions. The Executive agrees that he will promptly make full written disclosure to the Company, will hold in trust for the sole right and benefit of the Company, and hereby irrevocably assign to the Company, or its designee, all the Executive’s right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements, designs, drawings, discoveries, ideas, formulas, processes, compositions of matter, software, databases, mask works, computer programs (including all source codes) and related documentation, algorithms, engineering and reverse engineering, technology, hardware configuration information, logos, trade names, trademarks, patents, patent applications, copyrights, trade secrets or know-how, which the Executive may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice (“Inventions”), while the Executive is employed by the Company. The Executive further acknowledges that all original works of authorship which are made by the Executive (solely or jointly with others) within the scope of and during his employment with the Company and which are protectible by copyright are “works made for hire,” as that term is defined in the United States Copyright Act and that the Company will be considered the author and owner of such works. The Executive understands and agrees that the decision whether or not to commercialize or market any Invention developed by the Executive solely or jointly with others is within the Company’s sole discretion and for the Company’s sole benefit and that no royalty will be due to the Executive as a result of the Company’s efforts to commercialize or market any such Invention.

12.3 Waiver of Moral Rights. To the utmost extent legally permitted, the Executive also hereby forever waives and agrees never to assert any and all Moral Rights (as defined below) he may have in or with respect to any Invention, even after termination of his work on behalf of the Company. “Moral Rights” mean any rights to claim authorship of an Invention to object to or prevent the modification of any Invention, or to withdraw from circulation or control the publication or distribution of any Invention, and any similar right, existing under judicial or statutory law of any country in the world, or under any treaty, regardless of whether or not such right is denominated or generally referred to as a “moral right.”

12.4 Maintenance of Records. The Executive agrees to keep and maintain adequate and current written records of all Inventions made by the Executive (solely or jointly with others) during the Executive’s employment with the Company. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by the Company. The records will be provided to, and remain the sole property of, the Company at all times.

12.5 Patent and Copyright Registrations. The Executive agrees to assist the Company, or its designee, at the Company’s expense, in every proper way, to secure the Company’s rights in the Inventions and any copyrights, patents, mask work rights, trade

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secret rights or other intellectual property rights relating thereto in any and all countries. The Executive will disclose to the Company all pertinent information and data which the Company deems necessary for the execution of all applications, specifications, oaths, assignments and execute all instruments necessary to apply for and obtain such rights and in order to assign and convey to the Company, its successors, assigns, and nominees, the sole and exclusive right, title and interest in and to such Inventions, and any copyrights, patents, mask work rights, or other intellectual property rights relating thereto. The Executive further agrees that the Executive's obligation to execute or cause to be executed, when it is in the Executive power to do so, any such instrument or papers shall continue after the termination of this Agreement. If the Company is unable, because of the Executive's mental or physical incapacity or for any other reason, to secure his signature to apply for or to pursue any application for any patents or copyright registrations covering the Inventions assigned to the Company as above, then the Executive hereby irrevocably designates and appoints the Company and its duly authorized officers and agents as his agent and attorney in fact, to act for and in the Executive's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters, patent or copyright registrations thereon with the same legal force and effect as if executed by the Executive.

13. Alternative Dispute Resolution.

The Company and Executive mutually agree that any controversy or claim arising out of or relating to this Agreement or the breach thereof, or any other dispute between the parties, shall be submitted to mediation before a mutually agreeable mediator, which cost is to be borne equally by the parties hereto. In the event the Parties fail to agree on a mediator, or mediation is unsuccessful in resolving the claim or controversy within one (1) month after the commencement of mediation, such claim or controversy shall be resolved by litigation in the competent court in the Hong Kong Special Administrative Region of the PRC ("Hong Kong").

14. Miscellaneous.

14.1 Continuing Obligations. The obligations in this Agreement will continue in the event that the Executive is hired, renders services to or for the benefit of or is otherwise retained at any time by any present or future Affiliates of the Company. Any reference to the Company in this Agreement will include such Affiliates. Upon the expiration or termination for any reason whatsoever of this Agreement, the Executive shall forthwith resign from any employment of office with an Affiliate of the Company unless the board of directors of the Company requests otherwise.

14.2 Notification. The Executive hereby authorizes the Company to notify his actual or future employers of the terms of this Agreement and his responsibilities hereunder.

14.3 Name and Likeness Rights. The Executive hereby authorizes the Company to use, reuse, and to grant others the right to use and reuse, his name, photograph, likeness (including caricature), voice, and biographical information, and any reproduction or simulation thereof, in any media now known or hereafter developed (including but not limited to film, video and digital or other electronic media), both during and after his employment, in the course of ordinary business of the Company. For avoidance of doubt,

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without the Executive's prior written consent, the Company may not use, reuse, and to grant others the right to use and reuse, his name, photograph, likeness (including caricature), voice, and biographical information, and any reproduction or simulation thereof for reasons other than the ordinary business of the Company, provided that the Executive shall not unreasonably withhold such consent.

14.4 Injunctive Relief. The Executive understands that in the event of a breach or threatened breach of this Agreement by him, the Company may suffer irreparable harm and will therefore be entitled to injunctive relief to enforce this Agreement.

14.5 Legal Fees. In any dispute arising under or in connection with this Agreement, the prevailing party shall be entitled to recover reasonable attorney's fees.

14.6 Entire Agreement. This Agreement, including the exhibits attached hereto, is intended to be the final, complete, and exclusive statement regarding their subject matter, except for other agreements specifically referenced herein. Unless otherwise specifically provided for herein, this Agreement supersedes all other prior and contemporaneous agreements and statements pertaining to this subject matter, and may not be contradicted by evidence of any prior or contemporaneous statements or agreements. To the extent that the practices, policies, or procedures of the Company, now or in the future, apply to the Executive and are inconsistent with the terms of this Agreement, the provisions of this Agreement shall control.

14.7 Amendments, Renewals and Waivers. This Agreement may not be modified, amended, renewed or terminated except by an instrument in writing, signed by the Executive and by a duly authorized representative of the Company other than the Executive. No failure to exercise and no delay in exercising any right, remedy, or power under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, or power under this Agreement preclude any other or further exercise thereof, or the exercise of any other right, remedy, or power provided herein or by law or in equity.

14.8 Assignment; Successors and Assigns. The Executive agrees that he will not assign, sell, transfer, delegate or otherwise dispose of, whether voluntarily or involuntarily, or by operation of law, any rights or obligations under this Agreement, nor shall the Executive's rights be subject to encumbrance or the claims of creditors. Any purported assignment, transfer, or delegation shall be null and void. Nothing in this Agreement shall prevent the consolidation of the Company with, or its merger into, any other corporation, or the sale by the Company of all or substantially all of its properties or assets, or the assignment by the Company of this Agreement and the performance of its obligations hereunder to any successor in interest. In the event of a change in ownership or control of the Company, the terms of this Agreement will remain in effect and shall be binding upon any successor in interest. Notwithstanding and subject to the foregoing, this Agreement shall be binding upon and shall inure to the benefit of the parties and their respective heirs, legal representatives, successors, and permitted assigns, and shall not benefit any person or entity other than those enumerated above.

14.9 Notices. All notices or other communications required or permitted hereunder shall be made in writing and shall be deemed to have been duly given if delivered by hand or mailed, postage prepaid, by certified or registered mail, return receipt requested, and

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addressed to the following or such address as a Party may designate in writing from time to time:

to the Company at: The Compensation Committee of the Board of Directors of Baidu.com, Inc.
C/O 58 BeiSiHuanXiLu, Ideal International Building, 12/F
Hai Dian District, Beijing, 100080, PRC

to the Executive at:

Any Notice delivered:

- (a) by hand delivery or courier shall be deemed to have been delivered on the date of actual delivery.
- (b) by prepaid registered letter shall be deemed to have been delivered four Business Days after the date of posting; and
- (c) by facsimile shall be deemed to have been delivered on the day the transmission is sent (as long as the sender has a confirmation report specifying a facsimile, a facsimile number of the recipient, the number of pages sent and the date of the transmission).

14.10 Severability; Enforcement. If any provision of this Agreement, or its application to any person, place, or circumstance, is held by an arbitrator or a court of competent jurisdiction to be invalid, unenforceable, or void, such provision shall be enforced (by blue-penciling or otherwise) to the maximum extent permissible under applicable law, and the remainder of this Agreement and such provision as applied to other persons, places, and circumstances shall remain in full force and effect.

14.11 Governing Law. This Agreement shall in all respects be construed and enforced in accordance with and governed by the laws of Hong Kong.

14.12 Interpretation. This Agreement shall be construed as a whole, according to its fair meaning, and not in favor of or against any party. Sections and section headings contained in this Agreement are for reference purposes only, and shall not affect in any manner the meaning or interpretation of this Agreement. Whenever the context requires, references to the singular shall include the plural and the plural the singular. References to one gender include both genders.

14.13 Obligations Survive Termination of Employment. The Executive agrees that any and all of the Executive's obligations under this Agreement capable of execution after the termination of the Executive employment, including but not limited to those contained in exhibits attached hereto, shall survive the termination of employment and the termination of this Agreement.

14.14 Language. This Agreement shall be written in English.

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14.15 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original of this Agreement, but all of which together shall constitute one and the same instrument.

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EXECUTIVE ACKNOWLEDGEMENT. The Executive acknowledges (i) that he has consulted with or has had the opportunity to consult with independent counsel of his own choice concerning this Agreement and has been advised to do so by the Company, and (ii) that he has read and understands the Agreement, is fully aware of its legal effect, and has entered into it freely based on his own judgment. The Executive hereby agrees that his obligations set forth in Sections 7, 8, and 9 hereof and the definitions of Proprietary Information and Inventions contained therein shall be equally applicable to Proprietary Information and Inventions relating to any work performed by the Executive for the Company prior to the execution of this Agreement.

The parties have duly executed this Agreement as of the date first written above.

EXECUTIVE:

Name: _____

COMPANY:

BAIDU.COM, INC.

By: _____

Name:

Title:

EXHIBIT A
LABOR CONTRACT

EXHIBIT B

SUMMARY OF OPTIONS GRANTED TO THE EXECUTED

Option Agreement no.
Option grant date
Number of Options
Exercise Price

EXHIBIT C

TERMINATION CERTIFICATE

This is to certify that I have returned all personal property of Baidu.com, Inc. (the “Company”) and the Relevant Parties, including, without limitation, all source code listings, flowcharts, books, manuals, records, models, drawings, reports, notes, contracts, lists, blueprints, and other documents and materials, electronic data recorded or retrieved by any means, Proprietary Information, and equipment furnished to or prepared by me in the course of or incident to my employment with the Company, and that I did not make or distribute any copies of the foregoing.

I further certify that I have reviewed the Executive Employment Agreement (the “Agreement”) signed by me and that I have complied with and will continue to comply with all of its terms, including, without limitation, (i) the reporting of any Inventions or any improvement, rights, or claims related to the foregoing, conceived or developed by me and covered by the Agreement; (ii) the preservation as confidential of all Proprietary Information pertaining to the Company and the Relevant Parties; (iii) not participating in any business competitive with the business of the Company and (iv) the reporting of any remuneration paid to me due to any employment or self-employment during the severance period, if any. This certificate in no way limits my responsibilities or the Company’s rights under the Agreement.

Date: _____

Print Executive’s Name

Executive’s Signature

EXHIBIT D
LIST OF PRIOR INVENTIONS
AND ORIGINAL WORKS OF AUTHORSHIP

Title

Date

Identifying Number or Brief Description

_____ No inventions or improvements

_____ Additional Sheets Attached

Signature of Executive: _____

Printed Name of Executive:

Date: _____

Domain Names Transfer Agreement

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.
Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Beijing, PRC 100080
Legal Representative: Xu Yong
Contact Persons: Wu Jing Chuan, Liu Ji Ping
Telephone: (010) 82621188, 13801239435, 13809882810

Party B: Li Xing Ping
Address: Xin Bei Town, Mi Zhai She Ling Xia, Xing Ling Municipal, Guangdong Province, PRC 514500
Identification Number: 441425790608387
Telephone: (0753) 3350019

WHEREAS:

1. Party A is a wholly foreign owned enterprise established in accordance with the laws of People's Republic of China;
2. Party B legally owns a series of domain name of the websites of *www.hao123.com*, *www.hao123.net*, *www.hao222.com*, *www.hao222.net* (collectively referred to as "hao123-Home of Web Addresses") and the operation and management rights of "hao123-Home of Web Addresses";

NOW THEREFORE, through friendly consultation and agreement of both Party A and Party B, the parties hereby enter into this Domain Names Transfer Agreement:

1. Party B agrees to transfer "hao123-Home of Web Addresses" to Party A or its designated third party, the subject of the transfer includes: (1) the ownership right of the domain name of the websites of *www.hao123.com*, *www.hao123.net*, *www.hao222.com*, *www.hao222.net* (hereinafter referred to as "Series Domain Names"); (2) the database and all original procedural codes of "hao123-Home of Web Addresses" corresponding to the Series Domain Names; (3) all trademarks and copyrights (if any) relating to "hao123-Home of Web Addresses" and Series Domain Names; (4) all promotional cooperative agreements that Party B entered or executed in the name of "hao123-Home of Web Addresses";
2. Party A or its designated third party agrees to accept the transfer of "hao123-Home of Web Addresses" and agrees to pay a total of RMB 10 million in cash as the transfer fee (after tax). Party A or its designated third party is responsible to withhold and pay in lieu the taxes relating to this transfer fee. The specific manner of handover shall be: both parties execute the Websites Transfer Agreement, Party B transfers to Party A or its designated third party the right of change of Series Domain Names (that is the login user name and password in WHOIS of the American domain name registration organization and the registration message

of the Chinese domain name registration business HiChina (www.net.cn) and the user name and password of DNS service) and the database and all original procedural code of “hao123-Home of Web Addresses”. The transfer date of “hao123-Home of Web Addresses” is the date of handover. After the Series Domain Names are changed to Party A or its designated third party, Party A or its designated third party shall pay a total of RMB 10 million to Party B’s designated account within 24 hours. The date when Party A or its designated third party pays shall be the completion date of the transfer of “hao123- Home of Web Addresses”.

The payment amount and account designated by Party B are as follows:

Bank of China, Guangdong Province, Xingning Municipal Branch, Ning Jiang Distribution Department:

Account No.	Account Holder	Payment Amount	Account No.	Account Holder	Payment Amount
4770804 0188 008948 7	Li Xing Ping	1 million	4770804 0188 008014 5	Li Yu Min	1 million
4770804 0188 008168 0	Huang Xiao Mei	1 million	4770804 0188 009615 7	Li Yan Ling	1 million
4770801 0188 020523 8	Li Xing Ping	1 million	4770804 0188 003096 2	Li Yu Min	1 million

China Construction Bank, Guangdong Province, Xingning Municipal Branch, Savings Desk

Account No.	Account Holder	Payment Amount	Account No.	Account Holder	Payment Amount
320501 01001 10124110	Li Xing Ping	1 million	320501 01001 10170485	Huang Xiao Mei	1 million
320501 01001 10170477	Li Yu Min	1 million	320503 01001 10101023	Li Xing Ping	1 million

- After the relevant websites transfer procedures of “hao123-Home of Web Addresses” are completed, Party A agrees to cause a total of 40,000 ordinary shares of Baidu.com, Inc to be granted to Party B.
- From the transfer date of “hao123-Home of Web Addresses”, Party A or its designated third party shall be responsible for the operation and management of “hao123-Home of Web Addresses.” The proceeds arising out of this shall vest in Party A or its designated third party. Within 12 months after the completion date of the transfer of “hao123-Home of Web Addresses”, Party B agrees to continue to assist Party A in managing and maintenance work of “hao123-Home of Web Addresses”. Party B agrees to use the QQ163 kind of websites it owns to cause new user to set up “hao123-Home of Web Addresses” as the home page by way of pop-up windows in order to continue to increase the number of visits to “hao123-Home of Web Addresses”; if, within 12 months after the completion of the transfer, the daily average of the number of visits of the aforesaid websites is not lower than the daily average of the number of visit of the month of the completion of the transfer, Party A agrees to pay to Party B a lump sum of RMB 1 million in cash of transfer fee (after tax).

5. All promotional cooperation (see Appendix) entered or executed prior to the transfer of “hao123-Home of Web Addresses” shall be fully disclosed to Party A so that Party A or its designated third party can continue to perform. All proceeds acquired out of this shall be vested in Party A or its designated third party. For operational convenience, Party B shall assist to replace the banking account information relating to the aforesaid promotional business with the account number information of Party A or its designated third party. Party B shall guarantee that none of any other agreement relating to “hao123-Home of Web Addresses” is signed with any third party other than the aforesaid agreements; otherwise, it shall constitute a fundamental default.
6. Party A or its designated third party shall not undertake any responsibility, obligation, compensation or loss arises in relation to “hao123-Home of Web Addresses” and Series Domain Names prior to the transfer date. Party B shall fully compensate Party A or its designated third party any loss (if any) as a result of the aforementioned. Party B shall solely undertake all debt disputes, industrial and business tax, technology, intellectual property and other legal disputes prior to the transfer date. If loss is caused to Party A or its designated third party, Party B shall bear its loss.
7. Party B agrees to continue to provide proactive assistance to Party A or its designated third party in order to complete a smooth handover of the Series Domain Names and management. Party B shall assist Party A or its designated third party to administer all governmental approval, consent, permit, record changing formalities in relation to the operation of “hao123-Home of Web Addresses” after the transfer of “hao123-Home of Web Addresses”.
8. Party B undertakes not to individually or cooperate with others to operate or to operate in other manners of participation in websites same as or similar to “hao123-Home of Web Addresses” within 24 months after the execution of this Agreement and not to consult, work or serve other websites same as or similar to “hao123-Home of Web Addresses”; otherwise, it shall constitute a fundamental default.
9. Parties’ confidential agreement: without the written permission of the other party, any party agrees not to disclose to any third party this transfer and any detail information of this transfer.
10. If dispute arises during the performance of this Agreement, it shall be resolved through consultation. If consultation fails, both parties agree to submit such dispute to Beijing City Arbitration Commission for arbitration in accordance with its rules. The arbitration result shall be final and binding upon both parties.
11. This Agreement has four originals; each party holds two originals. It shall be effective from the day this Agreement is signed and sealed by both parties.

12. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the People's Republic of China.

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Representative signature: /s/ Xu Yong

Sealed: August 9, 2004

Date: July 30, 2004

Party B: Li Xing Ping

Signed by: /s/ Li Xing Ping

Sealed: August 4, 2004

Date:

Appendix: All cooperative projects of “hao123-Home of Web Addresses” currently in effect are as follows (except Baidu Search):

1. “hao123-Home of Web Addresses” promotes for eBay;
2. “hao123-Home of Web Addresses” promotes by short message alliance to form TOM;
3. “hao123-Home of Web Addresses” promotes for 263 mailbox;
4. “hao123-Home of Web Addresses” promotes for music.com.tw;
5. “hao123-Home of Web Addresses” promotes for PC Online;
6. “hao123-Home of Web Addresses” promotes for dongdong.com

List of Subsidiaries of Baidu.com, Inc. (the “Registrant”)

Wholly-Owned Subsidiaries

1. Baidu Holdings Limited, a British Virgin Islands company;
2. Baidu Online Network Technology (Beijing) Co., Ltd., a PRC company; and
3. Baidu (China) Co., Ltd., a PRC company.

Affiliated Entity Consolidated in the Registrant’s Financial Statement

1. Beijing Baidu Netcom Science and Technology Co., Ltd., a PRC company

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the reference to our firm under the caption "Experts" and to the use of our report dated April 29, 2005, in the Registration Statement and related Prospectus of Baidu.com, Inc. dated July 12, 2005.

/s/ Ernst & Young _____

Ernst & Young
Hong Kong

July 11, 2005

MAPLES AND CALDER

Our ref: RJT/302152/342293/v1

Your ref

Baidu.com, Inc.
12/F, Ideal International Plaza
No. 58 West-North 4th Ring
Beijing, PRC 100080

Direct: +852 2971 3007
Mobile: +852 9020 8007
E-mail: richard.thorp@maplesandcalder.com

July 12, 2005

Dear Sirs:

We hereby consent to the reference to our firm under the captions "Enforceability of Civil Liabilities," "Taxation" and "Legal Matters" in the prospectus included in the Registration Statement of Baidu.com, Inc. on Form F-1 initially filed on July 12, 2005 with the Securities and Exchange Commission under the Securities Act of 1933, as amended. 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, as amended, or the regulations promulgated thereunder.

Yours faithfully,

/s/ MAPLES and CALDER

MAPLES and CALDER

Maples and Calder
1504 One International Finance Centre
1 Harbour View Street
Hong Kong

Tel: +852 2522 9333
Fax: +852 2537 2955

www.maplesandcalder.com

Resident Hong Kong Partners:

Christine Chang (England and Wales), Spencer Privett (England and Wales), Richard Thorp and (England and Wales), Anne Walker (England and Wales), Anthony Webster (England and Wales)
Cayman Island and British Virgin Islands Attorneys at Law
Offices: BVI, Cayman, Hong Kong, Jersey, London

LATHAM & WATKINS ^{LLP}
 International Law Firm
 瑞生國際律師事務所 (有限責任合夥)

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FIRM / AFFILIATE OFFICES

Boston	New York
Brussels	Northern Virginia
Chicago	Orange County
Frankfurt	Paris
Hamburg	San Diego
Hong Kong	San Francisco
London	Shanghai
Los Angeles	Silicon Valley
Milan	Singapore
Moscow	Tokyo
New Jersey	Washington, D.C.

July 12, 2005

Baidu.com, Inc.
 12/F, Ideal International Plaza
 No. 58 West-North 4th Ring
 Beijing, PRC 100080

Ladies and Gentlemen:

We hereby consent to the use of our name under the caption “Legal Matters” in the prospectus included in the registration statement on Form F-1, originally filed by Baidu.com, Inc. on July 12, 2005 with the Securities and Exchange Commission under the Securities Act of 1933, as amended. 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, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ Latham & Watkins LLP

Latham & Watkins LLP

Resident partners: Joseph A. Bevash (US), Sabrina Y. T. Maguire (US), John A. Otoshi (US), Mitchell D. Stocks (US), David Zhang (US)

通商律師事務所

Commerce & Finance Law Offices

中國北京朝外大街19號華普國際大廈714號 郵編: 100020

電話: 8610-65802255 傳真: 8610-65802538, 65802678, 65802679, 65802203

電子郵件: beijing@tongshang.com 網址: www.tongshang.com.cn

July 12, 2005

Baidu.com, Inc.
12/F, Ideal International Plaza
No. 58 West-North 4th Ring
Beijing, PRC 100080

Ladies and Gentlemen:

We hereby consent to the use of our name under the captions “Enforceability of Civil Liabilities,” “Corporate Structure,” “Regulation” and “Legal Matters” in the prospectus included in the registration statement on Form F-1, originally filed by Baidu.com, Inc. on July 12, 2005 with the Securities and Exchange Commission under the Securities Act of 1933, as amended. 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, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ Commerce & Finance Law Offices

Commerce & Finance Law Offices

[Letterhead of East Associates]

July 12, 2005

Baidu.com, Inc.
12/F, Ideal International Plaza
No. 58 West-North 4th Ring
Beijing, PRC 100080

Ladies and Gentlemen:

We hereby consent to the use of our name under the captions "Risk Factors" and "Legal Matters" in the prospectus included in the registration statement on Form F-1, originally filed by Baidu.com, Inc. on July 12, 2005 with the Securities and Exchange Commission under the Securities Act of 1933, as amended. 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, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ East Associates

East Associates



香港灣仔告士打道106號
大新金融中心15樓1506-10室
Rm 1506-10, 15/F
Dah Sing Financial Centre
106 Gloucester Road
Wanchai, Hong Kong
電話 Tel: (852) 2511 5200
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PRC Offices:
Hong Kong • Beijing • Shanghai • Guangzhou • Shenzhen

July 12, 2005

Baidu.com, Inc.
12/F, No. 58 West Road,
North Fourth Ring, Beijing
P.R.C. 100080

CONSENT OF INDEPENDENT APPRAISER

American Appraisal China Limited (“AAC”) hereby consents to the references to AAC’s name and value conclusions for accounting purposes, with respect to its appraisal reports addressed to the board of Baidu.com, Inc. (the “Company”) dated 7 March, 2005 and 12 July, 2005 respectively, in the Company’s Registration Statement on Form F-1 (together with any amendments thereto, the “Registration Statement”) to be filed with the U.S. Securities and Exchange Commission. AAC also hereby consents to the filing of this letter as an exhibit to the Registration Statement.

AMERICAN APPRAISAL CHINA LIMITED

/s/ Patrick Wu

Patrick Wu
Managing Director

Hong Kong, The PRC
July 12, 2005

American Appraisal China Limited
美國評估有限公司
AUSTRIA CANADA CHINA CZECH REPUBLIC GERMANY GREECE HUNGARY ITALY JAPAN MEXICO
PORTUGAL RUSSIA SPAIN THAILAND UNITED KINGDOM UNITED STATES VENEZUELA

[Letterhead of Shanghai iResearch Co., Ltd.]

July 12, 2005

Baidu.com, Inc.
12/F, Ideal International Plaza
No. 58 West-North 4th Ring
Beijing, PRC 100080

Ladies and Gentlemen:

We hereby consent to the use of our name under the captions “Prospectus Summary” and “Business” in the prospectus included in the registration statement on Form F-1, originally filed by Baidu.com, Inc. on July 12, 2005, with the Securities and Exchange Commission under the Securities Act of 1933, as amended. 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, as amended, or the regulations promulgated thereunder.

Sincerely yours,
/s/ Henry Yang
Henry Yang
CEO
Shanghai iResearch Co., Ltd.

[Letterhead of IDC]

July 12, 2005

Baidu.com, Inc.
12/F, Ideal International Plaza
No. 58 West-North 4th Ring
Beijing, PRC 100080

Ladies and Gentlemen:

We hereby consent to the use of our name under the captions "Prospectus Summary" and "Business" in the prospectus included in the registration statement on Form F-1, originally filed by Baidu.com, Inc. on July 12, 2005, with the Securities and Exchange Commission under the Securities Act of 1933, as amended. 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, as amended, or the regulations promulgated thereunder.

Sincerely yours,

/s/ Avneesh Saxena

Avneesh Saxena
Vice President of Computing Systems Research
IDC Asia/Pacific

Baidu.com, Inc.
12/F, Ideal International Plaza
No. 58 West-North 4th Ring
Beijing 100080, People's Republic of China

Dear Sirs:

We are qualified lawyers of the People's Republic of China ("**PRC**") and are qualified to issue an opinion on the laws and regulations of the PRC.

We have acted as PRC counsel for Baidu.com, Inc. (the "**Company**"), a company incorporated under the laws of the Cayman Islands, in connection with (i) the Company's Registration Statement on Form F-1, including all amendments or supplements thereto (the "**Registration Statement**"), originally filed with Securities and Exchange Commission under the U.S. Securities Act of 1933, as amended, on •, 2005, relating to the offering ("**Offering**") by the Company and certain selling shareholders of the Company a certain number of American Depositary Shares ("**ADSs**"), each of which represents • common shares, par value US\$• per share, of the Company and (ii) the Company's proposed listing of its ADSs on the Nasdaq National Market. We have been requested to give this opinion on, inter alia, the legal ownership structure of Baidu Online Network Technology (Beijing) Co., Ltd. ("**Baidu Online**") and Beijing Baidu Netcom Science and Technology Co., Ltd. ("**Baidu Netcom**"), and together with Baidu Online, the "**PRC Group Companies**"), and the legality and validity of the arrangements under the relevant agreements referenced in Schedule 1 hereto (the "**Restructuring Agreements**") among Baidu Online, Baidu Netcom and shareholders of Baidu Netcom, as applicable.

In so acting, we have examined the originals or copies certified or otherwise identified to our satisfaction, of documents provided to us by the Company and such other documents, corporate records, certificates issued by governmental authorities in the PRC and officers of the Company and other instruments as we have deemed necessary or advisable for the purposes of rendering this opinion, including and without limitation to, copies of the documents set out in Schedule 1.

In our examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity with authentic original documents submitted to us as copies. We have also assumed the documents as they were presented to us up to the date of this legal opinion and that none of the documents has been revoked, amended, varied or supplemented. We have further assumed the accuracy and completeness of all factual statements in the documents. Where important facts were not independently established to us, we have relied upon certificates issued by governmental agents and representatives of the Company with proper authority and upon representations, made in or pursuant to the Agreements.

As used herein, (a) “**PRC Laws**” means all laws, regulations, statutes, orders, decrees, guidelines, notices, judicial interpretations, subsidiary legislations of the PRC (other than the laws of the Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Province); (b) “**Governmental Authorizations**” means all approvals, consents, waivers, sanctions, authorizations, filings, registrations, exemptions, permissions, endorsements, annual inspections, qualifications and licenses; (c) “**Material Adverse Effect**” means a material adverse effect on the condition (financial or other), business, properties or results of operations of the Company and the PRC Group Companies taken as a whole; and (d) “**Governmental Agencies**” means any court or governmental agency or body of any stock exchange authorities; (e) “**Prospectus**” means the prospectus, including all amendments or supplements thereto, that forms part of the Registration Statement.

Based on the foregoing, we are of the opinion that:

(i) Baidu Online has been duly incorporated and is validly existing as a wholly-foreign owned enterprise with limited liability under the PRC Laws and its business license is in full force and effect; Baidu Online has been duly qualified as a foreign invested enterprise; all of the equity interests of Baidu Online are owned by the Baidu Holdings Limited (“**Baidu Holdings**”) and such equity interests are free and clear of all liens, encumbrances, security interest, mortgage, pledge, equities or claims or any third-party right; the articles of association of Baidu Online comply with the requirements of applicable PRC Laws and are in full force and effect; Baidu Online has full power and authority (corporate and other) and all Governmental Authorizations required for the ownership or lease of property by it and the conduct of its business and has the legal right and authority to own, use, lease and operate its assets and to conduct its business in the manner presently conducted and as described in the Prospectus;

(ii) Baidu Netcom has been duly incorporated and is validly existing as a limited liability company under the PRC Laws and its business license is in full force and effect; 75% and 25% of the equity interest of Baidu Netcom are owned by Yanhong Li and Yong Xu (collectively, the “**Controlling Shareholders**”), respectively, to the best of our knowledge after due and reasonable inquiries, except for the Amended and Restated Equity Pledge Agreement among Yanhong Li, Yong Xu and Baidu Online dated March 22, 2005, the Amended and Restated Option Agreement (the “**Option Agreement**”) among Yanhong Li, Yong Xu, Baidu Online and Baidu Netcom dated March 22, 2005, the Amended and Restated Loan Agreement among Yanhong Li, Yong Xu and Baidu Online dated March 22, 2005 and the Power of Attorney respectively issued by Yanhong Li and Yong Xu and Baidu Online dated March 22, 2005, such equity interests are free and clear of all liens, encumbrances, security interest, mortgage, pledge, equities or claims or any third-party right; each of the Controlling Shareholders is

a PRC citizen; all of the registered capital of Baidu Netcom has been fully paid; Baidu Netcom has full power and authority (corporate and other) and, except as disclosed in the Prospectus, has all Governmental Authorizations required for the ownership or lease of property by Baidu Netcom and the conduct of its business and has the legal right and authority to own, use, lease and operate its assets and to conduct its business in the manner presently conducted and as described in the Prospectus;

(iii) Neither Baidu Online nor Baidu Netcom owns any real property; and all real property and buildings held under lease by Baidu Online or Baidu Netcom are held by them under valid, subsisting and enforceable leases;

(iv) The ownership structure of Baidu Online and Baidu Netcom as set forth in the Prospectus under the caption "Corporate Structure", complies with, and immediately after the Offering, will comply with current PRC Laws;

(v) Baidu Online has the corporate power to enter into and perform its obligations under each of the Restructuring Agreements to which it is a party and has taken all necessary corporate action to authorize the execution, delivery and performance of, and has authorized, executed and delivered, each of the Restructuring Agreements to which it is a party; and each of the Restructuring Agreements to which Baidu Online is a party constitutes a valid and legally binding obligation of Baidu Online, enforceable in accordance with its terms, subject, as to enforceability, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(vi) Baidu Netcom has the corporate power to enter into and perform its obligations under each of the Restructuring Agreements to which it is a party and has taken all necessary corporate action to authorize the execution, delivery and performance of, and has authorized, executed and delivered, each of the Restructuring Agreements to which it is a party; and each of the Restructuring Agreements to which Baidu Netcom is a party constitutes a valid and legally binding obligation of Baidu Netcom, enforceable in accordance with its terms, subject, as to enforceability, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(vii) Each of the Controlling Shareholders has executed and delivered each of the Restructuring Agreements to which he is a party; and each of the Restructuring Agreements to which each of the Controlling Shareholders is a party constitutes a valid and legally binding obligation of each of the Controlling Shareholders, enforceable in accordance with its terms, subject, as to enforceability, to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles;

(viii) The execution and delivery by Baidu Online of, and the performance by Baidu Online of its obligations under, each of the Restructuring Agreements to which it is a party and the consummation by Baidu Online of the transactions contemplated therein will not: (A) to the best of our knowledge after due and reasonable inquiries, conflict with or result in a breach or violation of any terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument governed by the PRC Laws to which Baidu Online is a party or by which Baidu Online is bound or to which any of the properties or assets of Baidu Online is bound or to which any of the properties or assets of Baidu Online is subject, except for such conflict, breach, violation or default would not have a Material Adverse Effect; (B) result in any violation of the provisions of the articles of association, business license of Baidu Online; (C) result in any violation of any of the PRC Laws; or (D) as to the Company and Baidu Holdings, conflict with or result in a breach or violation of any of the terms or provisions of any agreement known to us and governed by PRC Laws to which they are expressed to be a party or which is binding on them or any of their assets;

(ix) The execution and delivery by Baidu Netcom of, and the performance by Baidu Netcom of its obligations under, each of the Restructuring Agreements to which it is a party and the consummation by Baidu Netcom of the transactions contemplated therein will not: (A) to the best of our knowledge after due and reasonable inquiries, conflict with or result in a breach or violation of any terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument and governed by the the PRC Laws to which Baidu Netcom is a party or by which Baidu Netcom is bound or to which any of the properties or assets of Baidu Netcom is bound or to which any of the properties or assets of Baidu Online is subject, except for such conflict, breach, violation or default would not have a Material Adverse Effect; (B) result in any violation of the provisions of the articles of association, or business license of Baidu Netcom; (C) result in any violation of any of the PRC Laws; or (D) as to the Company and Baidu Holdings, conflict with or result in a breach or violation of any of the terms or provisions of any agreement known to us and governed by PRC Laws to which they are expressed to be a party or which is binding on them or any of their assets;

(x) The execution and delivery by each of the Controlling Shareholders of, and the performance by each of the Controlling Shareholders of his obligations under the Restructuring Agreements to which each of the Controlling Shareholders is a party and the consummation by each of the Controlling Shareholders of the transactions contemplated therein will not result in any violation of any of the PRC Laws;

(xi) Each Restructuring Agreement is, and all the Restructuring Agreements taken as a whole are, legal, valid, enforceable and admissible as evidence under PRC Laws and is binding on the persons expressed to the parties thereto;

(xii) Each of the Restructuring Agreements is in proper legal form under the PRC Laws for the enforcement thereof against each of Baidu Online, Baidu Netcom and the Controlling Shareholders, as the case may be, in the PRC without further action by any of Baidu Online or Baidu Netcom or the Controlling Shareholders; and to ensure the legality, validity, enforceability or admissibility in evidence of each of the Restructuring Agreements in the PRC, all required filings and recordings in respect of the Restructuring Agreements with any Government Agency have been performed, and it is not necessary that any stamp or similar tax be paid on or in respect of any of the Restructuring Agreements;

(xiii) Except as described in the Prospectus, each of Baidu Online and Baidu Netcom has all necessary Governmental Authorizations of and from, and has made all declarations and filings with, all governmental agencies to own, lease, license and use its properties, assets and conduct its business in the manner described in the Prospectus and such Governmental Authorizations contain no materially burdensome restrictions or conditions not described in the Prospectus other than the annual inspection conducted by relevant government authorities; To the best of our knowledge, except as described in the Prospectus, neither Baidu Online nor Baidu Netcom has any reason to believe that any regulatory body is considering modifying, suspending or revoking any such Governmental Authorizations and each of Baidu Online and Baidu Netcom is in compliance with the provisions of all such Governmental Authorizations in all material respects; notwithstanding the forgoing, the Company's individual shareholders who are qualified PRC residents shall comply with foreign investment registration requirements under the relevant laws and regulations;

(xiv) Subject to the Company's individual shareholders who are qualified PRC residents complying with foreign investment registration requirements under the relevant laws and regulations, all dividends and other distributions declared and payable upon the equity interests in Baidu Online may under the current PRC Laws be paid to the Baidu Holdings in Renminbi that may be converted into U.S. dollars and freely transferred out of the PRC, and all such dividends and other distributions are not and, except as disclosed in the Prospectus, will not be subject to withholding or other taxes under the PRC Laws and, except as disclosed in the Prospectus, are otherwise free and clear of any other tax, withholding or deduction in the PRC, and without the necessity of obtaining any Governmental Authorization in the PRC;

(xv) The provision by Baidu Netcom of the links to websites (excluding the offshore news websites) that disseminate news over the Internet currently does not constitute the displaying news on the website or disseminating the news over the Internet which are governed by the *Provisional Measures for Administrating Internet Websites Carrying on the News Displaying Business (2000)*, and does not require any Governmental Authorization in the PRC;

(xvi) Baidu Online's Pay-for-Performance ("P4P") service, as described in the Prospectus, is not classified as a form of advertising under the PRC Laws, and no Governmental Authorization is required for the Baidu Online to operate its P4P business;

(xvii) None of the Baidu Online or Baidu Netcom is entitled to any immunity from any legal proceedings or other legal process or from enforcement, execution or attachment in respect of their obligations in the transactions contemplated under any of the Restructuring Agreements;

(xviii) The statements in the Prospectus under "Regulation" to the extent such statements relate to matters of PRC Laws, are true and accurate in all material respects, and nothing material has been omitted from such statements which would make the same misleading in any material respect;

(xix) No registration or filings are currently required, and all recordings have been fulfilled, in order for each pledgee under each of the applicable Share Pledge Agreements to enjoy the first preemptive rights against any other secured or unsecured creditors of each pledgor under each applicable Share Pledge Agreement; no Governmental Authorizations are currently required in the PRC for the equity to be effectively pledged pursuant to each of the applicable Share Pledge Agreements;

(xx) The obligations undertaken by and the rights granted by each party to any of the Restructuring Agreements are legally permissible under PRC Laws;

(xxi) Each of the Restructuring Agreements does not (A) contravene any provision of applicable PRC Laws, (B) contravene the articles of association, business license or other constituent documents of Baidu Online or Baidu Netcom or (C) to the best of our knowledge after due and reasonable inquiries, conflict with or result in a breach or violation of any terms or provisions of, or constitute a default under, any material license, indenture, mortgage, deed of trust, loan agreement, note, lease or other agreement or instrument known to us and governed by PRC Laws to which Baidu Online or Baidu Netcom is a party or by which Baidu Online or Baidu Netcom is bound or to which any of their properties or assets is subject, except for such conflict, breach, violation or default would not have a Material Adverse Effect;

(xxii) No Governmental Authorizations are required to be obtained for the performance by Baidu Online and Baidu Netcom of their obligations and the transactions contemplated under the Restructuring Agreements other than those already obtained; provided, however, any exercise by Baidu Online of its rights under the Option Agreement, will be subject to: (a) the approval of and/or

registration with the Government Agencies in the PRC for the resulting equity transfer; and (b) the exercise price for equity transfer under the Restructuring Agreements must comply with relevant PRC Laws, including the requirement that the exercise price for such equity transfer to reflect the appraised value at the time of exercise, as determined by an appraiser qualified to perform such appraisals.

This opinion relates to the PRC Laws in effect on the date hereof.

We hereby consent to the use of this opinion in, and the filing hereof as an exhibit to, the above-mentioned Registration Statement and to the reference to our firm's name under the sections of the Prospectus entitled "Enforceability of Civil Liabilities", "Corporate Structure" "Regulation", and "Legal Matters" included in the Registration Statement. In giving such consent, we do not thereby admit that we fall within the category of the person whose consent is required under Section 7 of the U.S. Securities Act of 1933, as amended, or the regulations promulgated thereunder.

Schedule 1 Restructuring Agreements

1. Amended and Restated Loan Agreement dated March 22, 2005 by and among Baidu Online, Yanhong Li and Yong Xu;
2. Amended and Restated Option Agreement dated March 22, 2005 by and among Baidu Online, Baidu Netcom, Yanhong Li and Yong Xu;
3. Exclusive Technical and Consulting Services Agreement dated March 22, 2005 by and between Baidu Online and Baidu Netcom;
4. Amended and Restated Equity Pledge Agreement dated March 22, 2005 between Baidu Online, Yanhong Li and Yong Xu;
5. Business Operating agreement dated March 22, 2005 by and among Baidu Online, Baidu Netcom, Yanhong Li and Yong Xu;
6. Agreement on Exercising Shareholders' Voting Rights by Proxy dated March 1, 2004 by and among Yanhong Li, Yong Xu, Baidu Netcom and Baidu Online;
7. Power of Attorney dated March 22, 2005 issued by Yanhong Li;
8. Power of Attorney dated March 22, 2005 issued by Yong Xu ;
9. Commitment Letter dated March 22, 2005 issued by Zhansheng Wang;
10. Commitment Letter dated March 22, 2005 issued by Hongbo Zhu;
11. Business Cooperation Agreement dated March 22, 2005 by and between Baidu Online and Baidu Netcom;
12. Software License Agreement dated March 22, 2005 by and between Baidu Online and the Baidu Netcom;
13. Domain Name License Agreement by and between Baidu Online and Baidu Netcom dated March 1, 2004 and a Notice dated on April 27, 2004 and its Supplementary Agreement dated August 9, 2004;
14. Trademark License Agreement by and between between Baidu Online and Baidu Netcom dated March 1, 2004 and its Supplementary Agreement dated August 9, 2004;
15. Web Layout Copyright License Agreement by and between Baidu Online and Baidu Netcom dated March 1, 2004 and its Supplementary Agreement dated August 9, 2004.

EXCLUSIVE TECHNOLOGY CONSULTING SERVICES AGREEMENT

This Exclusive Technology Consulting Services Agreement (hereinafter referred to as "this Agreement") is entered into in Beijing on March 22, 2005 between the following two parties:

Party A: **Baidu Online Network Technology (Beijing) Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

Party B: **Beijing Baidu Netcom Science and Technology Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

WHEREAS:

- (1) Party A is a wholly foreign-owned enterprise duly incorporated under the People's Republic of China (the "PRC") law, which has the technology expertise and the practical experience on the development and design of computer software, and rich experience and professional technicians on information technology and services;
- (2) Party B is a limited liability company duly incorporated in Beijing, which is licensed by Beijing Communication Administration to carry on the value-added communication business such as Internet information services and is licensed by Beijing Administration for Industry and Commerce to carry on the network advertising business;
- (3) Since June 2005, Party A has been providing exclusive technology consulting services and relevant services to Party B and Party B agrees to accept such technology consulting the services. Both Parties wish to continue the cooperation and sign the written agreement to stipulate their own rights and obligation.

NOW THEREFORE, both Parties through mutual negotiation agree as follows:

1. Exclusive Technology Consulting and Services; Sole and Exclusive Interests

- 1.1 During the term of this Agreement, Party A agrees to, as the exclusive technology consulting and services provider of Party B, provide the exclusive technology consulting and services to Party B (the content of services is specified in Appendix 1).

1.2 Party B agrees to accept the exclusive technology consulting and services provided by Party A and further agrees that, during the term of this Agreement, it shall not accept such technology consulting and services for the aforesaid business provided by any third party without the prior written consent of Party A.

2. Calculation, Payment and Guarantee of the Fees for Technology Consulting and Services (the "Fee")

2.1 Both parties agree to calculate and pay the Fee under this Agreement in accordance with the methods listed on Appendix 2 hereof.

2.2 Party B's shareholder shall pledge the equity interests of Party B to Party A for securing the Fee that should be paid by Party B pursuant to this Agreement.

3. Intellectual Property

3.1 Party A shall be the sole owner of the copyrights of the software designed by Party A and other relevant softwares, any intellectual property obtained through the research and development by Party A and any derivative rights arising from the performance of this Agreement or any other agreement reached by both parties, including but not limited to, the patent application right, copyright of the software, technical documents and materials, or other intellectual property rights and the right to license or transfer such intellectual properties, etc.

3.2 During the execution of this Agreement, if Party B needs to use Party A's software program or system, both parties shall sign a separate agreement on the scope, method and fee of such license.

4. Representations and Warranties

4.1 Party A hereby represents and warrants as follows:

4.1.1 Party A is a wholly foreign-owned enterprise duly incorporated and validly existing under the PRC law;

4.1.2 Party A, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the necessary consents or approvals from other third party or governments, without violating the restriction of the laws and company which binds or influences Party A to execute and perform this Agreement;

4.1.3 The Agreement will constitute a legal, valid and binding agreement of Party A and will be enforceable against Party A in accordance with its terms upon its execution.

- 4.2 Party B hereby represents and warrants as follows:
- 4.2.1 Party B is a limited liability company duly incorporated and validly existing under the PRC law, which is licensed by Beijing Communication Administration to carry on the value-added communication business including Internet information services and is licensed by Beijing Administration for Industry and Commerce to carry on network advertising business;
 - 4.2.2 Party B, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the necessary consents or approvals) from other third party or governments, without violating the restriction of the laws and company which binds or influences Party A to execute and perform this Agreement;
 - 4.2.3 The Agreement will constitute a legal, valid and binding agreement of Party B and will be enforceable against Party B in accordance with its terms upon its execution.

5. Confidentiality

- 5.1 Party B agrees to take all reasonable manners to protect and maintain the confidentiality of the confidential data and information acknowledged or received by Party B through accepting the exclusive consulting and services from Party A (collectively the "Confidential Information"). Party B shall not disclose, give or transfer any Confidential Information to any third party without Party A's prior written consent. Upon termination of this Agreement, Party B shall, at Party A's request, return all and any documents, information or software contained any of such Confidential Information to Party A or destroy it at its own discretion, and delete all of such Confidential Information from any memory devices, and cease to use such Confidential Information.
- 5.2 Both parties acknowledge and confirm that any oral or written materials exchanged pursuant to this Agreement are confidential documents. Both parties shall keep secrets of all such documents and not disclose any such documents to any third party without prior written consent from the other party unless under the following conditions: (a) such documents are known or shall be known by the public (excluding the receiving party discloses such documents to the public without authorization); (b) any documents disclosed in accordance with applicable laws or rules or regulations of stock exchange; (c) any documents need required to be disclosed by any party to its legal counsel or financial consultant for the purpose of the transaction of this Agreement by any Party, and such legal counsel or financial consultant shall also comply with the confidentiality as stated hereof. Any disclosure by employees or agencies employed of any party shall be deemed as the disclosure of such party and such party shall assume the liabilities for its breach of contract pursuant to this Agreement.

5.3 Both parties agree that Article 5 shall survive whatever this Agreement is void, amended, cancelled, terminated or unable to perform.

6. Indemnity

Party B shall indemnify and hold harmless Party A on a full indemnity basis against any loss, damage, liability, and fee arising from any litigation, claims or other legal procedures against Party A, which is caused by the content of consulting and service required by Party B.

7. Effective Date and Term

7.1 This Agreement shall be signed as of the date first set forth above and it shall take into effect as of July 1, 2004.

7.2 The term of this Agreement is ten (10) years unless early terminated as set forth herein or in accordance with the terms set forth in other agreements entered into by both Parties.

7.3 This Agreement may be extended with the written consent of both parties at its expiration, and the extended term shall be determined by both parties through the manner of negotiation. If both parties have not reached any agreement on such extension, this Agreement shall be extended for one (1) year automatically at its expiration (including any expiration of extended term) unless Party A informs of the termination of this Agreement with the written notice before the expiration.

7.4 During the terms set forth in Article 7.2 and 7.3 hereof, if any party is terminated at the expiration of operation term (including any extension of such term) or by any other reason, this Agreement shall be terminated upon such termination of the party, unless such party has already assigned its rights and obligations in accordance with Article 13 hereof.

8. Termination

8.1 Termination on Expiration

This Agreement shall expire on the date due unless this Agreement is extended in accordance with relevant provisions hereof.

8.2 Early Termination

During the term of this Agreement, Party B shall not terminate this Agreement unless Party A engages in any gross negligence, fraud, other illegal acts or is confronted with the bankruptcy. Notwithstanding the aforesaid provisions, Party A may terminate this Agreement at any time with a written notice to Party B within thirty (30) days in advance. During the term of this Agreement, if Party B breaches the contract and has not rectified its breach within fourteen (14) days upon receipt of Party A's written notice for such breach, Party A shall inform Party B with a written notice to terminate this Agreement.

8.3 Survival.

The rights and obligations to both Parties under Article 5, 10 and 12 shall continue to be effective upon the termination of this Agreement.

9. Governing Law

This Agreement shall be governed by, construed and enforced in accordance with the PRC laws.

10. Settlement of Disputes

The parties shall strive to settle any dispute arising from the interpretation or performance in connection with this Agreement through friendly consultation. In case no settlement can be reached through consultation within thirty (30) days after such dispute is raised, each party can submit such matter to China International Economic and Trade Arbitration Commission (the "CIETAC") in accordance with its rules. The arbitration shall take place in Beijing and the proceedings shall be conducted in Chinese. The arbitration award shall be final conclusive and binding upon both parties.

11. Force Majeure

11.1 Force Majeure, which includes but not limited to acts of governments, acts of nature, fire, explosion, typhoon, flood, earthquake, tide, lightning or war, means any event that is beyond the party's reasonable control and cannot be prevented with reasonable care of the affected party. However, any shortage of credit, capital or finance shall not be regarded as an event beyond the party's reasonable control. The party affected by Force Majeure and seeks for the exemption from performing the obligations under this Agreement shall inform the other party of such exemption and any action taken by it for performing this Agreement.

11.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party will not be responsible for any damage by reason of such a failure or delay of performance. The affected party shall take appropriate manners to minimize or remove the effects of Force Majeure and attempt to resume the performance of the obligations delayed or prevented by the event of Force Majeure. Once the event of Force Majeure is removed, both parties agree to resume the performance of this Agreement with their best efforts.

12. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in English and Chinese and delivered personally

or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of relevant each party or both parties set forth below or other address of the party or of the other addressees specified by such party from time to time. The date when the notice is deemed to be duly served shall be determined as the follows: (a) a notice delivered personally is deemed duly served upon the delivery; (b) a notice sent by mail is deemed duly served the tenth (10th) day after the date when the air registered mail with postage prepaid has been sent out (as is shown on the postmark), or the fourth (4th) day after the delivery date to the internationally recognized courier service agency; and (c) a notice sent by facsimile transmission is deemed duly served upon the receipt time as is shown on the transmission confirmation of relevant documents.

Party A: **Baidu Online Network Technology (Beijing) Co., Ltd.**
Address: 12/F, ideal Intl. Plaza, No. 58 West-North 4th Ring, Beijing PRC, 100080
Attn: Wang Zhansheng
Fax: [8610-82607009]
Tel: [8610-82621188]

Party B: **Beijing Baidu Netcom Science and Technology Co., Ltd.**
Address: 12/F, ideal Intl. Plaza, No. 58 West-North 4th Ring, Beijing PRC, 100080
Attn: Li Yanhong
Fax: [8610-82607008]
Tel: [8610-82621188]

13. Assignment

- 13.1 Party B shall not assign its rights or obligations under this Agreement to any third party without the prior written consent of Party A.
- 13.2 Party B hereby agrees that Party A may assign its rights and obligations under this Agreement as its needs and such transfer shall only be subject to a written notice sent to Party B by Party A, and no any further consent from Party B will be required.

14. Entire Agreement

Notwithstanding Article 7.1 hereof, both parties confirm that this Agreement shall constitute the entire agreement of both Parties with respect to the subject matters therein and supersedes and replaces all prior or contemporaneous verbal and written agreements and understandings.

15. Severability

If any clause hereof is judged as invalid or non-enforceable according to relevant laws, such clause shall be deemed invalid only within the applicable area of the Laws and without affecting other clauses hereof in any way.

16. Amendment and Supplement

Any amendment and supplement of this Agreement shall be made in writing by both Parties. The amendment and supplement duly executed by both Parties shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.

17. Copies

This Agreement is executed in duplicate, each party holds one and each original has the same legal effect.

IN WITNESS THEREOF both parties hereto have caused this Agreement to be duly executed by their legal representatives and duly authorized representatives on their behalf as of the date first set forth above.

[No Text Below]

[Signature Page]

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal or Authorized Representative: /s/ Shawn Wang

Seal:

Party B: Beijing Baidu Netcom Science and Technology Co., Ltd.

Legal or Authorized Representative: /s/ Yanhong Li

Seal:

Appendix 1: The Content list of Technical Consulting and Services

- (1) To provide series of services to maintain the server and manage the network platform;
- (2) To develop and update the internet applications of the server, and its application to www.baidu.com (relevant domain names including baidu.com.cn, baidu.cn, baidu.com and shifen.com), the website hao123 (including www.hao123.com, www.hao123.net, www.hao222.com, and www.hao222.net) and other websites owned or operated by Party B;
- (3) To develop and update the application software of the internet users;
- (4) To provide technical services of electronic commerce, including but not limited to the design and maintenance of the electronic commerce platform;
- (5) To provide technical services of advertising design plan, software design, website programming etc, and administrative and consulting advices to Party B in connection with the advertising operation of Party B;
- (6) To provide the training of technology and technicians;
- (7) To support Party B's needs for personnel, including but not limited to the secondment of Party A's personnel to Party B (but Party B shall bear the cost and expenses of the personnel);
- (8) Other services recognized by both parties.

Appendix 2: Calculation and Payment of the Fee for Technical Consulting and Services

I. Calculation Method

Monthly Fee = Standard Monthly Fee of pageview per thousand times × pageview times of that month / 1000

Standard Monthly Fee of pageview per thousand times = Basic Fee of advertisement per thousand times × pageview times of that month / the minimum pageview times per day × actual days of that month

From July 1, 2004 to March 31, March, Standard Monthly Fee of pageview per thousand times is RMB 0.5. From April 2005 on the Standard Monthly Fee of pageview per thousand times is RMB 0.9 and the Standard Quarterly Fee shall be determined according to the circumstance of such quarter.

II. Payment Method

1. Party A shall adjust the above mentioned minimum pageview times per day in accordance with Party B's operation condition every month, and adjust the Monthly Fee accordingly. Party B is obligated to provide respective data and materials on Party A's demand at any time and Party A has the right to examine or check with such data and materials at any time.
2. Party B shall pay the Fee of last month to the account designated by Party A before the seventh (7th) day (extended accordingly in case of legal holiday or weekend) of each month.
3. As for each transaction on the electronic commerce platform of Party B, Party B shall pay a service fee for electronic commerce to Party A that shall be determined by both parties in accordance with Party A's service content and the market condition.

BUSINESS COOPERATION AGREEMENT

This Business Cooperation Agreement (the "Agreement") is entered into as of March 22, 2005 between the following two parties in Beijing:

Party A: **Baidu Online Network Technology (Beijing)Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

Party B: **Beijing Baidu Netcom Science and Technology Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

WHEREAS:

- (1) Party A, a wholly foreign-owned enterprise incorporated under the laws of the People's Republic of China (the "PRC"), which has rich experience and professionals in computer software design, development and information technology and service, and also has certain clients resources;
- (2) Party B, a liability limited company duly incorporated in Beijing, is licensed by Beijing Municipal Telecommunication Management Bureau to carry on the value added telecom business such as the Internet Information Service, etc (license number: Jing ICP Zheng 030173); the websites which under its operation are www.baidu.com (the relevant linked domain names include baidu.com.cn, baidu.cn, baidu.com and shifen.com, collectively, the "Baidu websites") and www.hao123.com, www.hao123.net, www.hao222.com, www.hao222.net (collectively, the "hao123 websites"); and Party B is licensed by Beijing Municipal Administration of Industry and Commerce to carry on the network advertising business (license number: Jing Hai Gong Shang Guang Zi Di 0397 Hao);
- (3) Party A and Party B has cooperated closely, engaged in the development of network resources and make efforts to provide the most excellent search engine service to their clients from the establishment of Party B and the Parties has formed the relationship of advantage complement and long term friendly cooperation. Both Parties wish to maintain the cooperating relationship and agree to confirm this cooperating relationship in the form of written agreement.

NOW THEREFORE, Party A and Party B hereby reach to the following agreement with friendly consultation in the principle of equality and voluntaries:

1. Rights and Obligations

- 1.1 Party A agrees to use the Internet Information Services (including, but not limited to Internet information release, Internet information search), Internet advertising and other relevant services provided by Party B that are necessary (including, but not limited to, the services provided by Party A to its clients) to operate Party A's businesses (including but not limited to

- the Internet technology services, Baidu P4P services, etc.); Party B agrees to use the search engine technology services provided by Party A on Party B's Baidu websites and hao123 websites, and provide the aforesaid Internet Information Service and relevant services (including, but not limited to, releasing results of P4P services provided by Party A on Baidu websites operated by Party B).
- 1.2 Party A authorizes Party B to use the "Baidu Chinese Search Engine", "Baidu Wang Shi Tong" and "Baidu Network Payment for Performance System" software system which are owned by Party A at the Baidu websites and hao123 websites. The license scope, license method and license fees shall be stipulated by two Parties separately.

2. Terms of Payment

- 2.1 As the consideration to the Internet Information Service and relevant services provided by Party B, Party A agrees to pay Party B the fees for the information and relevant services, the detailed standard of the service fees shall be implemented in accordance with Appendix 1 which may be adjusted in accordance with the actual circumstances by two Parties.
- 2.2 Both Parties hereby confirmed that Party A has paid off all the service fees by various manners, such as assuming the operation costs, etc, for the Information Service and relevant services which provided by Party B to Party A before the execution of this Agreement.

3. Representations and Warranties

- 3.1 Party A represents and warrants as follows:
- 3.1.1 Party A is a wholly foreign-owned enterprise duly incorporated and validly existing under the laws of the PRC;
- 3.1.2 Party A, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the necessary consents or approvals) from other third party or governments, without violating the restriction of the laws and company which binds or influences Party A to execute and perform this Agreement;
- 3.1.3 The Agreement will constitute a legal, valid and binding agreement of Party A and will be enforceable against Party A in accordance with its terms upon its execution.
- 3.2 Party B represents and warrants as follows:
- 3.2.1 Party B is a company duly incorporated and validly existing under the laws of the PRC and is licensed by Beijing Municipal Telecommunication Management Bureau to engage in the business of the Internet Information Service;

- 3.2.2 Party B, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the necessary consents or approvals from other third party or governments, without violating the restriction of the laws and company, which binds or influences Party B to execute and perform this Agreement;
- 3.2.3 The Agreement will constitute a legal, valid and binding agreement of Party B will be enforceable against Party B in accordance with its terms upon its execution.

4. Effective Date and Term

- 4.1 This Agreement has been duly executed as of the date first set forth above and shall be effective simultaneously.
- 4.2 The term of this Agreement is ten (10) years unless earlier terminated in accordance with this Agreement or other terms of the relevant agreements stipulated by two Parties separately. However, if any Party is terminated at the expiration of its operating period or with other causes, this Agreement shall be terminated simultaneously, except that this Party has assigned its rights and obligations in accordance with Article 9 of this Agreement.
- 4.3 This Agreement may be extended with the written consent of Party A before the expiration of this Agreement. The term of extension shall be decided unanimously by the negotiation of both Parties.

5. Confidentiality

Both Parties acknowledge and confirm that any oral or written materials communicated in connection with this Agreement are confidential documents. Both Parties shall keep the secrets of all such documents and not disclose any such documents to any third party without prior written consent from the other party unless it is under the following conditions: (a) such documents are known or shall be known by the public (excluding the receiving party discloses such documents to the public without authorization); (b) any document disclosed in accordance with applicable laws or rules or regulations of stock exchange; or (c) any documents required to be disclosed by any party to its legal counsel or financial consultant for the purpose of the transaction pursuant to this Agreement, and such legal counsel or financial consultant shall also comply with the confidentiality as stated hereof. Any disclosure by employees or agencies employed by each party shall be deemed as the disclosure of such party and such party shall assume the liabilities for its breach of contract in accordance with this Agreement. This Article shall survive whatever this Agreement is void, amended, cancelled, terminated or unable to perform.

6. Force Majeure

- 6.1 Force Majeure, which includes acts of governments, acts of nature, fire,

explosion, typhoon, flood, earthquake, tide, lightning, war, means any event that is beyond the party's reasonable control and cannot be prevented with reasonable care. However, any shortage of credit, capital or finance shall not be regarded as an event beyond the party's reasonable control. The party who is affected by Force Majeure and seeks for the exemption from performing the obligations under this Agreement or any term hereof shall inform the other party of such exemption as soon as possible and any action taken by it for performing this Agreement.

- 6.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party may not be responsible for any liability. The affected party shall take appropriate manners to minimize or remove the effects of Force Majeure and attempt to resume the performance of the obligations delayed or prevented by the event of Force Majeure. Once the event of Force Majeure is removed, both parties agree to resume the performance of this Agreement with their best efforts.

7. Settlement of Disputes

- 7.1 This Agreement shall be governed and interpreted in accordance with the laws of PRC.
- 7.2 Both Parties shall strive to settle any dispute arising from the interpretation or performance of this Agreement through friendly consultation. In case no settlement can be reached, each party can submit such matter to China International Economic and Trade Arbitration Commission (the "CIETAC") in accordance with its rules. The arbitration proceedings shall take place in Beijing and shall be conducted in Chinese. The arbitration award shall be final and conclusive and binding upon the Parties.

8. Notices

Notices or other communications required to be given by any Party pursuant to this Agreement shall be written in English and Chinese and delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of the relevant Party or both Parties set forth below.

Party A: **Baidu Online Network Technology (Beijing)Co., Ltd.**
Legal Address: 12 Floor, LiXiang International Building, 58 West Road of North fourth Circle, Haidian District, Beijing
Fax: [8610-82607009]
Phone: [8610-82621188]

Party B: **Beijing Baidu Netcom Science and Technology Co., Ltd.**
Legal Address: 12 Floor, LiXiang International Building, 58 West Road of North fourth Circle, Haidian District, Beijing
Fax: [8610-82607008]
Phone: [8610-82621188]

9. Assignment

Party B shall not transfer its rights and obligations under this agreement to other third parties without the prior written consent of Party A; Party B hereby agrees that Party A shall be able to transfer all or any of its rights and obligation under this Agreement to any third party as its needs, and such transfer shall only be subject to a written notice sent to Party B by Party A, and no any further consent from Party B will be required.

10. Amendment and Supplement

Any amendment and supplement of this Agreement must be made in writing and signed by both Parties. The amendment and supplement duly executed by both parties shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.

11. Severability

If any clause of this Agreement is judged as invalid or non-enforceable according to relevant PRC Laws, such clause shall be deemed invalid only within the applicable area of the PRC Laws, and without affecting other clauses hereof in any way.

12. Entire Agreement

This Agreement constitutes the entire agreement of both Parties with respect to the subject matters therein and supersedes and replaces all prior or contemporaneous verbal and written agreements and understandings.

13. Copies

This Agreement is executed in Chinese. The original of this Agreement is in duplicate. Each Party holds one and all the original copies are equally valid..

IN WITNESS THEREOF both parties hereto have caused this Agreement to be duly executed by their legal representatives and duly authorized representatives as of the date first set forth above.

[No Text Below]

[Signature Page]

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal Representative/Authorized Representative: /s/ Shawn Wang

Seal:

Party B: Beijing Baidu Netcom Science and Technology Co., Ltd.

Legal Representative/Authorized Representative: /s/ Yanhong Li

Seal:

Appendix 1 Standard of Service Fees

Party A shall pay RMB10,000 per month to Party B as the fee of information service and relevant services. Party B has the right to determine whether or not to exempt the fees of information service and relevant services.

Operating Agreement

This Operating Agreement (hereinafter referred to as "this Agreement") is entered into among the following parties in Beijing as of March 22, 2005:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

Party B: Beijing Baidu Netcom Science and Technology Co., Ltd.

Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

Party C: Li Yanhong

ID No. 110108196811171874

Party D: Xu Yong

ID No. 110108196408161836

WHEREAS:

1. Party A is a wholly foreign-owned enterprise duly incorporated and validly existing under the People's Republic of China (the "PRC") law, which has the technology expertise and the practical experience on the development and design of computer software, and rich experience and professional technicians on information technology and services;
2. Party B is a limited liability company duly incorporated and validly existing under the PRC law, which is licensed by Beijing Communication Administration to carry on the value-added communication business including Internet information services and is licensed by Beijing Administration for Industry and Commerce to carry on network advertising business;
3. Party C and Party D are shareholders of Party B, in which Party C owns 75% and Party D owns 25% equity interests of Party B;
4. Party A has established a business relationship with Party B by entering into the amended and restated "Exclusive Technology Consulting Services Agreement" (hereinafter referred to as the "Services Agreement"), "Business Cooperation Agreement", Software License Agreement, Web Layout Copyright License Agreement", "Trademark License Agreement" and "Domain Name License Agreement";
5. Pursuant to the above-mentioned agreements between Party A and Party B, Party B shall pay a certain amount of money to Party A. However, the relevant payable account has not been paid yet and the daily operation of Party B will have a material effect on its capacity to pay such payable account to Party A;

6. Party A and Party B entered into the "Agreement" as of April 18, 2004 and the "Supplementary Agreement on Operation Cost" as of August 9, 2004 (collectively "Agreement on Operation Cost"), in which Party A shall carry the operation cost raised from operating www.baidu.com (relevant domain names including baidu.com.cn, baidu.cn, baidu.com and shifen.com, all hereinafter referred to as the "baidu" collectively), and www.hao123.com, www.hao123.net, www.hao222.com, and www.hao222.net (hereinafter referred to as the "hao123" collectively) by Party B;
7. Party A, Party B hereby agree to amend the Agreement on Operation Cost and further clarify the matters in connection with Party B's operation pursuant to provisions herein.

NOW THEREFORE, all parties of this Agreement hereby agree as follows through mutual negotiations:

1. Party A agrees, subject to the satisfaction of the relevant provisions by Party B herein, as the guarantor for Party B in the contracts, agreements or transactions in connection with Party B's operation between Party B and any other third party, to provide full guarantee for the performance of such contracts, agreements or transactions by Party B. Party B agrees, as the counter-guarantee, to pledge the receivable account in its operation and the whole assets of company to Party A. According to the aforesaid guarantee arrangement, Party A wishes to enter into written guarantee contracts with Party B's counter-parties thereof to assume the guarantee liability as the guarantor when it needs; therefore, Party B, Party C and Party D shall take all necessary actions (including but not limited to execute relevant documents and transact relevant registrations) to carry out the arrangement of counter-guarantee to Party A.
2. In consideration of the requirement of Article 1 herein and assuring the performance of the various operation agreements between Party A and Party B and the payment of the payables accounts by Party B to Party A, Party B together with its shareholders Party C and Party D hereby jointly agree that Party B shall not conduct any transaction which may materially affects its assets, obligations, rights or the company's operation (excluding the business contracts, agreements, sell or purchase assets during Party B's regular operation and the lien obtained by relevant counter parties due to such agreements) unless the obtainment of a prior written consent from Party A, including but not limited to the following contents:
 - 2.1 borrow money from any third party or assume any debt;
 - 2.2 To sell to or acquire from any third party any asset or right, including but not limited to any intellectual property right;
 - 2.3 To provide real guarantee for any third party with its assets or intellectual property rights;

- 2.4 To assign to any third party its business agreements.
3. In order to ensure the performance of the various operation agreements between Party A and Party B and the payment of the various payables by Party B to Party A, Party B together with its shareholders Party C and Party D hereby jointly agree to accept, from time to time, the corporate policy advise and guidance provided by Party A in connection with company's daily operating and financial management and the employment and dismissal of the company's employees.
 4. Party B together with its shareholders Party C and Party D hereby jointly agree that Party C and Party D shall appoint the person recommended by Party A as the directors of Party B, and Party B shall appoint Party A's senior managers as Party B's General Manager, Chief Financial Officer, and other senior officers. If any of the above senior officers leaves or is dismissed by Party A, he or she will lose the qualification to take any position in Party B and Party B shall appoint other senior officers of Party A recommended by Party A to take such position. The person recommended by Party A in accordance with this Article herein should comply with the stipulation on the qualifications of directors, General Manager, Chief Financial Officer, and other senior officers pursuant to applicable law.
 5. Party B together with its shareholders Party C and Party D hereby jointly agree and confirm that Party B shall seek the guarantee from Party A first if it needs any guarantee for its performance of any contract or loan of flow capital in the course of operation. In such case, Party A shall have the right but not the obligation to provide the appropriate guarantee to Party B on its own discretion. If Party A decides not to provide such guarantee, Party A shall issue a written notice to Party B immediately and Party B shall seek a guarantee from other third party.
 6. In the event that any of the agreements between Party A and Party B terminates or expires, Party A shall have the right but not the obligation to terminate all agreements between Party A and Party B including but not limited to the Services Agreement.
 7. Any amendment and supplement of this Agreement shall be made in writing. The amendment and supplement duly executed by all parties shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.
 8. If any clause hereof is judged as invalid or non-enforceable according to relevant laws, such clause shall be deemed invalid only within the applicable area of the Laws and without affecting other clauses hereof in any way.
 9. Party B shall not assign its rights and obligations under this Agreement to any third party without the prior written consent of Party A. Party B hereby agrees that Party A may assign its rights and obligations under this Agreement as it needs and such transfer shall only be subject to a written notice sent to Party B by Party A, and no any further consent from Party B will be required.

10. All parties acknowledge and confirm that any oral or written materials communicated pursuant to this Agreement are confidential documents. All parties shall keep secret of all such documents and not disclose any such documents to any third party without prior written consent from other parties unless under the following conditions: (a) such documents are known or shall be known by the public (excluding the receiving party discloses such documents to the public without authorization); (b) any documents disclosed in accordance with applicable laws or rules or regulations of stock exchange; (c) any documents required to be disclosed by any party to its legal counsel or financial consultant for the purpose of the transaction of this Agreement by any party, and such legal counsel or financial consultant shall also comply with the confidentiality as stated hereof. Any disclosure by employees or agencies employed by any party shall be deemed the disclosure of such party and such party shall assume the liabilities for its breach of contract pursuant to this Agreement. This Article shall survive whatever this Agreement is void, amended, cancelled, terminated or unable to perform.
11. This Agreement shall be governed by and construed in accordance with the PRC law.
12. The parties shall strive to settle any dispute arising from the interpretation or performance of this Agreement through friendly consultation. In case no settlement can be reached through consultation, each party can submit such matter to China International Economic and Trade Arbitration Commission (“CIETAC”) for arbitration in accordance with its rules of CIETAC. The arbitration proceedings shall take place in Beijing and shall be conducted in Chinese. The arbitration award shall be final and conclusive and binding upon all the parties.
13. This Agreement shall be executed by a duly authorized representative of each party as of the date first written above and become effective simultaneously. Party A and Party B’s rights and obligations under the Agreement on Operation Cost shall be terminated simultaneously upon the effectiveness of this Agreement.
14. Notwithstanding Article 13 hereof, the parties confirm that this Agreement shall constitute the entire agreement of the Parties with respect to the subject matters therein and supersedes and replaces all prior or contemporaneous verbal and written agreements and understandings (including but not limited to the Agreement on Operation Cost).
15. The term of this agreement is ten (10) years unless early termination occurs in accordance with relevant provisions herein or in any other relevant agreements reached by all parties. This Agreement may be extended only upon Party A’s written confirmation prior to the expiration of this Agreement and the extended term shall be determined by the Parties hereto through mutual consultation. During the aforesaid term, if Party A or Party B is terminated at expiration of the operation term (including any extension of such term) or by any other reason, this Agreement shall be terminated upon such termination of such party, unless such party has already assigned its rights and obligations in accordance with Article 9 hereof.

16. This Agreement shall be terminated on the expiring date unless it is renewed in accordance with the relevant provision herein. During the valid term of this Agreement, Party B shall not terminate this Agreement. Notwithstanding the above stipulation, Party A shall have the right to terminate this Agreement at any time by issuing a thirty (30) days prior written notice to Party B.
17. The original of this Agreement is in four (4) copies, each party holds one and all original are equally valid.

IN WITNESS THEREOF each party hereto have caused this Agreement duly executed by itself or a duly authorized representative on its behalf as of the date first written above.

[No text below]

[Signature Page]

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Authorized Representative:

Seal:

Party B: Beijing Baidu Netcom Science and Technology Co., Ltd.

Authorized Representative:

Seal:

Party C: Li Yanhong

Signature: /s/ Yanhong Li

Party D: Xu Yong

Signature: /s/ Yong Xu

SOFTWARE LICENSE AGREEMENT

This Software License Agreement (the "Agreement") is entered into as of March 22, 2005 between the following two parties in Beijing:

Party A: **Baidu Online Network Technology (Beijing)Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

Party B: **Beijing Baidu Netcom Science and Technology Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

WHEREAS:

- (1) Party A, a wholly foreign-owned enterprise incorporated under the laws of the People's Republic of China (the "PRC"), which has the copyright of the software system specified in the Appendix I of this Agreement (the "Software");
- (2) Party B, a liability limited company incorporated in Beijing, is licensed by Beijing Municipal Telecommunication Management Bureau to carry on the value added telecom business such as the Internet Information Service, etc; and is licensed by Beijing Municipal Administration of Industry and Commerce to carry on the network advertising business;
- (3) Party A agrees to license the non- exclusive right to use the Software pursuant to this Agreement to Party B in accordance with the terms and conditions set forth herein and Party B agrees to accept the right to use the Software on the same terms and conditions set forth herein.

NOW THEREFORE, both Parties agree as follows:

1. Grant of License

1.1 The Software

- 1.1.1 Upon the terms and conditions hereinafter set forth, Party A hereby agrees to grant and Party B hereby agree to accept the right to use the Software in PRC. The license under this Agreement is a non-exclusive, non-assignable and non-transferable license.
- 1.1.2 Party A owns the sole and exclusive right of the Software, including any improvement, upgrades and derived products, no matter whether such products are created by Party A or Party B. The right and obligation under 1.1.2 of this article shall survive upon termination of this Agreement.

1.2 Scope

- 1.2.1 The Software granted to Party B shall only be used to process the

internal data on the system designated by Party B. When the designated system can be used, the program may be used in the spare system. Party B shall not sub-license the Software to others or use the Software in the third party's training, business share, lease without the consent from Party A, unless there are opposite stipulations in this Agreement.

- 1.2.2 The use right granted under this Agreement is only valid in the PRC. Party B agrees not to directly or indirectly use or authorize to use the Software in the other regions.

2. Terms of Payment

Party B agrees to pay Party A the Software License fees (the "License Fees") and the specified amount of the license fees and the form of payment are set forth in Appendix 2. Party A has the right to exempt the obligation of payment or adjust the amount of the License Fees set forth in Appendix 2 according to the actual circumstances from time to time.

3. Party A's Rights and Protection of the Party A's Rights

- 3.1 Party B agrees, during the term of this Agreement, or thereafter, not to query the copyright or any rights of Party A in connection with the Software, and conduct any actions that is deemed by Party A as harmful to its rights or license.
- 3.2 Party B agrees to provide necessary assistances to help Party A to protect the rights of Software. Party A may participate the lawsuits related to the claims of compensation with its own desire, on behalf of itself, Party B or both Parties, once any third party claims the compensation in connection with the Software of Party A. If any third party infringes any right of Software, Party B shall notify Party A immediately in written of such infringements within the scope that it knows, and only Party A has the right to take actions against such infringements.
- 3.3 Party B agrees to use the Software only pursuant to this Agreement and not to use the Software by manner of deceit, misleading or others manners that are deemed by Party A as harmful to the Software or the reputation of Party A.

4. Confidentiality

- 4.1 Party B shall protect and maintain the confidentiality of any and all confidential data and information acknowledged or received by Party B from Party A (collectively the "Confidential Information"). Upon termination of this Agreement, Party B shall return Confidential Information to Party A or destroy it itself and delete Confidential Information from any electronic devices and cease to use them as required by Party A. Party B shall not disclose, grant or transfer any Confidential Information to any third party and will not use the Confidential Information without Party A's written consent.

4.2 Both Parties agree that the Article 4 shall survive whatever this agreement is amended, rescinded or terminated.

5. Representations and Warranties

5.1 Party A represents and warrants as follows:

- 5.1.1 Party A is a wholly foreign-owned enterprise duly incorporated and validly existing under the laws of the PRC.
- 5.1.2 Party A, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the consents or approvals (if necessary) from other third party or governments, without breaching any restricts of the laws and company that binds or affects Party A to execute and perform this Agreement.
- 5.1.3 The Agreement will constitute a legal, valid and binding agreement of Party A and will be enforceable against Party A in accordance with its terms upon its execution.
- 5.1.4 Party A owned copyright of the Software.

5.2 Party B represents and warrants as follows:

- 5.2.1 Party B is a company duly registered and validly existing under the laws of the PRC and is licensed by Beijing Municipal Telecommunication Management Bureau to engage in the business of the Internet Information Service.
- 5.2.2 Party B, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the consents or approvals (if necessary) from other third party or governments, without breaching any restricts of the laws and company that binds or affects Party B to execute and perform this Agreement.
- 5.2.3 The Agreement will constitute a legal, valid and binding agreement of Party B will be enforceable against Party B in accordance with its terms upon its execution.

6. Effective Date and Term

6.1 This Agreement has been duly executed as of the date first set forth above and shall be effective simultaneously. The term of this Agreement is five (5) years unless the early termination in accordance with this Agreement. However, Party A and Party B shall review this Agreement every six (6) months to determine whether any amendment or supplement to the Agreement is necessary by considering the circumstances after the executing of this Agreement.

6.2 This Agreement may be extended by both Parties in writing upon the expiration of this Agreement. The term of extension will be decided by the consultation of both Parties.

7. Termination

7.1 Early Termination

Without prejudice to any legal or other rights or remedies of the party who asks for termination of this Agreement, any Party has the right to terminate this Agreement immediately with written notice to the other party in the event the other party materially breaches this Agreement including but not limited to the obligation under Article 3 of this Agreement and fails to cure its breach within thirty (30) days from the date it receives written notice of its breach from the non-breaching party. During the term of this Agreement, Party A may terminate this Agreement at any time with a written notice to Party B 30 days before such termination.

7.2 Effect of Termination or Expiration

Upon and after the expiration or termination of this Agreement, Party B shall not have all rights granted pursuant to this Agreement and s will refrain from further direct or indirect use of the Software.

8. Force Majeure

8.1 Force Majeure, which includes but not limited to acts of governments, acts of nature, fire, explosion, typhoon, flood, earthquake, tide, lightning or war, means any event that is beyond the party's reasonable control and cannot be prevented with reasonable care of the affected party. However, any shortage of credit, capital or finance shall not be regarded as an event beyond the party's reasonable control. The party affected by Force Majeure and seeks for the exemption from performing the obligations under this Agreement shall inform the other party of such exemption and any action taken by it for performing this Agreement.

8.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party will not be responsible for any damage by reason of such a failure or delay of performance. The affected party shall take appropriate manners to minimize or remove the effects of Force Majeure and attempt to resume the performance of the obligations delayed or prevented by the event of Force Majeure. Once the event of Force Majeure is removed, both parties agree to resume the performance of this Agreement with their best efforts.

9. Settlement of Disputes

Both Parties shall strive to settle any dispute arising from the interpretation or performance through friendly consultation. In case no settlement can be reached through consultation within 30 days after one party ask for consultation, each party can submit such matter to China International Economic and Trade Arbitration Commission (the "CIETAC") in accordance with its rules, and the arbitration proceedings shall be conducted in Chinese and shall take place in Beijing. The arbitration award shall be final and conclusive and binding upon the parties and shall be enforceable in accordance with its terms.

10. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in English and Chinese and delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of relevant each party or both parties set forth below or other address of the party or of the other addressees specified by such party from time to time. The date when the notice is deemed to be duly served shall be determined as the follows: (a) a notice delivered personally is deemed duly served upon the delivery; (b) a notice sent by mail is deemed duly served the tenth (10th) day after the date when the air registered mail with postage prepaid has been sent out (as is shown on the postmark), or the fourth (4th) day after the delivery date to the internationally recognized courier service agency; and (c) a notice sent by facsimile transmission is deemed duly served upon the receipt time as is shown on the transmission confirmation of relevant documents.

Party A: Baidu Online Network Technology(Beijing)Co., Ltd.

Legal Address: 12 Floor, LiXiang International Building, 58 West Road of North fourth Circle, Haidian District, Beijing
Addressee: Zhansheng Wang
Fax: [8610-82607009]
Phone: [8610-82621188]

Party B: Beijing Baidu Netcom Science and Technology Co., Ltd.

Legal Address: 12 Floor, LiXiang International Building, 58 West Road of North fourth Circle, Haidian District, Beijing
Addressee: Yanhong Li
Fax: [8610-82607008]
Phone: [8610-82621188]

11. Assignment or Sublicense

This Agreement and all the rights and obligations of Party B hereunder shall not be assigned, pledged, sublicensed without the prior written consent of Party A.

12. Applicable Law

The validity, implementation and interpretation of this Agreement shall be governed by the laws of PRC.

13. Amendment and Supplement

Any amendment and supplement of this Agreement shall be made by both parties in writing. The amendment and supplement duly executed by both parties shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.

14. Severability

If any clause hereof is judged as invalid or non-enforceable according to relevant laws, such clause shall be deemed invalid only within the applicable area of the Laws and without affecting other clauses hereof in any way.

15. Appendices

The Appendices referred to in this Agreement are an integral part of this Agreement and have the same legal effect as this Agreement.

IN WITNESS THEREOF Both Parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first set forth above.

[No Text Below]

[Signature Page]

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal Representative/Authorized Representative: /s/ Shawn Wang

Seal:

Party B: Beijing Baidu Netcom Science and Technology Co., Ltd.

Legal Representative/Authorized Representative: /s/ Yanhong Li

Seal:

Appendix 1 List of Software

Baidu Chinese Search Engine

Baidu Network Payment for Performance System

Appendix 2 Account and payment method of License Fee

Party B should pay for each Software RMB 5,000,000 per year to Party A as license fee. Party B shall pay the license fee to the account designated by Party A before December 31 each year. Party A has the right to determine whether or not to exempt the Party B's obligation to pay license fee at its discretion.

TRADEMARK LICENSE AGREEMENT

This Trademark License Agreement (the "Agreement") is entered into as of March 1, 2004 between the following two parties in Beijing.

The Licensor: **Baidu Online Network Technology (Beijing) Co., Ltd.**

Legal Address:

The Licensee: **Beijing Baidu Netcom Science and Technology Co., Ltd.**

Legal Address:

WHEREAS:

1. The Licensor, a wholly-owned foreign enterprise registered in Beijing under the laws of People's Republic of China (the "PRC"), which owns the trademarks under application in the PRC as specified in Appendix 1;
2. The Licensee, a domestic company registered in Beijing under the laws of the PRC, is licensed by Beijing Municipal Telecommunication Management Bureau to carry on the business of the Internet Information Service;
3. The Licensor agrees to license the trademarks to the Licensee in accordance with the terms and conditions set forth herein and the Licensee agrees to accept the license on the terms and conditions set forth herein;

NOW THEREFORE: the parties agree as follows:

1. Grant of License**1.1 The Trademarks**

Upon the terms and conditions hereinafter set forth, the Licensor hereby grants a exclusive license to the Licensee and the Licensee hereby accepts the exclusive right to use all or any of the trademarks as specified in Appendix 1, or display any design, character, symbol, and visual representation of the trademarks (collectively the "Trademarks"). Without the permission from the Licensee, the Licensor shall not license any third party to use the Trademarks.

The Parties agree that, if the Licensor obtains any trademarks (registered or not) legally after the execution of this Agreement, and the Licensor authorized the Licensee to use such trademarks, the Licensor shall enter into another trademark license agreement with the Licensee with the same terms and conditions of this Agreement.

1.2 Scope

1.2.1 The use rights of the Trademarks granted by Licensor to Licensee

shall be effective only to *www.baidu.com* (Baidu Websites) operated by the Licensee. The Licensee agrees that it will not make, or authorize any use, direct or indirect, of the Trademarks by any other means, unless there are opposite stipulations in this Agreement.

- 1.2.2 The license hereby granted shall be effective only in the PRC. The Licensee agrees that it will not make, or authorize any use, direct or indirect of the Trademarks in any other regions.

2. Terms of Payment

The Licensee agrees to pay the Licensor license fees and the specified amount of the license fees and the form of payment are set forth in Appendix 1.

3. Goodwill

The Licensee acknowledges the value of the goodwill in connection with the Trademarks, and confirms that the Trademarks and relevant rights and the goodwill pertaining to the Trademarks shall belong to the Licensor, and the Trademarks have a subordinate meaning in the mind of public.

4. Confidentiality

4.1 The Licensee shall take reasonable efforts to protect and maintain the confidentiality of any and all data and information of the Licensor that is marked with "Confidential" or known as confidential by the Licensee (the "Confidential Information"). Upon termination or expiration of this Agreement, the Licensee shall, at the Licensor's request, return Confidential Information to the Licensor or destroy it itself and delete Confidential Information from any mnemonic devices and cease to use them. The Licensee shall not disclose, grant or transfer any Confidential Information to any third party without the Licensor's written consent.

4.2 Section 4.1 shall survive whatever this Agreement is amended, termination or expires.

5. Representations and Warranties

5.1 The Licensor represents and warrants as follows:

5.1.1 The Licensor is a company duly incorporated in Beijing and validly existing under the laws of the PRC;

5.1.2 The Licensor, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the necessary consents or approvals) from other third party or governments, without violating the restriction of the laws and company which binds or influences the Licensor to execute and perform this Agreement;

- 5.1.3 The Agreement will constitute a legal, valid and binding agreement of Licensor and will be enforceable against Licensor in accordance with its terms upon its execution.
- 5.1.4 The Licensor has the exclusive ownership of the Trademarks.
- 5.2 The Licensee represents and warrants as follows:
 - 5.2.1 The Licensee is a company duly incorporated in Beijing and validly existing under the laws of the PRC and is licensed by Beijing Municipal Telecommunication Management Bureau to engage in the business of the Internet Information Service;
 - 5.2.2 The Licensee, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the necessary consents or approvals) from other third party or governments, without violating the restriction of the laws and company which binds or influences Licensee to execute and perform this Agreement;
 - 5.2.3 The Agreement will constitute a legal, valid and binding agreement of Licensee and will be enforceable against Licensee in accordance with its terms upon its execution.

6. The Licensor's Ownership and Protection of the Licensor's Rights

- 6.1 The Licensor agrees, during the effective term of this Agreement and thereafter, not to query the ownership and other rights of Trademarks by Licensor, the effectiveness of this Agreement; and conduct any action that is deemed by Licensor as harmful to its right, ownerships and license by Licensor;
- 6.2 The Licensee agrees to provide necessary assistances to help the Licensor to protect the rights of Trademarks. The Licensor may participate the lawsuits related to the claims of compensation with its own desire, on behalf of itself, Licensee or both Parties, once any third party claims the compensation in connection with the Trademarks of Licensor. If any third party infringes any right of Trademarks, the Licensee shall notify the Licensor immediately in written of such infringements within the scope that it knows, and only Licensor has the right to take actions against such infringements;
- 6.3 The Licensee agrees to use the Trademarks only pursuant to this Agreement and not to use the Trademarks by manner of deceit, misleading or others manners that are deemed by Licensor as harmful to the Trademarks or the reputation of Licensor.

7. Quality

The Licensee shall take best efforts to operate Baidu Website in high quality in order to protect and enhance the reputation of the Trademarks.

8. Promotion Material

- 8.1 In all cases where the Licensee shall bear the production cost of the promotion material involving the Trademarks required by the Licensee. The Licensor has the sole and exclusive right to the ownership of promotion materials regarding the Trademarks or its duplicate, including all intellectual property rights whatever such promotion materials is invented or use by either the Licensor or the Licensee.
- 8.2 The Licensee agrees not to promote or advertise any of the Trademarks on radios, televisions, papers, magazines, the Internet or other media without the prior written consent of the Licensor.

9. Competitive Web Site

In the event that any of the Trademarks contradict with any of the trademarks used by Licensor, its parent company or affiliate of its parent company, at the present or in the future, the Licensor shall have the right to terminate the Agreement by a written notice to the Licensee within 30 days before such termination.

10. Effective Date and Term

- 10.1 This Agreement has been duly executed as of the date first set forth above and shall be effective simultaneously. The term of this Agreement is five (5) years unless the early termination set forth in this Agreement.
- 10.2 This Agreement may be extended one year automatically upon its expiration (including the expiration of any extension) unless the Licensor informs of the termination of this Agreement with the written notice before the expiration.

11. Termination

- 11.1 This Agreement shall expire on the date due or its extension due with the notice of non-extension of this Agreement by the Licensor.
- 11.2 Without prejudice to any legal or other rights or remedies of the party who asks for termination of this Agreement, any party has the right to terminate this Agreement immediately with written notice to the other party in the event the other party materially breaches this Agreement including but not limited to Section 6.1, 6.2 and 6.3 of this Agreement and fails to cure its breach within 30 days from the date it receives the written notice of its breach from the non-breaching party. During the term of this Agreement, the Licensor may terminate this Agreement at any time with a written notice that take effects 30 days after the issue of such notice to the Licensee.
- 11.3 Article 3, 4, 6 and 16 shall survive upon the termination or expiration of this Agreement.

12. Effect of Termination or Expiration

Upon and after the expiration or termination of this Agreement, all rights granted to the Licensee hereunder shall revert to the Licensor immediately, who shall be free to license others to use the Trademarks and the Licensee will refrain from further use or any direct or indirect use of the Trademarks.

13. Force Majeure

13.1 Force Majeure, which includes but not limited to acts of governments, acts of nature, fire, explosion, typhoon, flood, earthquake, tide, lightning or war, means any event that is beyond the party's reasonable control and cannot be prevented with reasonable care of the affected party. However, any shortage of credit, capital or finance shall not be regarded as an event beyond the party's reasonable control. The party affected by Force Majeure and seeks for the exemption from performing the obligations under this Agreement shall inform the other party of such exemption and any action taken by it for performing this Agreement.

13.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party will not be responsible for any damage by reason of such a failure or delay of performance. The affected party shall take appropriate manners to minimize or remove the effects of Force Majeure and attempt to resume the performance of the obligations delayed or prevented by the event of Force Majeure. Once the event of Force Majeure is removed, both parties agree to resume the performance of this Agreement with their best efforts.

14. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in English and Chinese and shall be deemed to be duly given when it is delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission (the copy of facsimile shall be sent afterwards) to the address of the relevant party or parties set forth below.

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Addressee: Xu Yong
Tel:010-82884488 Extension 666
Fax:010-82883929

The Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Addressee: Li Yanhong
Tel:010-82884488 Extension 888
Fax:010-82884299

15. No Assignment or Sublicense by the Licensee

- 15.1 The rights and obligations licensed by the Licensor to the Licensee pursuant to this Agreement shall not be assigned, pledged, sublicensed without the prior written consent of the Licensor.
- 15.2 The Licensee hereby agrees that the Licensor shall be able to transfer the rights and obligation under this Agreement to any third party at its discretion, and such transfer shall only be subject to a written notice serviced to the Licensee by the Licensor, and no any further consent from the Licensee will be required.

16. Settlement of Disputes

The parties shall strive to settle any dispute arising from the interpretation or performance through friendly consultation. In case no settlement can be reached through consultation within 30 days after one party ask for consultation, each party can submit such matter to China International Economic and Trade Arbitration Commission (the "CIETAC") in accordance with its rules. The arbitration award shall be final and conclusive and binding upon the parties and shall be enforceable in accordance with its terms.

17. Applicable Law

The performance, interpretation and implementation of this Agreement shall be governed by the laws of PRC.

18. Amendment and Supplement

Any amendment and supplement of this Agreement shall be made in writing by both Parties. The amendment and supplement duly executed by both Parties shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.

19. Severability

If any clause hereof is judged as invalid or non-enforceable according to relevant laws, such clause shall be deemed invalid only within the applicable area of the Laws and without affecting other clauses hereof in any way.

20. Appendices

The Appendices referred to in this Agreement are an integral part of this Agreement and have the same legal effect as this Agreement.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first set forth above.

[No Text Below]

[Signature Page]

Licensor : Baidu Online Network Technology (Beijing) Co., Ltd.

Authorized Representative: /s/ Yong Xu

Name: Xu Yong
Occupation: Legal Representative

Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Authorized Representative: /s/ Yanhong Li

Name: Li Yanhong
Occupation: Legal Representative

Appendix 1
Trademarks Registration Certificates

Appendix 2 License Fee and the Form of Payment

Licensee should pay RMB10,000 per year to Licensor as the fees for using Trademarks. The Licensor has the right to determine whether or not to exempt the Licensee's obligation to pay such fees.

The Supplementary of the Trademark License Agreement

This Supplementary of the Trademark License Agreement (the “this Agreement”) is entered into as of January 18, 2005 between the following two parties:

Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

WHEREAS:

1. The Licensor and the Licensee entered into the Trademark License Agreement dated as of March 1, 2004, and the Licensor sent a Notice regarding the Trademark License Agreement to the Licensee on April 27, 2004 (collectively the “Original Agreement”). According to the Original Agreement, the Licensor authorized the Licensee to use the trademarks specified in Appendix 1 of the Original Agreement (“Baidu Trademarks”);
2. The Licensor has legally obtained series trademarks of *hao123.com*, *hao123.net*, *hao222.com* and *hao222.net*, etc. (“Hao123 Websites”), and the relevant trademarks (“Hao123 Series Trademarks”) are specified in Appendix 1 of this Agreement;
3. The Licensee has been operating www.baidu.com (relevant domain names including *baidu.com.cn*, *baidu.cn*, *baidu.com* and *shifen.com*, collectively as “Baidu Websites”), and now extends the operation of Hao123 Website;
4. Based on the Original Agreement, the Licensor and the Licensee herein agree to execute this Agreement, in which the Licensor authorizes the Licensee to use the Hao123 Series Trademarks.

NOW THEREFORE, the parties agree as follows:

1. Article 1.1 of the Original Agreement shall be amended as follows:

“1.1 Grant of License

Upon the terms and conditions hereinafter set forth, the Licensor hereby grants a exclusive license to the Licensee and the Licensee hereby accepts the exclusive right to use all or any of the trademarks as specified in

Appendix 1 (including Baidu Trademarks and Hao123 Series Trademarks) or display any design, character, symbol, and visual representation of the trademarks (collectively the "Trademarks"). Without the permission from the Licensee, the Licensor shall not license any third party to use the Trademarks.

2. Article 1.2.1 of the Original Agreement shall be amended as follows:

"1.2.1 The use rights of the Trademarks granted by Licensor to Licensee shall be effective only to Baidu Website and Hao123 Series Trademarks operated by the Licensee. The Licensee agrees that it will not make, or authorize any use, direct or indirect, of the Trademarks by any other means, unless there are opposite stipulations in this Agreement.

3. Article 7 of the Original Agreement shall be amended as follows:

"7 Quality of Baidu Websites and Hao123 Websites

The Licensee shall take best efforts to operate Baidu Websites and Hao123 Websites in high quality in order to protect and enhance the reputation of the Trademarks.

4. This Agreement has been duly executed as of the date first set forth above and shall be effective simultaneously. The other clauses of the Original Agreement shall keep effective. This Agreement is a supplement and integral part of the Original Agreement, and has the same legal effect with the Original Agreement.

[Signature in the following page]

[Signature Page]

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Representative: /s/ Shawn Wang

Name: Wang Zhansheng

The Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Representative: /s/ Yanhong Li

Name: Li Yanhong

DOMAIN NAME LICENSE AGREEMENT

This Domain Name License Agreement (the "Agreement") is entered into as of March 1, 2004 between the following two parties in Beijing.

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal Address:

The Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Legal Address:

WHEREAS

1. The Licensor, a wholly foreign-owned enterprise incorporated in Beijing under the laws of the People's Republic of China (the "PRC"), which owns the domain names of *baidu.com*, *baidu.com.cn*, *baidu.cn*, *shifen.com*, *baidu.jp* and *baidu.kr* (the "Domain Names").
2. The Licensee, a company incorporated in Beijing under the laws of the PRC, is licensed by Beijing Municipal Telecommunication Management Bureau to carry on the business of the Internet Information Service;
3. The Licensor agrees to license the Domain Names to the Licensee pursuant to the terms and conditions set forth herein and the Licensee agrees to accept the license with the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

1. Grant of License**1.1 The Domain Names**

Upon the terms and conditions hereinafter set forth, the Licensor hereby grants the exclusive license to the Licensee for using Domain Names, and the Licensee hereby accepts the exclusive license to use the Domain Names. Without the permission of the Licensee, the Licensor shall not license any third party to use the Domain Names.

1.2 Scope

- 1.2.1 The use rights of the Domain Names granted by Licensor to Licensee shall be effective only to *www.baidu.com* ("Baidu Website") operated by Licensee. The Licensee agrees that it will not make, or authorize any use, direct or indirect, of the Domain Names by any other means, unless there are opposite stipulations in this Agreement.

- 1.2.2 The use rights of the Domain Names granted by Licensor to Licensee shall be effective only in the PRC. The Licensee agrees that it will not make, or authorize any use, direct or indirect, of the Domain Names in any other regions.

2. Terms of Payment

The Licensee agrees to pay the Licensor license fees and the specified amount of the license fees and the form of payment are set forth in Appendix 1.

3. Goodwill

- 3.1 The Licensee acknowledges the value of the goodwill in connection with the Domain Names, and confirms that the Domain Names and relevant rights and the goodwill pertaining to the Domain Names shall belong to the Licensor, and the Domain Names have a subordinate meaning in the mind of public.

4. Confidentiality

- 4.1 The Licensee shall take reasonable efforts to protect and maintain the confidentiality of any and all data and information of the Licensor that is marked with "Confidential" or known as confidential by the Licensee (the "Confidential Information"). Upon termination or expiration of this Agreement, the Licensee shall, at the Licensor's request, return Confidential Information to the Licensor or destroy it itself and delete Confidential Information from any mnemonic devices and cease to use them. The Licensee shall not disclose, grant or transfer any Confidential Information to any third party without the Licensor's written consent.

- 4.2 Section 4.1 shall survive whatever this Agreement is amended, termination or expires.

5. Representations and Warranties

- 5.1 The Licensor represents and warrants as follows:

- 5.1.1 The Licensor is a company duly incorporated and validly existing under the laws of the PRC;
- 5.1.2 The Licensor has the exclusive ownership of Domain Names to others;
- 5.1.3 The Licensor, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the necessary consents or approvals) from other third party or

governments, without violating the restriction of the laws and company which binds or influences Licensor to execute and perform this Agreement;

5.1.4 The Agreement will constitute a legal, valid and binding agreement of Licensor and will be enforceable against Licensor in accordance with its terms upon its execution.

5.2 The Licensee represents and warrants as follows:

5.2.1 The Licensee is a company duly incorporated in Beijing and validly existing under the laws of the PRC and is licensed by Beijing Municipal Telecommunication Management Bureau to engage in the business of the Internet Information Service;

5.2.2 The Licensee, subject to its company power and business scope, has taken necessary company actions to get the proper authorization and the necessary consents or approvals) from other third party or governments, without violating the restriction of the laws and company which binds or influences Licensee to execute and perform this Agreement;

5.2.3 The Agreement will constitute a legal, valid and binding agreement of Licensee and will be enforceable against Licensee in accordance with its terms upon its execution.

6. The Licensor's Ownership and Protection of Licensor's Rights

6.1 The Licensor agrees, during the effective term of this Agreement and thereafter, not to query the ownership and other rights of Domain Name by Licensor, the effectiveness of this Agreement; and conduct any action that is deemed by Licensor as harmful to its right, ownerships and license by Licensor.

6.2 The Licensee agrees to provide necessary assistances to help the Licensor to protect the rights of Domain Name. The Licensor may participate the lawsuits related to the claims of compensation with its own desire, on behalf of itself, Licensee or both Parties, once any third party claims the compensation in connection with the Domain Name of Licensor. If any third party infringes any right of Domain Name, the Licensee shall notify the Licensor immediately in written of such infringements within the scope that it knows, and only Licensor has the right to take actions against such infringements.

6.3 The Licensee agrees to use the Domain Names only pursuant to this Agreement and not to use the Domain Name by manner of deceit, misleading or others manners that are deemed by Licensor as harmful to the Domain Name or the reputation of Licensor.

7. Quality of Baidu Website

The Licensee shall take best efforts to operate Baidu Website in high quality in order to protect and enhance the reputation of the Domain Names.

8. Promotion

8.1 In all cases where the Licensee shall bear the production cost of the promotion material involving the Domain Names required by the Licensee. The Licensor has the sole and exclusive right to the ownership of promotion materials regarding the Domain Name or its duplicate, including all intellectual property rights whatever such promotion materials is invented or use by either the Licensor or the Licensee.

8.2 The Licensee agrees not to promote or advertise any of the Domain Names on radios, televisions, papers, magazines, the Internet or other media without the prior written consent of the Licensor.

9. Competitive Website

In the event that any of the Domain Names contradict with any of the trademark or domain name used by Licensor, its parent company or affiliate of its parent company, at the present or in the future, the Licensor shall have the right to terminate the Agreement by a written notice to the Licensee within 30 days before such termination.

10. Effective Date and Term

10.1 This Agreement has been duly executed as of the date first set forth above and shall be effective simultaneously. The term of this Agreement is five (5) years unless the early termination set forth in this Agreement.

10.2 This Agreement may be extended one year automatically upon its expiration (including the expiration of any extension) unless the Licensor informs of the termination of this Agreement with the written notice before the expiration.

11. Termination

11.1 This Agreement shall expire on the date due or its extension due with the notice of non-extension of this Agreement by the Licensor.

11.2 Without prejudice to any legal or other rights or remedies of the party who asks for termination of this Agreement, any party has the right to terminate this Agreement immediately with written notice to the other party in the event the other party materially breaches this Agreement including but not

limited to Section 6.1, 6.2 and 6.3 of this Agreement and fails to cure its breach within 30 days from the date it receives the written notice of its breach from the non-breaching party. During the term of this Agreement, the Licensor may terminate this Agreement at any time with a written notice that take effects 30 days after the issue of such notice to the Licensee.

11.3 Article 3, 4, 6 and 16 shall survive upon the termination or expiration of this Agreement.

12. Effect of Termination or Expiration

Upon and after the expiration or termination of this Agreement, all rights granted to the Licensee hereunder shall forthwith revert to the Licensor, who shall be free to license others to use the Domain Names and the Licensee will refrain from further use or any direct or indirect use of the Domain Names.

13. Force Majeure

13.1 Force Majeure, which includes but not limited to acts of governments, acts of nature, fire, explosion, typhoon, flood, earthquake, tide, lightning or war, means any event that is beyond the party's reasonable control and cannot be prevented with reasonable care of the affected party. However, any shortage of credit, capital or finance shall not be regarded as an event beyond the party's reasonable control. The party affected by Force Majeure and seeks for the exemption from performing the obligations under this Agreement shall inform the other party of such exemption and any action taken by it for performing this Agreement.

13.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party will not be responsible for any damage by reason of such a failure or delay of performance. The affected party shall take appropriate manners to minimize or remove the effects of Force Majeure and attempt to resume the performance of the obligations delayed or prevented by the event of Force Majeure. Once the event of Force Majeure is removed, both parties agree to resume the performance of this Agreement with their best efforts.

14. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in English and Chinese and shall be deemed to be duly given when it is delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission (the copy of facsimile shall be sent afterwards) to the address of the relevant party or parties set forth below.

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Addressee: Xu Yong
Tel:010-82884488 Extension 666
Fax:010-82883929

The Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Addressee: Li Yanhong
Tel:010-82884488 Extension 888
Fax:010-82884299

15. Assignment or Sublicense

- 15.1 The rights and obligations licensed by the Licensor to the Licensee pursuant to this Agreement shall not be assigned, pledged, sublicensed without the prior written consent of the Licensor.
- 15.2 The Licensee hereby agrees that the Licensor shall be able to transfer the rights and obligation under this Agreement to any third party at its discretion, and such transfer shall only be subject to a written notice serviced to the Licensee by the Licensor, and no any further consent from the Licensee will be required.

16. Settlement of Disputes

The parties shall strive to settle any dispute arising from the interpretation or performance through friendly consultation. In case no settlement can be reached through consultation within 30 days after one party ask for consultation, each party can submit such matter to China International Economic and Trade Arbitration Commission (the "CIETAC") in accordance with its rules, and the arbitration proceedings shall be conducted in Chinese and shall take place in Beijing. The arbitration award shall be final and conclusive and binding upon the parties and shall be enforceable in accordance with its terms.

17. Applicable Law

The performance, interpretation and implementation of this Agreement shall be governed by the laws of the PRC.

18. Amendment and Supplement

Any amendment and supplement of this Agreement shall be made in writing by both Parties. The amendment and supplement duly executed by both Parties shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.

19. Severability

If any clause hereof is judged as invalid or non-enforceable according to relevant laws, such clause shall be deemed invalid only within the applicable area of the Laws and without affecting other clauses hereof in any way.

20. Appendices

The Appendices referred to in this Agreement are an integral part of this Agreement and have the same legal effect as this Agreement.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be duly executed by a duly authorized representative on their behalf as of the date first set forth above.

[No text below]

[Signature Page]

Licensor : Baidu Online Network Technology (Beijing) Co., Ltd.

Authorized Representative: /s/ Yong Xu

Name: Xu Yong
Occupation: Legal Representative

Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Authorized Representative: /s/ Yanhong Li

Name: Li Yanhong
Occupation: Legal Representative

Appendix 1

Licensee should pay RMB10,000 per year to Licensor as the fees for using Domain Name. The Licensor has the right to determine whether or not to exempt the Licensee's obligation to pay such fees.

The Supplementary of the Domain Name License Agreement

This Supplementary of the Domain Name License Agreement (the “this Agreement”) is entered into as of August 9, 2004 between the following two parties in Beijing.

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

The Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

WHEREAS:

1. The Licensor and the Licensee entered into the Domain Name License Agreement as of March 1, 2004, and the Licensor sent a Notice regarding the Domain Name License Agreement to the Licensee on April 27, 2004 (collectively the “Original Agreement”). According to the Original Agreement, the Licensor authorized the Licensee to use the domain name of *baidu.com.cn*, *baidu.cn*, *baidu.com* and *shifen.com* (the “Baidu Domain Names”);
2. The Licensor has legally obtained series domain names of *hao123.com*, *hao123.net*, *hao222.com* and *hao222.net*, etc (the “Hao123 Series Domain Names”);
3. The Licensee has been operating www.baidu.com (relevant domain names including *baidu.com.cn*, *baidu.cn*, *baidu.com* and *shifen.com*, collectively, the “Baidu Websites”), and now extends the operation of relevant web site of the Domain Names of hao123 Series (“Hao123 Websites”);
4. Based on the Original Agreement, the Licensor and the Licensee herein agree to execute this Agreement, in which the Licensor authorizes the Licensee to use the Domain Names of hao123 Series, as the supplement to the Original Agreement;

NOW THEREFORE, the parties agree as follows:

1. Article 1 of the “WHEREAS” of the Original Agreement shall be amended as follows:
 - “1. The Licensor, a wholly foreign-owned enterprise incorporated in Beijing under the laws of the People’s Republic of China (the “PRC”), which(1) owns the ownership of domain names *baidu.com.cn* and *baidu.cn*, (2) owns

the use right of *baidu.com* and *shifen.com*; and (3) owns the ownership of domain name of *hao123.com*, *hao123.net*, *hao222.com* and *hao222.net*, (collectively, the "Domain Names")."

2. Article 1.2.1 of the Original Agreement shall be amended as follows:

"1.2.1 The use rights of the Domain Names granted by Licensor to Licensee shall be effective only to Baidu Websites and hao123 Websites operated by Licensee. The Licensee agrees that it will not make, or authorize any use, direct or indirect, of the Domain Names by any other means, unless there are opposite stipulations in this Agreement"

3. Article 7 of the Original Agreement shall be amended as follows:

" 7 Quality of Baidu Website

The Licensee shall take best efforts to operate Baidu Websites and hao123 Websites in high quality in order to protect and enhance the reputation of the Domain Names."

4. This Agreement has been duly executed as of the date first set forth above and shall be effective simultaneously. The other clauses of the Original Agreement shall keep effective. This Agreement is a supplement and integral part of the Original Agreement, and has the same legal effect with the Original Agreement..

[Signature in the following page]

[Signature Page]

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Representative: /s/ Yong Xu

Name: Xu Yong

The Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Representative: /s/ Yanhong Li

Name: Li Yanhong

Web Layout Copyright License Agreement

This Web Layout Copyright License Agreement (the "Agreement") is entered into as of March 1, 2004 between the following two parties in Beijing.

The Licensor: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal Address:

The Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Legal Address:

WHEREAS

1. The Licensor, a wholly foreign-owned enterprise registered in Beijing under the laws of the People's Republic of China (the "PRC"), which owns the web layout copyright of Baidu website listed in the Appendix I of this Agreement (the "Copyright").
2. The Licensee, a company registered in Beijing under the laws of the PRC, is licensed by Beijing Municipal Telecommunication Management Bureau to carry on the business of the Internet Information Service and owns the right to operate www.baidu.com (the "Baidu Website");
3. The Licensor agrees to license the use right of Copyright to the Licensee in accordance with the terms and conditions set forth herein and the Licensee agrees to accept the license on the terms and conditions set forth herein.

NOW THEREFORE, the parties agree as follows:

1. Grant of License**1.1 The Web Layout Copyright**

1.1.1 Upon the terms and conditions hereinafter set forth, the Licensor hereby grants to the Licensee and the Licensee hereby accepts the use right of Copyright in PRC.

1.1.2 The Licensor has the sole and exclusive ownership of Copyright, including improving and refreshing web layout, derivative productions and all intellectual property, whatever such productions is invented by the Licensor or the Licensee. The rights and obligations pursuant to this Article shall survive after the termination of this Agreement.

1.2 Scope

1.2.1 The use right of the Copyright granted by Licensor to Licensee is effective only to the business operation of Baidu Website by Licensee. The Licensee agrees that it will not use, or authorize any use, directly or indirectly, of the Copyright at other websites or media, unless there are opposite stipulations in this Agreement.

1.2.2 The use right of the Copyright granted by Licensor to Licensee is effective only in PRC. The Licensee agrees not to use or authorize any use, directly or indirectly, in other regions.

1.2.3 The Licensor shall not license the third party to use the Copyright without the consent of Licensee.

2. Terms of Payment

The Licensee agrees to pay the Licensor license fees and the specified amount of the license fees and the form of payment are set forth in Appendix 2.

3. Licensor's Ownership and Protection of Licensor's Rights

3.1 The Licensor agrees, during the effective term of this Agreement and afterwards, not to query the ownership and other rights of Copyright by Licensor, the effectiveness of this Agreement and conduct any action that is deemed by Licensor as harmful to its right, ownerships and license by Licensor.

3.2 The Licensee agrees to provide necessary assistances to help the Licensor to protect the rights of Copyright. The Licensor may participate the lawsuits related to the claims of compensation with its own desire, on behalf of itself, Licensee or both Parties, once any third party claims the compensation in connection with the Copyright of Licensor. If any third party infringes any right of Copyright, the Licensee shall notify the Licensor immediately in written of such infringements within the scope that it knows, and only Licensor has the right to take actions against such infringements.

3.3 The Licensee agrees to use the Copyright only pursuant to this Agreement and not to use the Copyrights by manner of deceit, misleading or others manners that are deemed by Licensor as harmful to the Copyrights or the reputation of Licensor.

4. Intellectual Property and Confidentiality

4.1 The Licensee shall protect and maintain the confidentiality of any and all confidential data and information acknowledged or received by the Licensee from the Licensor (collectively the "Confidential Information"). Upon termination of this Agreement, the Licensee shall return Confidential Information to the Licensor or destroy it itself and delete Confidential Information from any electronic devices and cease to use them as required by the Licensor. The Licensee shall not disclose, grant or transfer any Confidential Information to any third party and will not use the Confidential Information without the Licensor's written consent.

4.2 Both Parties agree that this Article shall survive whatever this agreement is amended, rescinded or terminated.

5. Representations and Warranties

5.1 The Licensor represents and warrants as follows:

- 5.1.1 The Licensor is a company duly registered in Beijing and validly existing under the laws of the PRC;
- 5.1.2 Licensor's execution and performance of this Agreement are within its company power and business scope, which has obtained all necessary company authorizations and the consents and approvals by the third party or government and not violate any limitation of laws and company that binds or effects it;
- 5.1.3 The Agreement will constitute a legal, valid and binding agreement of the Licensor and will be enforceable against the Licensor in accordance with its terms upon its execution;
- 5.1.4 The Licensor has the exclusive ownership of Copyrights to others.

5.2 The Licensee represents and warrants as follows:

- 5.2.1 The Licensee is a company duly registered in Beijing and validly existing under the laws of the PRC and is licensed by Beijing Municipal Telecommunication Management Bureau to engage in the business of the Internet Information Service;
- 5.2.2 Licensee's execution and performance of this Agreement are within its company power and business scope, which has obtained all necessary company authorizations and the consents and approvals by the third party or government and not violate any limitation of laws and company that binds or effects it;
- 5.2.3 The Agreement will constitute a legal, valid and binding agreement of the Licensee will be enforceable against the Licensee in accordance with its terms upon its execution.

6. Effective Date and Term

- 6.1 This Agreement shall be effective as of the date first set forth above. The term of this Agreement is five (5) years unless earlier terminated as set forth in this Agreement.
- 6.2 This Agreement may be extended one year only if the Licensor issues the Licensee its written consent of extending this Agreement before the expiration of this Agreement (including any expiration of extended terms).

7. Termination

- 7.1 This Agreement shall expire on the date of expiration or expiration of extended terms when the Licensor notifies of not to extend this Agreement with written notice.

- 7.2 Without prejudice to any legal or other rights or remedies of the party who asks for termination of this Agreement, any party has the right to terminate this Agreement immediately with written notice to the other party in the event the other party materially breaches this Agreement including but not limited to Section 3.1, 3.2 and 3.3 of this Agreement and fails to cure its breach within 30 days from the date it receives the written notice of its breach from the non-breaching party. During the term of this Agreement, the Licensor may terminate this Agreement at any time with a written notice to the Licensee within 30 days before such termination.
- 7.3 The rights and obligations of both Parties pursuant to Article 1.1.2, 3, 4.1 and 10 shall survive after the termination or expiration of this Agreement.

8. Effect of Termination or Expiration

Upon and after the expiration or termination of this Agreement, all rights granted to the Licensee hereunder shall forthwith revert to the Licensor, who shall be free to license others to use the Copyright and the Licensee will refrain from further use or any direct or indirect use of the Copyright.

9. Force Majeure

- 9.1 Force Majeure, which includes but not limited to acts of governments, acts of nature, fire, explosion, typhoon, flood, earthquake, tide, lightning or war, means any event that is beyond the party's reasonable control and cannot be prevented with reasonable care of the affected party. However, any shortage of credit, capital or finance shall not be regarded as an event beyond the party's reasonable control. The party affected by Force Majeure and seeks for the exemption from performing the obligations under this Agreement shall inform the other party of such exemption and any action taken by it for performing this Agreement.
- 9.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party will not be responsible for any damage by reason of such a failure or delay of performance. The affected party shall take appropriate manners to minimize or remove the effects of Force Majeure and attempt to resume the performance of the obligations delayed or prevented by the event of Force Majeure. Once the event of Force Majeure is removed, both parties agree to resume the performance of this Agreement with their best efforts.

10. Settlement of Disputes

The parties shall strive to settle any dispute arising from the interpretation or performance through friendly consultation. In case no settlement can be reached through consultation within 30 days after one party ask for consultation, each

party can submit such matter to China International Economic and Trade Arbitration Commission (the "CIETAC") in accordance with its rules, and the arbitration proceedings shall be conducted in Chinese and shall take place in Beijing. The arbitration award shall be final and conclusive and binding upon the parties and shall be enforceable in accordance with its terms.

11. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in English and Chinese and shall be deemed to be duly given when it is delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission (the copy of facsimile shall be sent afterwards) to the address of the relevant party or parties set forth below.

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Attn: Xu Yong
Tele: 010-82884488 666
Facsimile: 010-82883929

Party B: Beijing Baidu Netcom Science and Technology Co., Ltd.

Attn: Li Yanhong
Tele: 010-82884488 888
Facsimile: 010-82884299

12. No Assignment or Sublicense by the Licensee

- 12.1 The rights and obligations licensed by the Licensor to the Licensee pursuant to this Agreement shall not be assigned, pledged, sublicensed without the prior written consent of the Licensor.
- 12.2 The Licensee hereby agrees that the Licensor shall be able to transfer the rights and obligation under this Agreement to any third party at its discretion, and such transfer shall only be subject to a written notice serviced to the Licensee by the Licensor, and no any further consent from the Licensee will be required.

13. Applicable Law

The performance, interpretation and implementation of this Agreement shall be governed by the laws of PRC.

14. Amendment and Supplement

Any amendment and supplement of this Agreement shall be made in writing by both Parties. The amendment and supplement duly executed by both Parties shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.

15. Severability

If any clause hereof is judged as invalid or non-enforceable according to relevant laws, such clause shall be deemed invalid only within the applicable area of the Laws and without affecting other clauses hereof in any way.

16. Appendices

The Appendices referred to in this Agreement are an integral part of this Agreement and have the same legal effect as this Agreement.

IN WITNESS THEREOF the parties hereto have caused this Agreement to be duly executed on their behalf by a duly authorized representative as of the date first set forth above.

[signature page]

Licensor : Baidu Online Network Technology (Beijing) Co., Ltd.

Authorized Representative: /s/ Yong Xu

Name: Xu Yong
Title: Legal Representative

Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Authorized Representative: /s/ Yanhong Li

Name: Li Yanhong
Title: Legal Representative

Appendix 1 Content of Copyright

The design of Baidu Website

Appendix 2 Calculation and Payment of License Fees

Licensee should pay RMB10,000 per year to Licensor as license fee. The Licensor has the right to determine whether or not to exempt the Licensee's obligation to pay license fees.

The Supplementary of Web Layout Copyright License Agreement

This Supplementary of Web Layout Copyright License Agreement (the "Agreement") is entered into as of August 9, 2004 between the following two parties in Beijing.

The Licensor: **Baidu Online Network Technology (Beijing) Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

The Licensee: **Beijing Baidu Netcom Science and Technology Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

WHEREAS

1. The Licensor and the Licensee has entered into a Web Layout Copyright License Agreement as date of March 1, 2004 (the "Original Agreement") and the Licensor grants the Licensee to use the web layout copyright of www.baidu.com (relevant domain name includes baidu.com.cn, baidu.cn, baidu.com and shifen.com, collectively the "Baidu Websites");
2. The Licensor has already obtained the websites of ww.hao123.com, www.hao123.net, www.hao222.com, www.hao222.net, etc. (the "Hao123 Websites") and the web layout copyright in connection with these websites (the "Copyright of Hao123 Websites")

NOW THEREFORE, the parties agree as follows:

1. The item 1 in WHEREAS of Original Agreement is hereby amended as follows:
 - "1. The Licensor is a wholly foreign-owned enterprise registered in Beijing under the laws of the People's Republic of China (the "PRC"), which owns the copyright of web layout listed in the Appendix I of this Agreement (the "Copyright")."
2. The item 2 in WHEREAS of Original Agreement is hereby amended as follows:
 - "2. The Licensee, a company registered in Beijing under the laws of the PRC, is licensed by Beijing Municipal Telecommunication Management Bureau to carry on the business of the Internet Information Service and owns the right to operate the Baidu Websites and Hao123 Websites."
3. The Article 1.2.1 of Original Agreement is hereby amended as follows:
 - "1.2.1 The use right of the Copyright granted by Licensor to Licensee is effective only to the business operation of Baidu Website and Hao123 Websites by

Licensee. The Licensee agrees that it will not use, or authorize any use, directly or indirectly, of the Copyright at other websites or media, unless there are opposite stipulations in this Agreement.”

4. This Agreement has been duly executed by both parties’ authorized representatives as of the date first set forth above and shall be effective simultaneously. Other provisions of Original Agreement shall not be changed. This Agreement shall be deemed as the amendment and an integrate part of Original Agreement and shall have the same legal effect as the Original Agreement.

[No Text Below]

[SignaturePage]

Licensor : Baidu Online Network Technology (Beijing) Co., Ltd.

Authorized Representative: /s/ Yong Xu

Name: Xu Yong
Title: Legal Representative

Licensee: Beijing Baidu Netcom Science and Technology Co., Ltd.

Authorized Representative: /s/ Yanhong Li

Name: Li Yanhong
Title: Legal Representative

Proxy Agreement

This Proxy Agreement (the "Agreement") is entered into as of August 9, 2004 between the following two parties in Beijing.

Robin Yanhong Li: a citizen of People's Republic of China (the "PRC")

Eric Yong Xu: a citizen of PRC

Baidu Online Network Technology (Beijing) Co., Ltd.: a wholly foreign-owned enterprise registered in Beijing under the laws of PRC (the "Company")

WHEREAS

1. Robin and Eric established Beijing Baidu Netcom Science and Technology Co., Ltd. (the "ICP Company") on June 5, 2001, in which Robin owns 75% equity interests of ICP Company and Eric owns 25% equity interests of ICP Company;
2. Robin is willing unlimitedly entrust the person designated by the Company with the shareholder's voting right at the shareholder's meeting of ICP Company.
3. Eric is willing unlimitedly entrust the person designated by the Company with the shareholder's voting right at the shareholder's meeting of ICP Company.

NOW THEREFORE, the parties agree as follows:

1. Robin hereby agrees to irrevocably entrust the person designated by the Company with his shareholder's voting rights and other shareholder's right for representing him to exercise such rights at the shareholder's meeting of ICP Company in accordance with the laws and its Article of Association, including but not limited to the rights to sell or transfer all or any of his equity interests of ICP company, and appoint and vote the directors and Chairman as the authorized representative of shareholder of ICP Company.
2. The Company agrees to designate the person who accepts the entrustment authorized by Robin pursuant to the Article 1 of this Agreement, and this person shall represent Robin to exercise his shareholder's voting rights and shareholder's rights pursuant to this Agreement.
3. Eric hereby agrees to irrevocably entrust the person designated by the Company with his shareholder's voting rights and other shareholder's right for representing him to exercise such rights at the shareholder's meeting of ICP Company in accordance with the laws and its Article of Association, including but not limited to the rights to sell or transfer all or any of his equity interests of ICP company, and appoint and vote the directors and Chairman as the authorized representative of shareholder of ICP Company.

- 4 The Company agrees to designate the person who accepts the entrustment authorized by Eric pursuant to the Article 3 of this Agreement, and this person shall represent Eric to exercise his shareholder's voting rights and shareholder's rights pursuant to this Agreement.
- 5 Robin and Eric hereby acknowledge that, whatever any change with the equity interests of ICP Company, they shall both entrust the person designated by the Company with all shareholder's voting rights and all the rights of shareholders; if Robin and Eric transfer their equity interests of ICP Company to any individual or company, other than Baidu.com, Inc., the Company, or the individuals or entities designated by the Company (the "Transferee"), they shall impel and assure such Transferee to sign a agreement with the same terms and conditions of this Agreement while it signs any equity transfer agreement and to entrust the person designated by the Company with the shareholder's voting rights and other shareholder's rights of Transferee.
- 6 Robin and Eric hereby acknowledge that if neither Robin nor Eric holds the equity interests of ICP Company, the other person shall continue to perform this Agreement.
- 7 Robin and Eric hereby acknowledge that if the Company withdraws the appointment of the relevant person, they will withdraw the appointment and authorization to this person and authorize other persons designated by the Company for exercising their shareholder's voting rights and other rights of themselves at the shareholder's meeting of ICP Company.
- 8 This Agreement has been duly executed by the parties' authorized representatives as of the date first set forth above and shall be effective simultaneously.
- 9 The effective term shall be ten (10) years and may be extended by the written agreement among the parties upon the expiration of this Agreement.
- 10 Any amendment and/or rescission shall be agreed by the Parties in written.

[Signature Page]

Robin

Signature: /s/ Yanhong Li

Eric

Signature: /s/ Yong Xu

Baidu Online Network Technology (Beijing) Co., Ltd.

Authorized Representative: /s/ Shawn Wang

Name:
Title:

This Agreement is agreed and accepted by:

Beijing Baidu Netcom Science and Technology Co., Ltd.

Authorized Representative: /s/ Yanhong Li

Name:
Title:

AMENDED AND RESTATED EQUITY PLEDGE AGREEMENT

This Amended and Restated Equity Pledge Agreement (hereinafter "this Agreement") is entered into in Beijing on the day of March 22, 2005 by the following parties:

Pledgee:

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

Pledgor:

Party B: Li Yanhong

Sex: Male

ID card No.: 110108196811171874

Party C: Xu Yong

Sex: Male

ID card No.: 110108196408161836

WHEREAS,

1. The Party A, the Pledgee, a wholly-owned foreign enterprise registered in Beijing, the People's Republic of China (hereinafter "PRC"), has been licensed by the PRC relevant government authority to carry on the business of development and manufacturing of computer programs, technical consulting and service for self-produced products, receiving of the construction of internet system, sales of self-produced products (except the items not obtained the specified approval).
2. Party B and C (hereinafter "the Pledgors"), are the citizens of PRC. The Pledgors own respectively 75% (Party B) and 25% (Party C) of the equity interest in Beijing Baidu Netcom Science and Technology Co., Ltd (hereinafter "Baidu Netcom"), a limited liability company registered in Beijing.
3. Party A made a loan in an amount of RMB 2,000,000 (hereinafter the "Loan") to Party B and Party C in June 2001 and the three parties executed the "Modified and Restated Loan Agreement (hereinafter the "Loan Agreement") on March 22, 2005. The term of the loan is from June 2001 to 10 years after the execution of the Loan Agreement. Besides, the three parties executed an "Equity Pledge Agreement" in English version on April 27, 2004 and a "Confirmation of the Equity Pledge Agreement" in English version on May 17, 2004 (hereinafter collectively the "Original Equity Pledge Agreement"). In accordance with the Original Equity Pledge Agreement, Party B and C pledged all their equity interest in Baidu Netcom to Party A.

4. Party A and Baidu Netcom executed a "Modified and Restated Exclusive Technology Consulting and Service Agreement" (hereinafter "Technology Consulting Service Agreement" or "Service Agreement") on March 22, 2005 with term of 10 years. Based on this agreement, Baidu Netcom shall pay technical consulting and service fee (hereinafter the "Technology Consulting Service Fee" or "Service Fee") to Party A for offering technical consulting and service.
5. In order to ensure that Party B and C will perform their obligations under the Loan Agreement and the Pledgee can normally collect the Technology Consulting Service Fee from Baidu Netcom, Party B and Party C (the "Pledgors") agree to pledge all their equity interest in Baidu Netcom as a security for the performance of the obligation under the Loan Agreement and payment of the Technology Consulting Service Fee under the Technology Consulting Service Agreement. As a result of the foregoing, Party A (the "Pledgee") and Party B and C modified and restated the Original Equity Pledge Agreement.

NOW THEREFORE, the Pledgee and the Pledgors through mutual negotiations hereby enter into this Agreement based upon the following terms:

1. Definitions And Interpretation

Unless otherwise provided in this Agreement, the following terms shall have the following meanings:

- 1.1 "Pledge": refers to the full content of Article 2 hereunder.
- 1.2 "Equity Interest": refers to all the equity interest in Baidu Netcom legally held by the Pledgors.
- 1.3 "Rate of Pledge": refers to the ratio between the value of the Pledge under this Agreement and the total amount of the Service Fee & the Loan.
- 1.4 "Term of Pledge": refers to the period provided for under Article 3.2 hereunder.
- 1.5 "Principal Agreement": refers to the Technology Consulting Service Agreement and the Loan Agreement.
- 1.6 "Event of Default": refers to any event in accordance with Article 7.1 hereunder.
- 1.7 "Notice of Default": refers to the notice of default issued by the Pledgee in accordance with this Agreement.

2. Pledge

The Pledgors agree to pledge their equity interest in Baidu Netcom to the Pledgee as a security for (i) their obligations under the Loan Agreement and (ii) their obligations of Baidu Netcom under the Technology Consulting Service Agreement. Pledge under this Agreement refers to the rights owned by the Pledgee, who shall be entitled to a priority in receiving payment by the evaluation or proceeds from the auction or sale of the equity interest pledged by the Pledgors to the Pledgee.

3. Rate of Pledge and Term of Pledge

3.1 The rate of Pledge

The rate of pledge shall be approximately 100%.

3.2 The term of Pledge

3.2.1 Pledge shall take effect as of the date when the equity interest under this Agreement is recorded in the Register of Shareholder of Baidu Netcom and the term is two (2) years after the obligations under the Principal Agreements will have been fulfilled. The parties agree that, if situations allow, they will use their best efforts to register the pledge with the competent Administration for Industry and Commerce at the registration venue of the Baidu Netcom. But the Agreement's effectiveness is not subject to the registration unless the laws of China provide otherwise.

3.2.2 During the term of the Pledge, the Pledgee shall be entitled to dispose of the pledged assets in accordance with this Agreement in the event that Pledgors do not perform their obligation under the Loan Agreement and Baidu Netcom fails to pay exclusive technology consulting service fee in accordance with the Technology Consulting Service Agreement.

4. Physical Possession Of Documents

4.1 During the term of Pledge under this Agreement, the Pledgors shall deliver the physical possession of their Certificate of Capital Contribution and the Name List of Shareholder of Baidu Netcom to the Pledgee within one (1) week as of the date of conclusion of this Agreement.

4.2 The Pledgee shall be entitled to collect the dividends for the equity interest.

- 4.3 The Pledge under this Agreement will be recorded in the Register of Shareholder of Baidu Netcom.
5. Representation and Warranty of Pledgors
- 5.1 The Pledgors are the legal owners of the equity interest pledged.
- 5.2 The Pledgors do not pledge the equity interest or the equity interest is not encumbered to any other person except for the Pledgee.
6. Promises of Pledgors
- 6.1 During the effective term of this Agreement, the Pledgors promise to the Pledgee for its benefit that the Pledgors shall:
- 6.1.1 Not transfer or assign the equity interest, create or permit to create any pledges which may have an adverse effect on the rights or benefits of the Pledgee without prior written consent from the Pledgee;
- 6.1.2 Comply with and implement laws and regulations with respect to the pledge of rights; present to the Pledgee the notices, orders or suggestions with respect to the Pledge issued or made by the competent authority within five (5) days upon receiving such notices, orders or suggestions; and comply with such notices, orders or suggestions; or object to the foregoing matters at the reasonable request of the Pledgee or with consent from the Pledgee;
- 6.1.3 Timely notify the Pledgee of any events or any received notices which may affect the Pledgor's equity interest or any part of its right, and any events or any received notices which may change the Pledgor's any warranty and obligation under this Agreement or affect the Pledgor's performance of its obligations under this Agreement.
- 6.2 The Pledgors agree that the Pledgee's right to the Pledge obtained from this Agreement shall not be suspended or inhibited by any legal procedure launched by the Pledgor or any successors of the Pledgor or any person authorized by the Pledgor or any such other person.
- 6.3 The Pledgors promise to the Pledgee that in order to protect or perfect the security for the payment of the Loan and the Service Fee, the Pledgors shall execute in good faith and cause other parties who have interests in the pledge to execute all the title certificates, contracts, and perform actions and cause

other parties who have interests to take action, as required by the Pledgee; and make access to exercise the rights and authorization vested in the Pledgee under this Agreement.

- 6.4 The Pledgors promise to the Pledgee that they will execute all amendment documents (if applicable and necessary) in connection to the Certificate of Equity Interest with the Pledgee or its designated person (natural person or a legal entity), and provide the notice, order and decision to the Pledgee by who considers to be necessary within reasonable time.
- 6.5 The Pledgors promise to the Pledgee that they will comply with and perform all the guarantees, covenants, warranties, representations and conditions for the benefits of the Pledgee. The Pledgors shall compensate all the losses suffered by the Pledgee for the reasons that the Pledgors do not perform or fully perform their guarantees, covenants, warranties, representations and conditions.

7. Event Of Default

7.1 The following events shall be regarded as the events of default:

- 7.1.1 Pledgors fail to perform the obligations under the Loan Agreement;
- 7.1.2 Baidu Netcom fails to make full payment of the Service Fee as scheduled under the Service Agreement;
- 7.1.3 The Pledgor makes any material misleading or mistaken representations or warranties under Article 5 herein, and/or the Pledgor breaches any warranties under Article 5 herein;
- 7.1.4 The Pledgor breaches the covenants under Article 6 herein;
- 7.1.5 The Pledgor breaches the term or condition herein;
- 7.1.6 The Pledgor waives the pledged equity interest or transfers or assigns the pledged equity interest without prior written consent from the Pledgee;
- 7.1.7 The Pledgor's any external loan, security, compensation, covenants or any other compensation liabilities (1) are required to be repaid or performed prior to the scheduled date due to breach; or (2) are due but can not be repaid or performed as scheduled and thereby cause the Pledgee to believe that the Pledgor's capacity to perform the obligations herein is affected;

- 7.1.8 Baidu Netcom is incapable of repaying the general debt or other debt;
- 7.1.9 This Agreement is illegal or the Pledgor is not capable of continuing to perform the obligations herein due to any reason except force majeure;
- 7.1.10 The property of the Pledgor is adversely changed causing the Pledgee to believe that the capability of the Pledgor to perform the obligations herein is affected;
- 7.1.11 The successors or agents of the Baidu Netcom are only able to perform a portion of or refuse to perform the payment obligation under the Service Agreement;
- 7.1.12 The breach of the other terms by action or inaction under this agreement by the Pledgor.
- 7.2 The Pledgor shall immediately give a written notice to the Pledgee if the Pledgor is aware of or find that any event under Article 7.1 herein or any event that may result in the foregoing events has happened or is going on.
- 7.3 Unless the event of default under Article 7.1 herein has been solved to the Pledgee's satisfaction, the Pledgee, at any time when the event of default happens or thereafter, may give a written notice of default to the Pledgor and require the Pledgor to immediately make full payment of the loan and the outstanding service fees under the Service Agreement and other payables or exercise the Pledge right in accordance with Article 8 herein.
- 8. Exercise of the Pledge
 - 8.1 The Pledgor shall not transfer or assign the equity interest without prior written approval from the Pledgee prior to the full repayment of the loan or the consulting and service fee under the Service Agreement (whichever date last occurs).
 - 8.2 The Pledgee shall give a notice of default to the Pledgor when the Pledgee exercises the right of pledge.
 - 8.3 Subject to Article 7.3, the Pledgee may exercise the right of pledge at any time when the Pledgee gives a notice of default in accordance with Article 7.3 or thereafter.
 - 8.4 The Pledgee is entitled to a priority in receiving payment by the evaluation or

proceeds from the auction or sale of whole or part of the equity interest pledged herein in accordance with legal procedure until the unpaid Service Fees under the Service Agreement, the outstanding debt and all other payables of Pledgors under Loan Agreement are repaid.

8.5 The Pledgor shall not hinder the Pledgee from exercising the right of pledge in accordance with this Agreement and shall give necessary assistance so that the Pledgee could realize his Pledge.

9. Assignment

9.1 The Pledgor shall not donate or transfer its rights and obligations herein without prior consent from the Pledgee.

9.2 This Agreement shall be binding upon the Pledgor and his successors and be binding on the Pledgee and his each successor and assignee.

9.3 The Pledgee may transfer or assign his all or any rights and obligations under the Service Agreement and Loan Agreement to any individual specified by it (natural person or legal entity) at any time. In this case, the assignee shall enjoy and undertake the same rights and obligations herein of the Pledgee as if the assignee is a party hereto. When the Pledgee transfers or assigns the rights and obligations under the Service Agreement and Loan Agreement, and such transfer shall only be subject to a written notice serviced to Pledgors, and at the request of the Pledgee, the Pledgors shall execute the relevant agreements and/or documents with respect to such transfer or assignment.

9.4 After the Pledgee's change resulting from the transfer or assignment, the new parties to the pledge shall execute a new pledge contract.

10. Effectiveness and Term

The agreement is effective as of the date first set forth above and from the date when the pledge is recorded on the Register of Shareholder of Baidu Netcom. This Agreement will replace the Original Equity Pledge Agreement upon its effectiveness.

11. Termination

This Agreement shall not be terminated until the loan under the Loan Agreement and the service fees under the Technology Consulting Service Agreement are paid off and the pledgors will not undertake any obligations under the Loan Agreement and Baidu Netcom will not undertake any obligations under the Service Agreement any more, and the Pledgee shall cancel or terminate this Agreement within reasonable time as soon as practicable.

12. Formalities Fees And Other Charges

- 12.1 The Pledgors shall be responsible for all the fees and actual expenses in relation to this Agreement including but not limited to legal fees, cost of production, stamp tax and any other taxes and charges. If the Pledgee pays the relevant taxes in accordance with the laws, the Pledgor shall fully indemnify the Pledgee such taxes paid by the Pledgee.
- 12.2 The Pledgors shall be responsible for all the fees (including but not limited to any taxes, formalities fees, management fees, litigation fees, attorney's fees, and various insurance premiums in connection with disposition of Pledge) incurred by the Pledgor for the reason that the Pledgors fail to pay any payable taxes, fees or charges for other reasons which cause the Pledgee to recourse by any means or ways.

13. Force Majeure

- 13.1 Force Majeure, which includes but not limited to acts of governments, acts of nature, fire, explosion, typhoon, flood, earthquake, tide, lightning, war, refers to any unforeseen events beyond the party's reasonable control and cannot be prevented with reasonable care. However, any shortage of credit, capital or finance shall not be regarded as an event beyond a Party's reasonable control. The effected party by Force Majeure shall notify the other party of such event resulting in exemption promptly.
- 13.2 In the event that the affected party is delayed in or prevented from performing its obligations under this Agreement by Force Majeure, only within the scope of such delay or prevention, the affected party will not be responsible for any damage by reason of such a failure or delay of performance. The affected party shall take appropriate means to minimize or remove the effects of Force Majeure and attempt to resume performance of the obligations delayed or prevented by the event of Force Majeure. After the event of Force Majeure is removed, both parties agree to resume the performance of this Agreement with their best efforts.

14. Confidentiality

The parties of this agreement acknowledge and make sure that all the oral and written materials exchanged relating to this contract are confidential. All the parties have to keep them confidential and can not disclose them to any other third party without other parties' prior written approval, unless: (a) the public know and will know the materials (not because of the disclosure by any contractual party); (b) the

disclosed materials are required by laws or stock exchange rules; or (c) materials relating to this transaction are disclosed to parties' legal consultants or financial advisors, however, who have to keep them confidential as well. Disclosure of the confidential by Employees or hired institutions of the parties is deemed as the act by the parties, therefore, subjecting them to liability.

15. Dispute Resolution

15.1 This Agreement shall be governed by and construed in accordance with the PRC law.

15.2 The parties shall strive to settle any dispute arising from the interpretation or performance, or in connection with this Agreement through friendly consultation. In case no settlement can be reached through consultation, each party can submit such matter to China International Economic and Trade Arbitration Commission ("CIETAC") for arbitration. The arbitration shall follow the current rules of CIETAC, and the arbitration proceedings shall be conducted in Chinese and shall take place in Beijing. The arbitration award shall be final and binding upon the parties.

16. Notice

Any notice which is given by the parties hereto for the purpose of performing the rights and obligations hereunder shall be in writing. Where such notice is delivered personally, the time of notice is the time when such notice actually reaches the addressee; where such notice is transmitted by telex or facsimile, the notice time is the time when such notice is transmitted. If such notice does not reach the addressee on business date or reaches the addressee after the business time, the next business day following such day is the date of notice. The delivery place is the address first written above of the parties hereto or the address advised in writing including facsimile and telex from time to time.

17. Entire Contract

Notwithstanding Article 10, all parties agree that this Agreement constitute the entire agreement of the Parties with respect to the subject matters therein upon its effectiveness and supersedes and replaces all prior oral and/or written agreements and understandings (including but not limited to the Original Equity Pledge Agreement) relating to this Agreement.

18. Severability

Any provision of this Agreement which is invalid or unenforceable because of inconsistent with the relevant laws shall, as to that jurisdiction, be ineffective to the extent of such invalidity or unenforceability, without affecting in any way the remaining provisions hereof.

19. Appendices

The appendices to this Agreement are entire and integral part of this Agreement.

20. Amendment or Supplement

20.1 Parties may amend and supply this Agreement with a written agreement. The amendment and supplement duly executed and signed by Both Parties shall be part of this Agreement and shall have the same legal effect as this Agreement.

20.2 This agreement and any amendments, modification, supplements, additions or changes hereto shall be in writing and come into effect upon being executed and sealed by the parties hereto.

21. Copies of the Agreement

This Agreement is executed by Chinese in triplicate; each Party holds one and each original has the same legal effects.

[No text below]

Appendix:

1. Resolution of the General Shareholders' Meeting of Beijing Baidu Netcom.
2. Register of Shareholders of Baidu Netcom.

Appendix 1:

Resolution of the General Shareholders' Meeting of Beijing Baidu Netcom

As for the Modified and Restated Equity Pledge Agreement executed on March 22, 2005 between the shareholders of Beijing Baidu Netcom Science and Technology Co., Ltd. (the "Company") and Baidu Online Network Technology (Beijing)Co., Ltd., the General Shareholders' meeting of the Company made a resolution unanimously as follows:

Approve the shareholders of the Company to pledge all their equity interest of the company to Baidu Online Network Technology (Beijing)Co., Ltd..

The resolution was executed and submitted on March 22, 2005 by the following shareholders:

Shareholder: Li Yanhong

Signature:

Shareholder: Xu Yong

Signature:

AMENDED AND RESTATED OPTION AGREEMENT

This Amended and Restated Option Agreement (this "Agreement") is entered into as of March 22, 2005 among the following Parties in Beijing:

Party A: **Baidu Online Network Technology (Beijing)Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

Party B: **Yanhong Li**
ID Number: 110108196811171874

Party C: **Yong Xu**
ID Number: 110108196408161836

Party D: **Beijing Baidu Netcom Science and Technology Co., Ltd.**
Legal Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

In this Agreement, Party A, Party B, Party C and Party D are called collectively as the "Parties" and each of them is called as the "Party".

WHEREAS:

1. Party A, a wholly foreign-owned enterprise incorporated under the laws of the People's Republic of China (the "PRC"), which has technology expertise and practical experience in computer software development and design, and also has rich experience and professionals in information technology and service;
2. Party B, a liability limited company incorporated in Beijing, is licensed by Beijing Municipal Telecommunication Management Bureau to carry on the value added telecom business such as the Internet Information Service, etc; and is licensed by Beijing Municipal Administration of Industry and Commerce to carry on the business of network of advertisement;
3. Party B and Party C are the shareholders of Party D. Party B has the ownership of 75% equity interest in Party D and Party C has the ownership of 25% equity interest in Party D (collectively the "Equity Interest")
4. The Amended and Restated Loan Agreement (the "Loan Agreement") is entered into by Party A, Party B and Party C on March 22, 2005;
5. A series agreements such as the Amended and Restated Exclusive Technology Consultation and Service (the "Service Agreement") are entered into by Party A and Party D on March 22, 2005;

6. The Amended and Restated Equity Pledge Agreement (the "Equity Pledge Agreement") is entered into by Party A, Party B and Party C as of March 22, 2005;
7. A "Option Agreement" (the "Original Option Agreement") entered into by Party A, Party B and Party C on April 27, 2004 is hereby to be amended and restated by the Parties.

NOW, THEREFORE, the Parties to this Agreement hereby agree as follows:

1. Purchase and Sale of Equity Interest

1.1 Grant Rights

Party B and Party C (hereafter collectively the "Transferor") hereby irrevocably grants to Party A an option to purchase or cause any designated person ("Designated Persons") to purchase, to the extent permitted under PRC Law, according to the steps determined by Party A, at the price specified in Section 1.3 of this Agreement, at any time from the Transferor a portion or all of the equity interests held by Transferor in Party D (the "Option"). No Option shall be granted to any third party other than Party A and/or the Designated Persons. Party D hereby agrees to the granting of the Option by Party B and Party C to Party A and/or the Designated Persons. The "person" set forth in this clause and this Agreement means an individual person, corporation, joint venture, partnership, enterprise, trust or a non-corporation organization.

1.2 Exercise Steps

According to the stipulations of PRC laws and regulation, Party A and/or the Designated Persons may exercise Option by issuing a written notice (the "Notice") to the Transferor and specifying the equity interest purchased from Transferor (the "Purchased Equity Interest") and the manner of purchase.

1.3 Purchase Price

1.3.1 For Party A to exercise the Option, the purchase price of the Purchased Equity Interest ("Purchase Price") shall be equal to the original paid-in price of the Purchased Equity Interest by the Transferor, unless the applicable PRC laws and regulations require appraisal of the equity interests or stipulate other restrictions on the purchase price of equity interests.

1.3.2 If the applicable PRC laws require appraisal of the equity interests or

stipulates other restrictions on the purchase price of Equity Interest at the time that Party A exercise the Option, the Parties agree that the Purchase Price shall be set at the lowest price permissible under the applicable laws.

1.4 Transfer of the Purchased Equity Interest

In each time the performance of the Option:

- 1.4.1 The Transferor shall ask Party D to convene the shareholders' meeting. During the meeting, the resolution, in which Transferor transfers Equity Interest to Party A and/or the Designated Persons, shall be made;
- 1.4.2 The Transferor shall, upon the terms and conditions of this Agreement and the Notice related to the Purchased Equity Interest, enter into Equity Interest Transfer Agreement with Party A and/or the Designated Persons (as applicable);
- 1.4.3 The related parties shall execute all other requisite contracts, agreements or documents, obtain all requisite approval and consent of the government, conduct all necessary actions, without any security interest, transfer the valid ownership of the Purchased Equity Interest to Party A and/or the Designated Persons, and cause Party A and/or the Designated Persons to be the registered owner of the Purchased Equity Interest. In this Clause and this Agreement, "Security Interest" means the ensure, mortgage, pledge, the right or interest of the third party, any purchase right of equity interest, right of acquisition, right of first refusal, right of set-off, ownership detainment or other security arrangements. But it does not include any security interest subject to the Equity Pledge Agreement.

1.5 Payment

The payment of the Purchase Price shall be determined by the consultation of Party A and/or the Designated Persons with the Transferor according to the applicable laws at the performance of Option. The Parties hereby agree that Transferor shall repay any amount that is paid by Party A and/or the Designated Persons to Transferor in connection with the Purchased Equity Interest to Party A in accordance with the laws as the reimbursement of the principal of the loan and its interest or cost under the Loan Agreement allowed by the laws.

2. Promises Relating Equity Interest

2.1 Promises Related to Party D

Party B, Party C and Party D hereby promise:

- 2.1.1 Without prior written consent by Party A, not, in any form, to supplement, change or renew the Articles of Association of Party D, to increase or decrease registered capital of the corporation, or to change the structure of the registered capital in any other forms;
- 2.1.2 According to fair finance and business standard and tradition, to maintain the existence of the corporation, prudently and effectively operate business and deal with works;
- 2.1.3 Without prior written consent by Party A, not, upon the execution of this Agreement, to sale, transfer, mortgage or dispose, in any other form, any asset, legitimate or beneficial interest of business or income of Party D, or to approve any other security interest set on it;
- 2.1.4 Without prior written notice by Party A, not cause, inherit guarantee or allow the existence of any debt, other than (i) the debt arising from normal or daily business but not from borrowing; and (ii) the debt disclosed to Party A and obtained the written consent from Party A;
- 2.1.5 To normally operate all business to maintain the asset value of Party D, without make any action or nonfeasance that sufficiently affects its operation and asset value;
- 2.1.6 Without prior written consent by Party A, not to enter into any material Agreement, other than the Agreement in the process of normal business (As in this paragraph, the amount in the Agreement that exceeds a hundred thousand Yuan (RMB 100,000) shall be deemed as a material Agreement);
- 2.1.7 Without prior written consent by Party A, not to provide loan or credit loan to any others;
- 2.1.8 Upon the request of Party A, to provide all materials of operation and finance relevant to Party D;
- 2.1.9 Purchases and holds the insurance from the insurance company accepted by Party A, the insurance amount and category shall be the same with those held by the companies in the same area, operating the similar business and owning the similar properties and assets with Party D;

- 2.1.10 Without prior written consent by Party A, not to merger or associate with any person, or acquire or invest in any person;
 - 2.1.11 To notify Party A of the occurrence or the potential occurrence of the litigation, arbitration or administrative procedure related to the assets, business and income of Party D;
 - 2.1.12 In order to keep the ownership of Party D to all its assets, to execute all requisite or appropriate documents, do all requisite or appropriate action, and advance all requisite or appropriate accusation, or make requisite or appropriate plea for all claims;
 - 2.1.13 Without prior written notice by Party A, not to assign equity interests to shareholders in any form, but to assign all or part of its assignable profits to their own shareholders upon the request by Party A;
 - 2.1.14 According to the request of Party A, to appoint any person designated by Party A to be the directors of Party D.
- 2.2 Promises Related to Transferor
- Party B and Party C hereby promise:
- 2.2.1 Without prior written consent by Party A, not, upon the execution of this Agreement, to sale, transfer, mortgage or dispose in any other form any legitimate or beneficial interest of equity interest, or to approve any other security interest set on it, with the exception of the pledge set on the equity interest of the Transferor subject to Equity Pledge Agreement;
 - 2.2.2 Without the prior written notice by Party A, not to decide or support or execute any shareholders resolution on the Party D's shareholders' meeting that approves any sale, transfer, mortgage or dispose of any legitimate or beneficial interest of equity interest, or allows any other security interest set on it, other than the pledge on the equity interests of Transferor pursuant to Equity Pledge Agreement;
 - 2.2.3 With no prior written notice by Party A, they shall not agree or support or execute any shareholders resolution on the Party D's shareholders' meeting that approves Party D to merger or associate with any person, acquire any person or invest in any person;

- 2.2.4 To notify Party A the occurrence or the potential occurrence of the litigation, arbitration or administrative procedure related to the equity interest owned by them;
- 2.2.5 To cause the Board of Shareholders approving the transfer of the Purchased Equity Interest subject to this Agreement;
- 2.2.6 In order to keep its ownership of the equity interest, to execute all requisite or appropriate documents, conduct all requisite or appropriate actions, and make all requisite or appropriate claims, or make requisite or appropriate defend against fall claims of compensation;
- 2.2.7 Upon the request of Party A, to appoint any person designated by Party A to be the directors of Party D;
- 2.2.8 Upon the request of Party A at any time, to transfer its equity interest immediately to the representative designated by Party A unconditionally at any time and abandon its prior right of first refusal of such equity interest transferring to another available shareholder;
- 2.2.9 To prudently comply with the provisions of this Agreement and other Agreements entered into collectively or respectively by the Transferor, Party D and Party A and perform all obligations under these Agreements, without taking any action or any nonfeasance that sufficiently affects the validity and enforceability of these Agreements;

3. Representations and Warranties

As of the execution date of this Agreement and every transferring date, the Transferor and Party D hereby represents and warrants collectively and respectively to Party A as follows:

- 3.1 It has the power and ability to enter into and deliver this Agreement, and any equity interest transferring Agreement (“Transferring Agreement”, respectively) having it as a party, for every single transfer of the Purchased Equity Interest according to this Agreement, and to perform its obligations under this Agreement and any Transferring Agreement. Upon execution, this Agreement and the Transferring Agreements having it as a party constitute a legal, valid and binding obligation of it enforceable against it in accordance with its terms;
- 3.2 The execution, delivery of this Agreement and any Transferring Agreement

and performance of the obligations under this Agreement and any Transferring Agreement do not: (i) cause to violate any relevant laws and regulations of PRC; (ii) constitute a conflict with its Articles of Association or other organizational documents; (iii) cause to breach any Agreement or instruments to which it is a party or having binding obligation on it, or constitute the breach under any Agreement or instruments to which it is a party or having binding obligation on it; (iv) cause to violate relevant authorization of any consent or approval to it and/or any continuing valid condition; or (v) cause any consent or approval authorized to it to be suspended, removed, or into which other requests be added;

- 3.3 Party D bears the kind and sellable ownership of all assets. Party D does not set any security interest on the said assets;
- 3.4 Party D does not have any unpaid debt, other than (i) debt arising from its normal business; and (ii) debt disclosed to Party A and obtained by the written consent from Party A;
- 3.5 Party D comply with all PRC laws and regulations applicable to the acquisition of assets;
- 3.6 No litigation, arbitration or administrative procedure relevant to the equity interest and assets of Party D or the corporation is in the process, to be settled or potentially take place;
- 3.7 The Transferor bears the fair and salable ownership of its equity interest without setting any security interest on the aforesaid assets, other than the security interest pursuant to the Equity Pledge Agreement.

4. Assignment of Agreement

- 4.1 Party B, Party C and Party D shall not transfer their rights and obligations under this Agreement to any third party without the prior written consent of the Party A.
- 4.2 Party B, Party C and Party D hereby agrees that Party A shall be able to transfer all of its rights and obligation under this Agreement to any third party with its needs, and such transfer shall only be subject to a written notice sent to Party B, Party C and Party D by Party A, and no any further consent from Party B, Party C and Party D will be required.

5. Effective Date and Term

- 5.1 This Agreement shall be effective as of the date first set forth above. The Original Option Agreement shall be replaced by this Agreement upon its effectiveness.

- 5.2 The term of this Agreement is ten (10) years unless the early termination in accordance with this Agreement or other terms of the relevant agreements stipulated by the Parties. This Agreement may be extended according to the written consent of Party A before the expiration of this Agreement. The term of extension will be decided unanimously through the consultation of the Parties.
- 5.3 If Party A or Party D terminated by the expiration of its operating period (including any extended period) or other causes in the term set forth in Section 5.2, this Agreement shall be terminated simultaneously, except Party A has transferred its rights and obligations in accordance with Section 4.2 of this Agreement.

6. Applicable Law and Dispute Resolution

6.1 Applicable Law

The execution, validity, construing and performance of this Agreement and the disputes resolution under this Agreement shall be governed by the laws of PRC.

6.2 Dispute Resolution

The parties shall strive to settle any dispute arising from the interpretation or performance in connection with this Agreement through friendly consultation. In case no settlement can be reached through consultation within thirty (30) days after such dispute is raised, each party can submit such matter to China International Economic and Trade Arbitration Commission (the "CIETAC") in accordance with its rules. The arbitration shall take place in Beijing and the proceedings shall be conducted in Chinese. The arbitration award shall be final conclusive and binding upon both parties.

7. Taxes and Expenses

Every Party shall, according to the PRC laws, bear any and all registering taxes, costs and expenses for equity transfer arising from the preparation and execution of this Agreement and all Transferring Agreements, and the completion of the transactions under this Agreement and all Transferring Agreements.

8. Notices

Notices or other communications required to be given by any party pursuant to this Agreement shall be written in English and Chinese and delivered personally or sent by registered mail or postage prepaid mail or by a recognized courier service or by facsimile transmission to the address of relevant each party or both parties set forth below or other address of the party or of the other addressees specified by such party from time to time. The date when the notice is deemed to be duly served shall be determined as the follows: (a) a notice delivered personally is deemed duly served upon the delivery; (b) a notice sent by mail is deemed duly served the tenth (10th) day after the date when the air registered mail with postage prepaid has been sent out (as is shown on the postmark), or the fourth (4th) day after the delivery date to the internationally recognized courier service agency; and (c) a notice sent by facsimile transmission is deemed duly served upon the receipt time as is shown on the transmission confirmation of relevant documents.

Party A: **Baidu Online Network Technology(Beijing)Co., Ltd.**
Legal Address: 12 Floor, LiXiang International Building, 58 West Road of North fourth Circle, Haidian District, Beijing
Fax: [8610-82607009]
Phone: [8610-82621188]

Party B: **Yanhong Li**
Address: 12 Floor, LiXiang International Building, 58 West Road of North fourth Circle, Haidian District, Beijing
Fax: [8610-82607008]
Phone: [8610-82621188]

Party C: **Yong Xu**
Address: 12 Floor, LiXiang International Building, 58 West Road of North fourth Circle, Haidian District, Beijing
Fax: [8610-82607008]
Phone: [8610-82621188]

Party D: **Beijing Baidu Netcom Science and Technology Co., Ltd.**
Legal Address: 12 Floor, LiXiang International Building, 58 West Road of North fourth Circle, Haidian District, Beijing
Fax: [8610-82607008]
Phone: [8610-82621188]

9. Confidentiality

The Parties acknowledge and confirm any oral or written materials exchanged by the Parties in connection with this Agreement are confidential. The Parties shall maintain the secrecy and confidentiality of all such materials. Without the written approval by the other Parties, any Party shall not disclose to any third party any relevant materials, but the following circumstances shall be excluded:

- a. The materials that is known or may be known by the Public (but not include the materials disclosed by each party receiving the materials);

- b. The materials required to be disclosed subject to the applicable laws or the rules or provisions of stock exchange; or
- c. The materials disclosed by each Party to its legal or financial consultant relating the transaction of this Agreement, and this legal or financial consultant shall comply with the confidentiality set forth in this Section. The disclosure of the confidential materials by staff or employed institution of any Party shall be deemed as the disclosure of such materials by such Party, and such Party shall bear the liabilities for breaching the contract. This Clause shall survive whatever this Agreement is invalid, amended, revoked, terminated or unable to implement by any reason.

10. Further Warranties

The Parties agree to promptly execute documents reasonably required to perform the provisions and the aim of this Agreement or documents beneficial to it, and to take actions reasonably required to perform the provisions and the aim of this Agreement or actions beneficial to it.

11. Miscellaneous

11.1 Amendment, Modification and Supplement

Any amendment and supplement of this Agreement shall be made by the Parties in writing. The amendment and supplement duly executed by each Party shall be deemed as a part of this Agreement and shall have the same legal effect as this Agreement.

11.2 Entire Agreement

Notwithstanding the Article 5 of this Agreement, the Parties acknowledge that this Agreement constitutes the entire agreement of the Parties with respect to the subject matters therein and supercede and replace all prior or contemporaneous agreements and understandings in verb or/and in writing (including but not limited to the Original Option Agreement).

11.3 Severability

If any provision of this Agreement is judged as invalid or non-enforceable according to relevant Laws, the provision shall be deemed invalid only within the applicable area of the PRC Laws, and the validity, legality and

enforceability of the other provisions hereof shall not be affected or impaired in any way. The Parties shall, through fairly consultation, replace those invalid, illegal or non-enforceable provisions with valid provisions that may bring the similar economic effects with the effects caused by those invalid, illegal or non-enforceable provisions.

11.4 Headings

The headings contained in this Agreement are for the convenience of reference only and shall not affect the interpretation, explanation or in any other way the meaning of the provisions of this Agreement.

11.5 Language and Copies

This Agreement is executed in Chinese in four (4) copies; each Party holds one and each original copy has the same legal effect.

11.6 Successor

This Agreement shall bind and benefit the successor of each Party and the transferee allowed by each Party.

11.7 Survival

Any obligation taking place or at term hereof prior to the end or termination ahead of the end of this Agreement shall continue in force and effect notwithstanding the occurrence of the end or termination ahead of the end of the Agreement. Article 6, Article 8, Article 9 and Section 11.7 hereof shall continue in force and effect after the termination of this Agreement.

11.8 Waiver

Any Party may waive the terms and conditions of this Agreement in writing with the signature of the Parties. Any waiver by a Party to the breach by other Parties within certain situation shall not be construed as a waiver to any similar breach by other Parties within other situations.

IN WITNESS THEREFORE, the parties hereof have caused this Agreement to be executed by their duly authorized representatives as of the date first written above.

[No Text Below]

[Signature Page]

Party A: Baidu Online Network Technology(Beijing)Co., Ltd.

Legal Representative/Authorized Representative: /s/ Shawn Wang

Seal:

Party B: Yanhong Li

Signature: /s/ Yanhong Li

Party C: Yong Xu

Signature: /s/ Yong Xu

Party B: Beijing Baidu Netcom Science and Technology Co., Ltd.

Legal Representative/Authorized Representative: /s/ Yanhong Li

Seal:

AMENDED AND RESTATED LOAN AGREEMENT

This Amended and Restated Loan Agreement (the "Agreement") is entered into in Beijing as of March 22nd, 2005 by the following parties.

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Registration Address: 12/F., Ideal International Plaza, No. 58 North-West 4th Ring, Haidian District, Beijing, PRC, 100080

Party B: Li, Yanhong

Sex: Male

ID No.: 110108196811171874

Party C: Xu, Yong

Sex: Male

ID No.: 110108196408161836

WHEREAS,

1. Party A is a wholly-owned foreign enterprise incorporated in the People's Republic of China (the "PRC");
2. Party B and C (collectively the "the Borrowers") are the citizens of the PRC. They own respectively 75% (Party B) and 25% (Party C) of the equity interests of Beijing Baidu Netcom Science and Technology Co., Ltd (the "Baidu Netcom") incorporated in Beijing;
3. Party A provides an interest-free loan RMB 2,000,000 to Party B and Party C in June 2001 for their capital contribution of Baidu Netcom. The three parties executed a Confirmation of the Loan Agreement (the "the Original Loan Agreement") on April 27th, 2004;

NOW THEREFORE, All parties agree to amend and restate the Original Loan Agreement as follows:

1. Party A agrees to provide an interest-free loan to the Borrowers with the principal as RMB 2,000,000 in accordance with the terms and conditions set forth in this Agreement. RMB 1,500,000 is loaned to Party B and RMB 500,000 is loaned to Party C.
2. The Borrowers confirm that they have obtained the total amount of the loan and have invested them into Baidu Netcom as capital contribution.

3. The Term of such loan starts from the date that the Borrowers received the loan until ten (10) years after signing this Agreement and could be extended upon the written agreement of three parties through negotiations. During the term or extended term of such a loan, Party A may accelerate the loan repayment, if any of the following events occurs:
 - (1) The Borrower quits or is dismissed by Party A or its affiliates;
 - (2) The Borrower dies or becomes a person without capacity or with limited capacity for civil acts;
 - (3) The Borrower commits a crime or is involved in a crime;
 - (4) Any other third party claims more than RMB100,000 against the Borrower; or
 - (5) According to the PRC laws, Party A or its designated person may be qualified to invest in the business of value-added telecommunication, such as internet information service and other services, which Baidu Netcom runs, and also Party A will have given a written notice to Baidu Netcom and exercised its right of purchase in accordance with the terms under the exclusive purchase agreement speculated in Article 4 of this agreement.
4. All parties herein agree and confirm that, according to the PRC laws, Party A or its designated person (including natural person, legal entity or any other entity) has the right, but the obligation, to purchase all or part of the equity interest held by Party B and/or Party C in Baidu Netcom (the "Option Right") at anytime, however, Party A shall notify Party B and Party C of such purchase of equity interests with a written notice. Once the written notice for exercising the Option Right is issued by Party A, Party B and Party C shall sell their equity interests of Baidu Netcom with the original invest price (the "Original Investment Price") or other price allowed by laws according to the consent of Party A to Party A or its designated person. All parties agree and confirm that when Party A exercises the Option Right, the price that allowed by the applicable law at the time is higher than the Original Investment Price, Party A shall purchase the equity interests at the lowest price in accordance with the applicable law. All parties agree to execute the "Amended and Restated Option Agreement" (the "Option Agreement") in connection with above matters and.
5. All parties herein agree and confirm that the Borrowers or their successors or assignees may repay the loan only by the following methods: transfer the equity interest in Baidu Netcom to Party A and use the proceeds to repay the loan when the loan is due and Party A gives a written notice.

6. All parties agree and confirm that this loan is an interest-free loan unless there are different provisions in this Agreement. But if the loan is due and the Borrowers have to transfer their equity interests in Baidu Netcom to Party A or its designated person and the proceeds exceed the loan principal due to the legal requirement or other reasons, the extra amount over the principal of proceeds will be considered as the interests or capital use cost, which shall be repaid to Party A.
7. All parties agree and confirm that the Borrowers shall be deemed the completion of performing their obligations under this agreement only if the following requirements are met:
 - (a) The Borrowers have transferred all their equity interests of Baidu Netcom to Party A and/its designated person; and,
 - (b) The Borrowers have repaid the total amount caused from the equity interest transferring or the maximum amount (including principal and the highest loan interest) allowed by the applicable law concerning loans to Party A.
8. To secure the performance of the debt under this agreement, the Borrowers agree to respectively pledge all their own equity interest of Baidu Netcom to Party A (the "Equity Pledge"). All parties acknowledge that, other than the debts herein under this Agreement, the debts secured by Equity Pledge under the "Amended and Restated Exclusive Technology Consulting Service Agreement" (the "Service Agreement") executed between the Baidu Netcom and Party A. All parties agree to execute an "Amended and Restated Equity Interest Pledge Agreement" (the "Equity Pledge Agreement").
9. Party A hereby represents and warrants to the Borrowers that, as of the execution date of this Agreement:
 - (a) Party A is a company incorporated and validly existing under the laws of PRC;
 - (b) Party A has the right to execute and perform this Agreement. Party A, subject to its business scope, Articles or other institutional documents, has taken necessary actions to get all necessary and appropriate approvals and authorizations;
 - (c) The principal of loan to the Borrowers is legally owned by the Party A;
 - (d) The execution and the performance of this Agreement by Party A does not violate any laws, regulations, approvals, authorizations, notices, other governmental documents, any agreement signed with the third party or any promise issued to the third party; and

- (e) This Agreement shall constitute the legal, valid and binding obligations of Party A, which is upon its execution.
10. The Borrowers hereby represent and warrant to Party A that, from the execution date of this Agreement until this Agreement terminates:
- (a) Baidu Netcom is a limited liability company incorporated and validly existing under the laws of PRC and the Borrowers are the legal holders of the equity interest of Baidu Netcom;
 - (b) The Borrowers has the right to execute and perform this Agreement. Each Borrower, subject to its business scope, Articles or other institutional documents, has taken necessary actions to get all necessary and appropriate approvals and authorizations;
 - (c) The execution and the performance of this Agreement by the Borrowers does not violate any laws, regulations, approvals, authorizations, notices, other governmental documents, any agreement signed with the third party or any promise issued to the third party; and
 - (d) This Agreement shall constitute the legal and valid obligations of the Borrower, which is enforceable against the Borrowers in accordance with its terms upon its execution;
 - (e) The Borrowers have paid contribution in full for their equity interests in the Baidu Netcom in accordance with applicable laws and regulations and have obtained capital contribution verification report issued by the qualified accounting firm;
 - (f) Except the provisions stipulated in “Equity Pledge Agreement” and “Option Agreement”, the Borrowers does not create pledge or any other security, make third party any offer to transfer the Borrowers’ equity, make acceptance for the offer of any third party to purchase Borrowers’ equity, or execute agreement with any third party to transfer Borrowers’ equity;
 - (g) There are no pending or potential disputes, litigation, arbitration or other administrative proceedings or other legal proceedings in connection with the equity interests of Baidu Netcom hold by the Borrowers;
 - (h) Baidu Netcom has completed all governmental approval, authorization, license, registration, filing and otherwise necessary to carry out the business subject to its business license and to possess its assets.

11. The Borrowers covenant that it shall, during the term of this Agreement,
- (a) Not sell, transfer, pledge, dispose in any other manners of their equity interests of Baidu Netcom or other interests, or not allow to create other security interests on it without Party A's prior written consent, except the terms of the Equity Interest Pledge Agreement;
 - (b) Not cause the shareholder's meeting to make resolutions to sell, transfer, pledge, dispose of in any other manners, or not allow to create other security interest on, any of the Borrower's legal right of equity or equity interest without Party A's prior written consent, except that is caused by Party A and its designated person;
 - (c) Not cause the shareholder's meeting to make resolutions to merge or combine with, acquire or invest in any person without Party A's prior consent;
 - (d) Promptly inform Party A of the pending or threatened litigation, arbitration or regulatory procedure concerning the Borrowers' equity interests of the Baidu Netcom;
 - (e) Execute all necessary or appropriate documents, take all necessary or appropriate actions and bring all necessary or appropriate lawsuits or make all necessary and appropriate defending against all claims in order to maintain their equity interest of the Baidu Netcom;
 - (f) Not do anything that may materially affect the assets, business and liabilities of Baidu Netcom without Party A's prior written consent;
 - (g) Appoint any person to be the director of Baidu Netcom subject to Party A's request;
 - (h) Transfer promptly and unconditionally, at any time, all of the Borrowers' equity interest in the Baidu Netcom to Party A or the representative designated by Party A subject to the request of Party A, provided that such transfer is permitted under the laws of PRC;
 - (i) Not to request Baidu Netcom to distribute dividends or profits;
 - (j) In case the equity interest of Baidu Netcom is transferred to Party A and its designated person by the Borrowers, the Borrowers shall repay the price caused by transferring their equity interest of Baidu Netcom in full, as the principal and the interests or capital use cost allowed by laws, to Party A; and

- (k) Comply strictly with the terms of this Agreement, and perform the obligations pursuant to this Agreement and do not conduct any action or nonfeasance that affects the validity and enforceability of such contracts.
12. The Borrowers, as the shareholders of the Baidu Netcom, covenant that they shall cause the Baidu Netcom, during the term of this Agreement:
- (a) Not to supply, amend or modify its articles of association, or to increase or decrease its registered capital, or to change its capital structure in any way without Party A's prior written consent;
 - (b) To maintain and operate its business and deal with matters prudently and effectively, subject to good financial and business rules and practices,;
 - (c) Not to sell, transfer, mortgage, dispose of in any other manner, or to create other security interest on, any of its assets, business or legal right to collect interests without Party A's prior written consent;
 - (d) Not to create, succeed to, guarantee or permit any liability, without the Party A's prior written consent, except (i) the liability arising from the course of the ordinary or daily business operation, but not arising from the loan; and (ii) the liability reported to Party A or approved by Party A in writing;
 - (e) To operate persistently all the business and to maintain the value of its assets;
 - (f) Not to execute any material contracts (during this stage, a contract will be deemed material if the value of it exceeds RMB ¥ 100,000), without Party A's prior written consent, other than those executed during the ordinary operation;
 - (g) To provide information concerning all of its operation and financial affairs subject to Party A's request;
 - (h) Not to merger or combine with, buy or invest in, any other person without Party A's prior written consent;
 - (i) Not to issue dividends to each shareholder in any form without Party A's prior written consent. However, the Baidu Netcom shall promptly allocate all its allocable profits to each of its shareholders upon the Party A's request;

- (j) To inform promptly Party A of the pending or threatened suit, arbitration or regulatory procedure concerning the assets, business or income of the Baidu Netcom;
 - (k) To execute all necessary or appropriate documents, to take all necessary or appropriate action and to bring all necessary or appropriate lawsuit or to make all necessary and appropriate defending against all compensation claims in order to maintain the ownership for all its assets;
 - (l) To comply strictly with the terms of Service Agreement and other agreements executed by Party A, to perform their obligation under aforesaid agreements, and not to conduct any action or nonfeasance that affects the validity and enforceability of such agreements;
13. This agreement is binding to all the parties herein and their respective successors and assignees only on their behalf. Without prior written approval of Party A, the Borrowers can not transfer, pledge or assign any right, benefit or obligation under this agreement.
14. The Borrowers agree that Party A can assign its rights and duties under this agreement to a third party when it thinks necessary, in which Party A only needs to give a written notice to the Borrowers and no further consent of the Borrowers is required.
15. The execution, validity, interpretation, performance, amendment, termination and the dispute resolution of this agreement are governed by the laws of PRC.
16. Arbitration.
- Both Parties shall strive to settle any dispute, conflicts, or compensation claims arising from the interpretation or performance (including any issue relating to the existence, validity and termination) in connection with this Agreement through friendly consultation. In case no settlement can be reached within thirty (30) day after one party ask for the settlement, each party can submit such matter to China International Economic and Trade Arbitration Commission (the "CIETAC") in accordance with its rules. The arbitration award shall be final and conclusive and binding upon the Parties.
- The arbitration should take place in Beijing.
- The arbitration language is Chinese.
17. This Agreement shall be concluded on the date of execution. And all Parties agree that the terms and conditions of this Agreement shall be effective as of the date on which the Borrowers have obtained the loan and shall expire when both Parties has completed their obligations under this Agreement.

18. The Borrowers cannot terminate or revoke this Agreement unless (a) Party A commits the material defect, fraud or other material illegal action; (b) the bankrupt of Party A.
19. The Parties may amend and supply this Agreement with a written agreement. The amendment and supplement duly executed by the Parties shall be a part of this Agreement and shall have the same legal effect as this Agreement.
20. This Agreement constitutes the entire agreement of the Parties with respect to the subject matters therein and supersedes and replaces all prior or contemporaneous verbal and written agreements and understandings.
21. This Agreement is severable. If any clause of this Agreement is judged as invalid or non-enforceable according to relevant PRC Laws, such clause shall be deemed invalid only within the applicable area of the PRC Laws, and without affecting other clauses hereof in any way.
22. Any party should protect the confidentiality of the information concerning the other party's business, operation, financial situation or other confidential information obtained under this agreement or during the performance of this agreement.
23. Any obligation arising from or terminated by this Agreement before the expiration or early termination this Agreement shall survive after such expiration or early termination. The Article 15, 16 and 22 shall survive after the termination of this Agreement.
24. This Agreement has three original copies and is hold respectively by Party A, B and C, and each original copy has the same legal effect.

[No text below]

[Signature Page]

Party A: Baidu Online Network Technology (Beijing) Co., Ltd.

Legal Representative/Authorized Representative: /s/ Shawn Wang

Seal:

Party B: Li Yanhong

Signature: /s/ Yanhong Li

Party C: Xu Yong

Signature: /s/ Yong Xu

Irrevocable Power of Attorney

I, [NAME] citizen of the People's Republic of China (the "PRC") with ID No [_____], is the shareholder holding [__%] equity interests of Beijing Baidu Netcom Science and Technology Co., Ltd (the "Baidu Netcom"), hereby irrevocably appoint [_____] with the following powers and rights during the term of this Power of Attorney:

I hereby appoint [_____] to exercise, on my behalf, all voting rights of shareholder in accordance with PRC laws and Baidu Netcom's Articles at the shareholders' meetings of Baidu Netcom, including but not limited to the right to sell or transfer any or all of equity interests of Baidu Netcom and to designate and appoint the general manager of Baidu Netcom as my authorized representative on the shareholders' meeting of the Baidu Netcom.

Such authorization and appointment are based upon the precondition that [_____] is acting as an employee of Baidu Online Network Technology (Beijing) Co., Ltd (the "Baidu Online") and Baidu Online agrees such authorization and appointment. Once [_____] loses his title or position in Baidu Online or Baidu Online notifies of the termination of such authorization and appointment, I will withdraw such authorization and appointment to him immediately and designate/authorize the other individual nominated by Baidu Online to exercise the full voting rights on behalf of myself at the shareholders' meetings of Baidu Netcom.

The term of this Power of Attorney is 10 years upon the execution date of this Power of Attorney during the duly existing term of Baidu Netcom unless the early termination of Operation Agreement jointly executed by Baidu Online and Baidu Netcom by any reason.

_____(Signature)

Date:



Baidu.com, Inc.
CODE OF BUSINESS CONDUCT AND ETHICS

1. Summary

This Code of Business Conduct and Ethics (the “**Code**”) applies to all of the employees, officers, advisors and directors of Baidu.com, Inc., a company incorporated in the Cayman Islands, its subsidiaries and/or affiliated entities (collectively, the “**Company**”), whether such person works for the Company on a full-time, part-time, consultative, or temporary basis (each, an “**Employee**” and collectively, the “**Employees**”).

This Code contains general guidelines for conducting the business of the Company consistent with the highest standards of business ethics, and is intended to qualify as a “code of ethics” within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and the rules promulgated thereunder. To the extent this Code requires higher standards than those required by commercial practice or applicable laws, rules or regulations, the Company adheres to these higher standards.

2. Guidelines

This Code is designed to deter wrongdoing and to promote:

- compliance with applicable governmental laws, rules and regulations;
- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; and
- full, fair, accurate and timely disclosure in reports and documents that the Company will file with, or submit to, the U.S. Securities and Exchange Commission (the “**SEC**”) and in other public communications made by the Company.

This Code shall be implemented at all levels of hierarchy of the Company. All Employees are responsible for being aware of, adhering to and ensuring that others abide by the Code.

3. Applicable Laws, Regulations and Policies

Each Employee has an obligation to comply with the laws of the cities, provinces, regions and countries in which the Company operates. This includes, without limitation, laws covering securities, labor, employment, commercial bribery and kickbacks, copyrights, trademarks and trade secrets, information privacy, insider trading, offering or receiving gratuities, employment harassment, occupational health and safety, false or misleading financial information or misuse of corporate assets. Employees are expected to understand and comply with all laws, rules and regulations that apply to their respective positions at the Company.

Each Employee shall immediately report to the Company in accordance with the *Whistleblower Rules and Procedures*, as stipulated in Section 10 of this Code, any violations of the applicable laws and regulations as well as of any provisions of the Code.

If any doubt exists about whether a course of action is lawful or in compliance with the Company's policies, the Employee should seek advice immediately from his/her departmental head, HR director, the Company's in-house lawyers or CEO to avoid any possible violations. Failure to do so constitutes a violation of the Code.

4. Employment Practices

4.1 Observing Applicable Employment Laws and Agreements

The Company observes fair employment practices in every aspect of its business. The following is intended to be a summary of the Company's employment practices. The Employees must comply with all applicable labor and employment laws and employment agreements entered into between the Company and Employees. If there is any conflict between the applicable law and this Code, the applicable law prevails.

4.2 Working Environment

The Company is dedicated to creating a high-quality working environment under which Employees respect and trust each other such that each Employee acts in an honest, friendly and proactive way with a responsible attitude and high moral standard.

(a) Harassment Prevention

The Company prohibits harassment in any form, whether physical or verbal and whether committed by supervisors, non-supervisory personnel or non-Employees. Harassment may include, but is not limited to, offensive sexual flirtations, unwanted sexual advances or propositions, verbal abuse, sexually or racially degrading words, or the display in the workplace of sexually suggestive objects or pictures.

(b) Discrimination Prevention

The Company is committed to providing equal opportunity and fair treatment to all individuals on the basis of merit, without discrimination on the grounds of race, color, religion, national origin, sex (including pregnancy), age, disability, marital status or other characteristics protected by law.

(c) No Alcohol and Smoking

The Company is committed to maintaining a non-smoking workplace. Smoking is prohibited on the premises of the Company including bathrooms.

Drinking alcoholic beverages is prohibited while on duty or on the premises of the Company, except when expressly allowed at functions or at events sponsored by the Company or permitted by the Company.

(d) Violence Prevention

The Company considers the safety and security of its Employees to be vitally important. The Company does not tolerate violence, hostility, or threats of violence at its workplace.

(e) Protection of Privacy of Employees

The Company is committed to giving due respect to the privacy of its Employees. The Company shall refrain from interfering with or paying undue attention to the personal lives of its Employees unless the personal actions and behaviors have a negative impact on the Employee's work performance or the reputation and legitimate commercial interests of the Company.

(f) Open Communication

The Company encourages open and honest communication about different views.

(g) Valuing Employees as Important Assets

The Company believes its Employees are important assets and keys to its success. The Company is committed to establishing a fair and equal evaluation and incentive mechanism to maintain a stable and highly efficient working environment. The Company strives to maintain its success by providing opportunities that enable Employees to realize their values and careers.

(h) Conflicts of Interest

The Company expects that each Employee will use his/her best efforts to discharge his/her duty in an honest and upright manner. This requires each Employee to avoid conflicts of interest between his/her personal interest and the interest of the Company. A conflict of interest occurs when an Employee's private interest interferes, or appears to interfere, in any way with the interests of the Company as a whole. Employees should actively avoid any private interest that may influence their ability to act in the interests of the Company or that may make it difficult to perform their work objectively and effectively. For detailed provisions regarding conflicts of interest, please refer to *Rules for Avoiding Conflicts of Interest*.

4.3 Illegal or Improper Actions

Employees are prohibited to conduct illegal or improper actions, which include, without limitation:

- any action that violates applicable laws or public interests;
- engagement in malpractice or dereliction of duties;
- failure to discharge responsibility, duty and obligation;
- failure to disclose ancillary agreements or private agreements entered into with an agent, client, supplier or partner;
- misrepresentations regarding personal experience or personal physical and medical conditions to the Company; and
- disparaging the Company, other Employees or competitors of the Company without any legitimate ground.

4.4 Deception and Similar Violations of Rules

All Employees must be conscious of deceptive acts, misleading or false book entries and any other prohibited acts provided in *Rules Prohibiting Side Agreements*, *Rules for Avoiding Conflicts of Interest* and *Rules for Use and Disclosure of Information*. If an Employee becomes aware of any such acts, the Employee shall immediately report the act to the Company in accordance with *Whistleblower Rules and Procedures* stipulated in Section 10 of this Code.

5. Relationships with Competitors

The Company is committed to free and open competition in the marketplace. Employees should avoid actions that would be contrary to laws governing competitive practices in the marketplace. Such actions include misappropriation and/or misuse of a competitor's confidential information or making false statements about the competitor's business and business practices or unduly impairing the commercial goodwill of its competitors.

6. Illegal or Improper Payments

The Company's business conduct is founded on the principle of "fair transaction." Therefore, the Company and Employees can not offer kickbacks, bribe others, or secretly offer commissions or any other personal benefits in any form. During the course of promoting the Company's products and services, if it is necessary to offer discounts to customers, such discounts must be given openly, evidenced by supporting documents and shall be reported to the accounting department for book entry.

7. Public Disclosure, Financial Management, Accounting Procedures and Book Entries

7.1 Complete, Accurate and Timely Disclosure

Upon the completion of its initial public offering, the Company will be a public company which is required to report its financial results and other material information about its business to the public and the SEC. It is the Company's policy to promptly disclose accurate and complete information regarding its business, financial condition and results of operations. Employees must strictly comply with all applicable standards, laws, regulations and policies for accounting and financial reporting of transactions, estimates and forecasts. Inaccurate, incomplete or untimely reporting will not be tolerated and can severely damage the Company and result in legal liability.

The Company endeavors to design, establish and operate an effective internal control over accounting and financial reporting to ensure that all transactions will be duly authorized and recorded, complying with the applicable laws. Internal control includes, without limitation, written policies and procedures, reviews and monitoring by various levels of management, budgetary control and many other examinations and settlements.

The Company is committed to designing and implementing a set of disclosure procedures to ensure that all information required to be disclosed by the relevant regulatory bodies and supervisory authorities will be disclosed.

Each Employee must be aware that it is not only the finance department's responsibility, but also his/her responsibility to follow the internal control and disclosure procedures to ensure that the information disclosed is complete, full, accurate, timely and understandable. The Company requires every Employee to be familiar, and strictly comply, with its internal control and disclosure procedures.

Specifically, Employees shall adhere to the following guidelines, which include, without limitation:

- All commercial transactions shall be duly authorized and relevant records must be true, complete and accurate in all material respects.
- All accounting records and financial statements derived therefrom shall comply with applicable laws and regulations and shall not contain any false or misleading entries.

- All Employees shall fully abide by the Company's *Records Retention Policy* and act as required by the Company's internal auditors or outside auditors.
- No Employees shall withhold information required to be disclosed to the Company's internal auditors or outside auditors or make false or misleading statements to the auditors.
- Undisclosed or unrecorded funds, payments or receipts are strictly prohibited.

Employees shall promptly report any possibility of inaccurate or incomplete financial reporting. Particular attention should be paid to:

- financial results that seem inconsistent with the performance of the underlying business;
- transactions that do not seem to have an obvious business purpose; and
- requests to circumvent ordinary review and approval procedures.

7.2 Public Communications

The Company places a high value on its credibility and reputation. What is written or said about the Company in the news media and investment community directly impacts its reputation, positively or negatively. The Company's policy is to provide timely, accurate and complete information in response to public requests (media, analysts, etc.), consistent with its obligations to maintain the confidentiality of competitive and proprietary information and to prevent selective disclosure of market-sensitive financial data.

(a) Compliance with Regulation FD and Communications with Investment Community

The Company is strongly encouraged to follow the requirements of Regulation FD ("**Fair Disclosure**") promulgated under the U.S. securities laws in the same manner as if it were a U.S. domestic reporting company. Regulation FD provides that, when a company discloses material, non-public information about the company to securities market professionals or shareholders (where it is reasonably foreseeable that the shareholders will trade on the information), that company must also instantaneously disclose the information to the public. "Securities market professionals" generally include analysts, institutional investors and other investment advisors.

Only the Investor Relations Manager is authorized to disclose information about the Company in response to requests from securities market professionals or shareholders. No Employee shall, without first obtaining explicit approval from the Investor Relations Manager, communicate directly with the investment

community (including but not limited to shareholders, analysts, fund managers or potential investors) any information regarding the Company, regardless whether such information has been disclosed publicly or not. If an Employee receives a request for information from any securities market professionals or shareholders, he or she should promptly contact the Investor Relations Manager to coordinate a response to such request.

(b) Communications with Media

No Employee shall communicate with any media, publicly or privately, without first consulting with the Company's personnel responsible for releasing information. In the event any issue arises that may emerge as a potential public relations emergency, such as customer's complaints written on a public forum, Employees shall immediately report such incident to the personnel responsible for releasing information.

If any member of the media asks for information about the Company or makes any other requests, Employees shall refer their inquiries or requests to the Company's Investor Relations Manager.

For more detailed provisions regarding relationships with the media, Employees shall refer to *Rules for External Communications by Senior Management and Other Employees* to ensure that every Employee will act in accordance with the prescribed conduct rules.

8. Business Partners, Suppliers and Clients

8.1 Procurement of Goods and Services

We guarantee fair dealings with our suppliers and we choose our suppliers through a fair evaluation of competitive bids. No Employee shall discriminate against or deceive a supplier. The decision to choose a particular supplier shall be made by reference to the price, service, quality and reputation of the supplier as considered in the context of the Company's long-term commercial interests.

All Employees should endeavor to deal fairly and honestly with the Company's suppliers. No Employee shall attempt to unduly influence the process of choosing a supplier or treat any particular supplier on a preferential basis that would damage the supplier assessment and selection process. Employees should not accept or solicit any personal gains from any supplier that might compromise, or appear to compromise, their objective assessment of the supplier. Employees shall hold the pricing or product information provided by the supplier or potential supplier in confidence. Execution of a supply agreement must be properly approved. A supply agreement must be specific as to the service and product involved, payment term, contract price and expenses, and the purchase price must be consistent with the service or products involved.

8.2 Gifts and Entertainment

The Company's business is founded on the principle of "fair transaction." Therefore, no Employee may receive kickbacks, bribe others, or secretly receive commissions or any other personal benefits. Appropriate business gifts and entertainment are welcome courtesies, however, giving or receiving gifts or entertainment is deemed by the Company as tending to impose an improper influence on a person.

No Employee or his/her family members shall receive gifts, services, touring arrangements and entertainment that may affect his/her judgment in fulfilling his/her obligations to the Company.

Each Employee must report to his/her departmental head any gifts offered and seek the departmental head's approval prior to receiving such gifts. Each such case shall be filed with HR department at the same time. Any Employee who is faced with an inducement to any particular business decision shall report the case to his/her departmental head.

Employees may only accept gifts that do not carry any commercial value, such as a notepad or calendar. Employees should not accept gifts under the following circumstances if such gifts:

- may result in any unnecessary or unwanted publicity of the Company;
- may influence the Company or place the Company in a dilemma;
- may obligate the recipient in any way; or
- are in the form of cash or cash equivalents.

All gifts and entertainment expenses made on behalf of the Company must be properly accounted for in expense reports.

8.3 Relationships with Customers or Potential Customers

The Company's business success depends upon its ability to cultivate lasting customer relationships. The Company is committed to dealing with customers fairly, honestly and with integrity. Specifically, each Employee should keep the following guidelines in mind when dealing with customers or potential customers:

- Information the Company supplies to customers should be accurate to the best of its knowledge. Employees should not deliberately misrepresent information about the Company or its competitors to customers. Comments on its competitors or making comparisons thereof must be fair and accurate and based on publicly available information.

- No Employee may enter into an ancillary agreement or private agreement with customers other than the Company's standard form of agreement.
- No Employee may directly or indirectly bribe government officials in any form for the purpose of acquiring or retaining certain customers.

8.4 Compliance with Relevant Requirements in the Company's Other Policies

Employees must comply with other requirements related to business partners, suppliers and clients stipulated in the Company's policies and rules other than this Code, including, without limitation, *Rules Prohibiting Side Agreements*.

9. Confidentiality and Protection of Company Information and Assets

9.1 Use and Disclosure of Company Information

In order to:

- (a) ensure that all of the Company's Employees keep in strict confidence the confidential information regarding business, technology and other aspects, as a property of the Company, without privately disclosing the aforesaid information to any third parties; and
 - (b) comply with all applicable laws and regulations concerning "material non-public information," protect the material, non-public information from being disclosed without authorization and guard against misuse of the "material non-public information" in transactions of the Company's securities,
- the Company formulates and adopts *Rules for Use and Disclosure of Information*, which provides guidelines to the Employees in fulfilling their responsibilities regarding the confidentiality of information.

9.2 Protection of Company Assets

It is each Employee's responsibility to safeguard the Company's assets against damage, misuse, theft and inadvertent access by others and comply with all requirements related to the Company's assets. The Company's assets include, without limitation, information, technical materials, software, information systems, construction, equipment, files and cash.

The use of the Company's assets is limited to the Company's legitimate business purpose. Upon termination of employment, or at such time as the Company requests, an Employee must return to the Company all of its property without exception, including files and all forms of medium containing confidential information, including any and all duplicates.

All inventions, creative works, computer software, and technical or trade secrets developed by an Employee in the course of performing the Employee's duties, or primarily through the use of the Company's materials and technical resources while working at the Company, shall be treated as the intellectual property of the Company and, as confidential information, shall be protected by the Company's *Rules for Use and Disclosure of Information*.

The Company respects the proprietary rights of other companies and requires its Employees to comply with the laws and regulations that protect such proprietary rights.

10. Violations Reporting and Non-retaliation

10.1 Violations Reporting

In order to ensure that all Employees as well as other companies, organizations and individuals who deal with the Company have an effective channel to report non-compliance of the Code and related policies, the Company institutes *Whistleblower Rules and Procedures*. All Employees are obliged to report any known or suspected violations to designated departments according to the *Whistleblower Rules and Procedures*.

10.2 Non-Retaliation of Reporting

Retaliation by the Company or other Employees against an Employee who, in good faith, seeks help or reports known or suspected violations is strictly prohibited. However, malicious or vexatious reports or false allegations may result in disciplinary action. To eliminate fear of retaliation as a result of lawful and bona fide reporting of violations, the Company formulates and adopts the *Rules Against Retaliation upon Reporting*, which all Employees shall read carefully.

11. Punishment for Violations of the Code and Related Policies

Any Employee who violates the Code and related policies will be subject to disciplinary action up to and including termination of employment. For details, please refer to *Rules for Awarding and Punishing Employees*. Conduct that violates the Code cannot be justified by claiming that it was ordered by a supervisor or someone in higher management. The Employee, on behalf of himself/herself as an individual, is also legally liable for his/her conduct if such conduct violates applicable laws and regulations.

12. Amendments and Waivers

12.1 Amendments

The Company's Human Resources (or "HR") Department may review this Code quarterly and propose amendments (if any) to the Board of Directors for its approval.

Amendments to the Code and related policies shall be distributed to all Employees in writing via e-mail or hard copy for acknowledgement. The Code shall be posted on the Company's intranet website. In addition, the HR department shall conduct appropriate trainings as necessary and distribute updated versions of the Code to all Employees for execution of a written acknowledgement in the form attached as Appendix I hereto.

12.2 Waivers

Waivers of this Code will be granted on a case-by-case basis and only in extraordinary circumstances. Waivers of this Code may be made only by the Board, or the appropriate committee of the Board.

13. Inquiry about the Code

The Code is intended to clarify principles and standards concerning business conduct and serves as guidance for Employees. It is not intended to encompass every event that may arise from time to time. If an Employee encounters any events that are not covered by this Code or has any questions on any matters included in this Code, the Employees are encouraged to consult with the Company's HR, legal and internal audit departments.

14. Employees shall also comply with other internal rules in force and effect, from time to time, including, but not limited to, *Rules for Avoiding Conflicts of Interest, Rules for Use and Disclosure of Information, Rules Prohibiting Side Agreements, Whistleblower Rules and Procedures and Rules Against Retaliation upon Reporting.*

15. Effective Date: July 1, 2005

Prepared and Revised by: Human Resources, Legal and Internal Audit Departments

Approved by: The Board of Directors on July 1, 2005



CERTIFICATION OF COMPLIANCE

Baidu Human Resources Department:

I acknowledge that I have received and read Code of Business Conduct and Ethics of Baidu.com, Inc. (the “Code”) and related policies, including *Rules for Avoiding Conflicts of Interest, Rules for Use and Disclosure of Information, Rules Prohibiting Side Agreements, Whistleblower Rules and Procedures and Rules Against Retaliation upon Reporting.*

I hereby certify that I fully agree to adhere to the Code as well as the rules set forth in the above-referenced documents and other related policies of the Company.

I fully understand that I have an obligation to report to relevant departments any actual or suspected violations of the Code in accordance with this Code and related policies.

I fully understand that I have an obligation to review and comply with any amendments to this Code and related policies.

Employee Signature : _____

Employee Name : _____

ID Card Number: _____

Date: _____